

Part 1: Multiple Choice Questions (20 points)

Q1. A higher price for batteries would result in a(n)

- A. decrease in the demand for flashlights.
 - B. decrease in the demand for batteries.
 - C. increase in the demand for flashlights.
 - D. increase in the demand for batteries.
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Q2. The quantity supplied of a good is the amount that

- A. sellers are able to produce.
 - B. sellers are willing and able to sell.
 - C. buyers are willing and able to purchase.
 - D. buyers and sellers agree will be brought to market.
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Q3. If a binding price ceiling is imposed on the computer market, then

- A. the supply of computers will decrease.
 - B. a shortage of computers will develop.
 - C. the demand for computers will increase.
 - D. All of the above are correct.
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Q4. A typical society strives to get the most it can from its scarce resources... In other words, the society faces a tradeoff between

- A. guns and butter
 - B. work and leisure
 - C. inflation and unemployment
 - D. efficiency and equity
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Q5. A consumer reaches the point of equilibrium when

- A. $MRS_{xy} < -P_x/P_y$
- B. $MRS_{xy} > -P_x/P_y$

C. $MRS_{xy} = -P_x/P_y$

D. none of these

Q6. Which of the following principles is NOT one of the four principles of individual decision making?

- A. People respond to incentives.
 - B. People face tradeoffs.
 - C. Rational people think at the margin.
 - D. Trade can make everyone better off.
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Q7. If Nam experiences a decrease in his income, then we would expect Nam's demand for

- A. inferior goods to decrease.
 - B. each good he purchases to remain unchanged.
 - C. normal goods to decrease.
 - D. luxury goods to increase.
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Q8. Economics deals primarily with the concept of

- A. poverty
 - B. power
 - C. scarcity
 - D. change
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Q9. If a binding price floor is imposed on the video game market, then

- A. the quantity of video games supplied will increase.
 - B. the quantity of video games demanded will decrease.
 - C. a surplus of video games will develop.
 - D. All of the above are correct.
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Q10. The slope of the budget constraint line will change whenever the:

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- A. budget of the consumer changes
 - B. price of one of the two goods changes
 - C. preferences of the consumer changes
 - D. slope of an indifference curve changes
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Q11. In economics, the cost of something is

- A. what you give up to get it
 - B. the dollar amount of obtaining it
 - C. often impossible to quantify
 - D. always measured in time
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Q12. The law of demand states that, other things equal,

- A. when the price rises, quantity demanded rises.
 - B. when the price falls, quantity demanded rises.
 - C. when the price falls, demand rises.
 - D. when the price rises, demand falls.
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Q13. If an increase in income results in a decrease in quantity demanded, the good is called:

- A. an inferior good
 - B. a luxury
 - C. a necessity
 - D. a normal good
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Q14. What can the cross-price elasticity of demand tell us?

- A. whether goods are elastic or inelastic
 - B. whether goods are normal or inferior
 - C. whether goods are luxuries or necessities
 - D. whether goods are complements or substitutes
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Q15. The difference between a supply schedule and a supply curve is that

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- A. a supply schedule incorporates profit
 - B. a supply schedule is a table, a supply curve is a graph
 - C. a supply schedule can shift, a supply curve cannot
 - D. a supply schedule incorporates demand
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Q16. When quantity demanded responds only slightly to price changes, demand is

- A. vertical
 - B. unit elastic
 - C. inelastic
 - D. elastic
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Q17. The demand curve for textbooks shifts

- A. only when the number of textbook-buyers changes
 - B. when any determinant of demand changes
 - C. when any determinant of demand except the price changes
 - D. when any determinant of demand except income changes
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Q18. Which of the following is NOT a property of indifference curves?

- A. Indifference curves can intersect.
 - B. They are downward sloping.
 - C. Higher curves give greater satisfaction.
 - D. They are convex.
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Q19. Different points along an indifference curve represent combinations that:

- A. give the same satisfaction
 - B. give higher satisfaction
 - C. require the same expenditure
 - D. require increasing expenditure
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Q20. A competitive market is one in which

- A. one seller, many buyers
 - B. many sellers who can set price
 - C. many sellers competing so some are forced out
 - D. so many buyers and sellers that each has negligible impact
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Part 2: Problem Solving (30 points)

Problem 1:

The demand for bicycle in Hanoi as follows:

$$Q_D = 170 - 20P - 2.5I$$

In which, P is bicycle's price, I is consumer's income, Q_D is quantity demanded. Currently, $P = 3, I = 2$.

- a. Calculate the price elasticity of demand. Explain your result.
 - b. Calculate the income elasticity of demand. Is bicycle normal or inferior good?
 - c. What level of output should the firm supply to obtain maximize revenue?
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Problem 2:

Ms. Hoa uses her income of $I = 90$ to buy two products X and Y. Current market price of X is \$3 and Y is \$1. Her utility function is:

$$U = (X - 2) \cdot Y$$

- a. Determine the optimal bundle that she receives maximum satisfaction?
- b. When the price of Y is \$3, price of X is unchanged, determine the new optimal bundle to reach her maximum utility?