CH-310-A Microeconomics - Theory and Policy

Chapter 10 of Krugman and Wells

Sushi

Joan loves to eat sushi. Her first piece of sushi normally yields a marginal benefit of \$5. Each additional piece creates a declining marginal benefit by \$0.25 per piece. If her favorite sushi bar charges \$2.75 per piece of sushi, how many pieces should she eat?

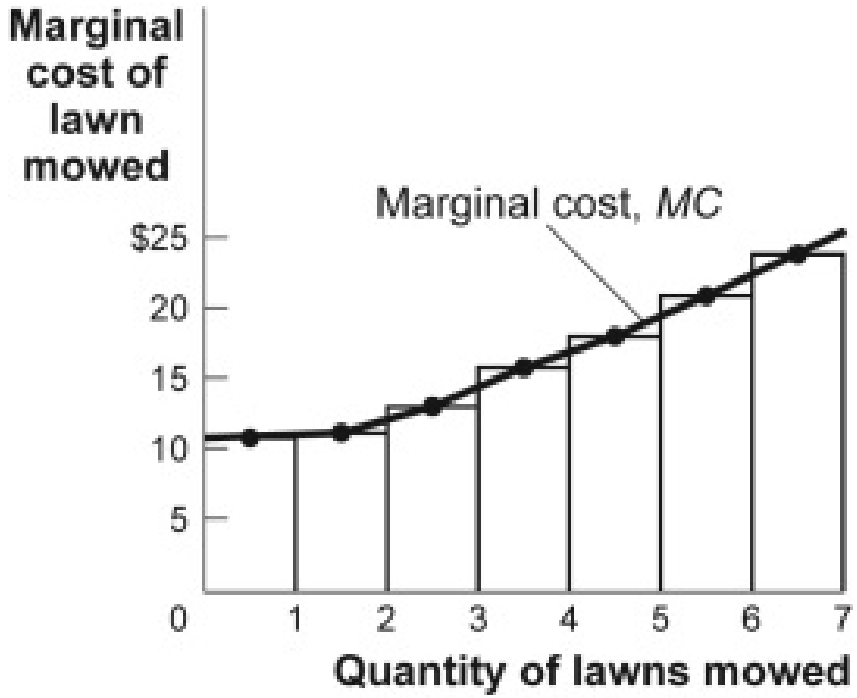
(a) 8

(b) 10

(c) 5

(d) 11

Lawns



Using the above marginal cost curve , we can determine that the total cost of mowing four lawns is approximately: (a) \$10 (b) \$15 (c) \$50 (d) \$100

NPV

Year	Benefits	Costs
0	0	1000
2	3000	1910

You are considering making an investment. The costs and benefits of this investment, which occur in year zero (the present) and in year 2, are listed in the table above. Assuming an interest rate of 7%, what is the net present value (NPV) of this investment?

Marginal utility

Table: Utility

Units	0	1	2	3	4	5	6	7
Total utility	0	20	35	45	50	50	45	35

The marginal utility for the second unit is:

(a) 35

(b) 15

(c) 10

(d) 5

Total utility

Assume that the marginal utilities for the first three units of a good consumed are 200, 150, and 125, respectively. The total utility when two units are consumed is:

(a) 150

(b) 200

(c) 350

(d) 475

Corn dogs

Freddy has eaten three corn dogs at the county fair and knows that if he eats another, he will get sick on the roller coaster. Knowing this, and ignoring any impact that price might have on his decision, we can say that the:

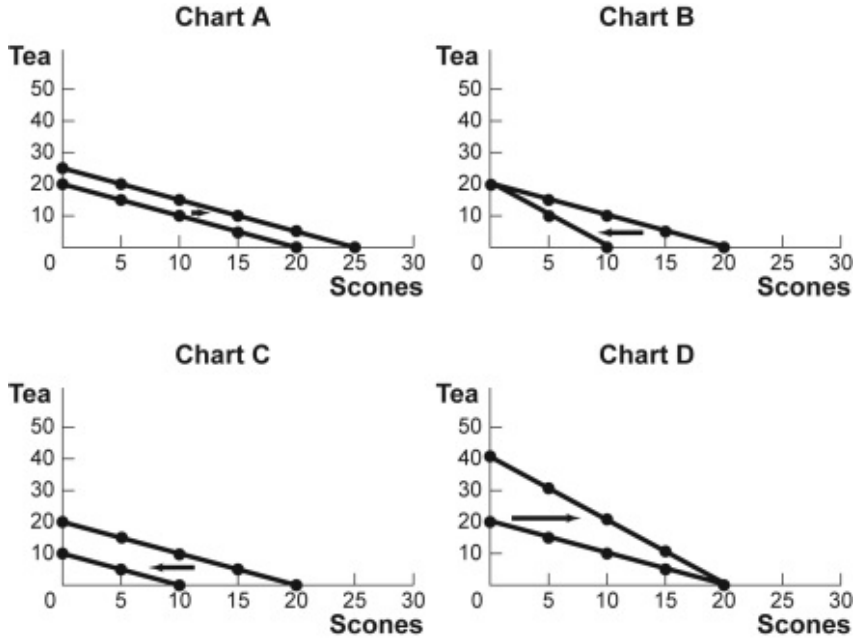
(a) total utility of the fourth corn dog is less than zero.

(b) marginal utility of the fourth corn dog is less than zero.

(c) total utility curve is still increasing at the fourth corn dog.

(d) marginal utility curve is still increasing at the fourth corn dog.

Marginal utility



For months now, Agnes has had \$20 per month to spend on tea and scones. The price of each cup of tea and each scone has been \$1. Which of the charts in the figure shows what will happen to her budget line if the price of a cup of tea falls to \$0.50?:

(a) Chart A

(b) Chart B

(c) Chart C

(d) Chart D

Budget line

Chuck spends all his income on two goods: tacos and milkshakes. His income is \$100, the price of tacos is \$10, and the price of milkshakes is \$2. Put tacos on the horizontal axis and milkshakes on the vertical axis. The slope of Chuck's budget line is equal to?

Consumption bundle

Jane spends all her income on Goods X and Y and is purchasing the optimal consumption bundle. If the $MU_X/MU_Y = 3$ and the price of X is equal to \$12, then the price of Y is equal to: