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ECO402 Micro Economics Solved MCQS

1. Patty buys only two brands of golf balls: "Jack Nickless" and "Olin 1." The more of any one she buys, the lower the marginal utility of that ball. In spending all her income, her marginal utility of a "Nickless" is 5 and her marginal utility of an "Olin 1" is 10. The price of a "Nickless" ball is $2 and the price of an "Olin 1" is $3. Given this information, which of the statements is true?
   1. In equilibrium, patty must give up three "Olin 1" balls for two "Nickless" balls.
   2. Patty would be willing to give up two "Olin 1": balls for one "Nickless" ball.
   3. Patty could increase her satisfaction by trading "Nickless" for "Olin 1."

   a. 1 only.
   b. 2 only.
   c. **3 only.**
   d. 1 and 2 only.
   e. 1 and 3 only.

2 Bo Dacious buys 10 classical albums and 15 tubes of suntan lotion along with quantities of other goods. Suppose that the price of records rises by 90 cents per album and the price of suntan lotion falls by 60 cents per tube. Other prices and Bo's income remain unchanged. What will Bo do?
   a. Buy more albums and less suntan lotion.
   b. **Buy fewer albums and more suntan lotion.**
   c. Buy the same number of albums and more suntan lotion.
   d. Remain where she is since her present position is the best attainable one after prices change.

3. Suppose an individual spends all his income on only two goods, good X and good Y. Moreover, suppose that you were asked to derive his price consumption curve for good Y. Which of the following would be allowed to vary?
   a. Money income.
   b. The tastes of the consumer.
   c. The price of good X.
   d. The price good Y.

4. The "compensated" demand curve is the demand curve that
   a. shows only the income effect.
   b. **shows only the substitution effect.**
   c. shows both the income and substitution effects.
   d. shows the Giffen good demand curve.
   e. none of the above.

5. The substitution effect refers to
   a. the change in quantity demanded when the price of a substitute changes.
   b. the change in quantity demanded resulting from a change in total satisfaction, holding relative prices constant.
   c. **the change in quantity demanded resulting from a change in relative prices, holding the level of satisfaction constant.**
   d. the percentage change in quantity demanded resulting from a one percent change in all prices.

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e. a movement from one indifference curve to another.

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6. The income effect of a price change
   a. is always positive.
   b. is always negative.
   c. **may be positive or negative.** www.vchowk.com
   d. is associated with a change in nominal income.
   e. is caused by changes in consumer tastes.

7. If a good is normal, then the demand curve for that good must be
   a. **downward sloping.**
   b. upward sloping.
   c. perfectly elastic.
   d. completely inelastic.
   e. either (a) or (b); whether it is one or the other depends on the relative magnitudes of the income and substitution effects.

8. If the demand curve for a good is downward sloping, then the good must be
   a. normal.
   b. inferior.
   c. Giffen.
   d. **either (a) or (b).**
   e. either (b) or (c).

9. If the demand curve for a good is upward sloping, then which of the following statements must be true?
   1. The good is inferior.
   2. The substitution effect is in the opposite direction to the income effect.
   3. The substitution effect overwhelms the income effect.

   a. 1 only.
   b. 2 only.
   c. **1 and 2 only.**
   d. 2 and 3 only.
   e. 1, 2, and 3.

10. When a good is an inferior good, the "non-compensated" demand curve will be
   a. relatively more elastic than the compensated demand curve.
   b. **relatively more inelastic than the compensated demand curve.**
   c. equally elastic but with a different intercept than the compensated demand curve.
   d. parallel to the compensated demand curve and to the right.
   e. either more elastic or more inelastic depending upon the size of the income effect.

11. A normal good can be defined as one which consumers purchase more of as
   a. prices fall.
   b. prices rise.
   c. incomes fall.
   d. **incomes increase**.
   e. the prices of other products increase.

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12. An inferior good
    a. can be a Giffen good, but a Giffen good is not always inferior.
    b. must be a Giffen good.
    c. **can be a Giffen good but a Giffen good must always be an inferior good.**
    d. has a positively sloped demand curve.
    e. all of the above.
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13. Which is true of a price-consumption curve for good X?
    a. Nominal income falls as the price of X falls.
    b. The absolute price of X falls, but the relative price between X and the composite good Y stays the same.
    c. It is always downward sloping for a normal good.
    d. **It represents only those market baskets that are optimal for the given price ratio and preference pattern, and therefore a demand curve can be plotted from it**.

14. The substitution effect of a price decrease for a good with a normal indifference curve pattern
    a. **is always inversely related to the price change.**
    b. measures the change in consumption of the good that is due to the consumer's feeling of being richer.
    c. is measured by the horizontal distance between the original and the new indifference curves.
    d. Is sufficient information to plot an ordinary demand curve for the commodity being considered.

15. The *income effect*
    a. always makes a consumer buy more of a good with a lowered price, all else being equal (because lowered price implies higher real income).
    b. always makes a consumer buy less of a good with an increased price, all else being equal (because increased price implies lower real income).
    c. is correctly describe by (a) and (b).
    d. **is correctly described by neither (a) nor (b).**

16. When the substitution effect of a lowered price is counteracted by the income effect, the good in question is
    a. **an inferior good.**
    b. a substitute good.
    c. an independent good.
    d. a normal good.

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Questions 17 and 18 refer to the figure below:

17. The curve EF is called a(n)
    a. **price-consumption curve.**
    b. income-consumption curve.
    c. demand curve.
    d. elasticity curve.
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18. From the curve EF, we know that the demand curve for coffee is
    a. **elastic at high prices and inelastic at low prices.**
    b. inelastic at high prices and elastic at low prices.
    c. elastic everywhere.
    d. unit elastic everywhere.

19. A price decrease and an increase in income are similar in that
    a. both force the consumer to achieve a lower level of well-being.
    b. both force the consumer to reach a lower indifference curve.
    c. **both move the budget line outward.**
    d. They are not similar at all.

20. The difference between a price decrease and an increase in income is that
    a. a price decrease does not affect the consumption of other goods while an increase in income does.
    b. **an increase in income does not affect the slope of the budget line while a decrease in price does change the slope.**
    c. a price decrease decreases real income while an increase in income increases real income.
    d. a price decrease leaves real income unchanged while an increase in income increases real income.

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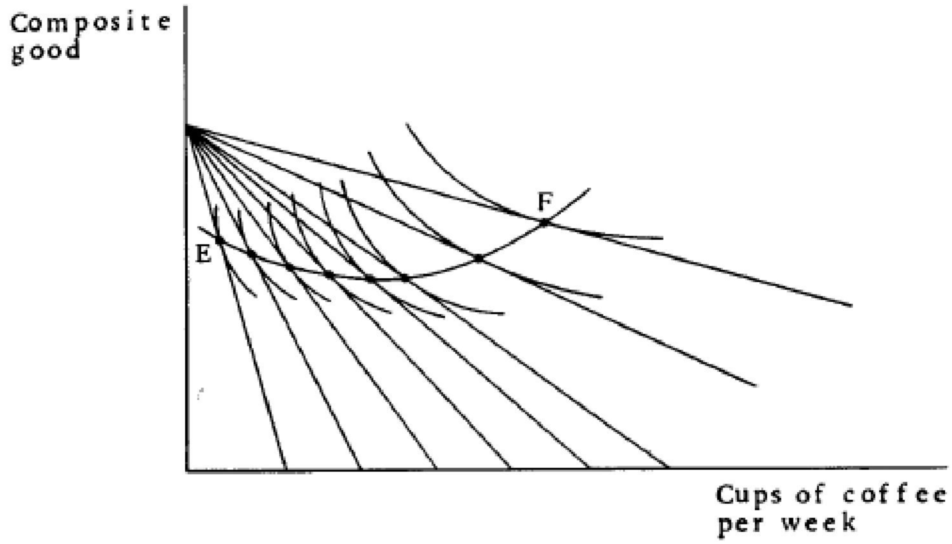

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21. A market demand curve can be derived by adding all the individual demand curves
    a. vertically.
    b. **horizontally**.
    c. in parallel.
    d. Any of the above as long as it is consistent.

22. Some goods are not closely related to each other and are neither substitutes nor complements. For such goods, the cross-price elasticity of demand would be
    a. positive.
    b. negative.
    c. **zero.**
    d. Cannot tell without more information.

23. The phenomenon of the backward-bending market supply curve for labor
    a. reflects the policy of labor unions.
    b. reflects the scarcity of high-priced, highly skilled labor.
    c. results from workers' preference for leisure over work.
    d. results from the effect of the decrease in the cost of leisure as wage rates rise.
    e. **indicates an increasing desire for leisure as income rises.**

24. If leisure is an inferior good, the individual's supply curve for labor is
    a. backward bending.
    b. completely inelastic.
    c. **upward sloping.**
    d. perfectly elastic.
    e. not necessarily any of the above.

25. If the income effect resulting from a change in the price of leisure is zero, the individual's supply curve of labor is
    a. backward bending.
    b. completely inelastic.
    c. **upward sloping.**
    d. perfectly elastic.
    e. not necessarily any of the above.

The following labor-leisure choice diagram applies to questions 26 and 27 below.

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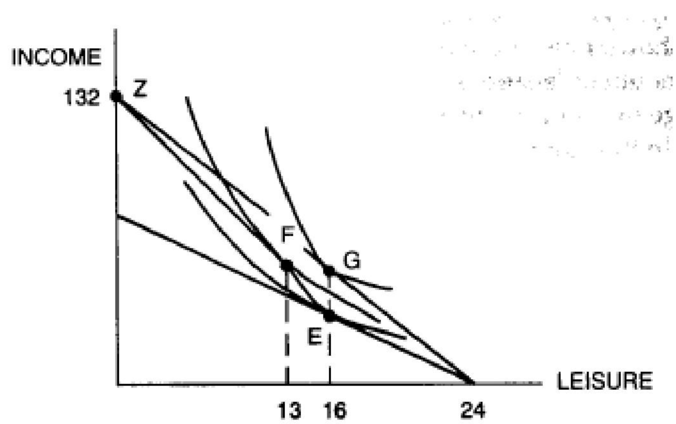

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26. If the individual receives $5 per hour and is in equilibrium at point E, his or her income at this equilibrium
point must be
a. **$40.**
b. $55.
c. $65.
d. $80.
a. indeterminate.

27. In moving from point E to point G, one would conclude that
a. leisure is normal and the supply curve is upward sloping.
b. leisure is inferior and the supply curve is backward bending.
c. leisure is neither normal nor inferior and the supply curve is backward bending.
d. leisure is inferior and the supply curve is completely inelastic.
e. **leisure is neither normal nor inferior and the supply curve is completely inelastic.**