

Unit 4. Consumer choice

Quiz

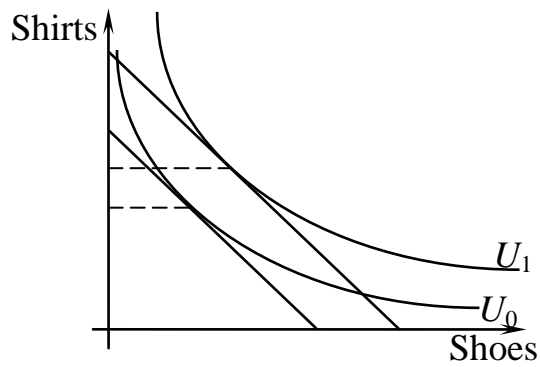
1. According to the principle of diminishing marginal utility,
- A. marginal utility remains the same
 - B. total utility remains the same
 - C. marginal utility decreases with each additional unit of a good that that is consumed
 - D. marginal utility and total utility both decrease
 - E. total utility declines

2. You have 450 roubles per week available to spend as you wish on commodities X and Y . The price of these commodities, the quantities you now buy, and your evaluation of the utility provided by these quantities are as follows:

Good	Unit price	Total bought	Utility	Marginal utility
X	45 roubles	6	800	90
Y	20 roubles	9	2000	30

For maximum satisfaction, assuming diminishing marginal utility, you should:

- A. buy less of X , more of Y
 - B. buy the same quantity of X , more of Y
 - C. buy more of X , less of Y
 - D. buy more of X , same quantity of Y
 - E. remain in your present position
3. Suppose a consumer decreases her consumption of good x when the price of good y rises. None of the commodities x and y is a Giffen good. Which of the following is the most likely explanation for this behaviour?
- A. Goods x and y are substitutes.
 - B. Good x is an inferior good.
 - C. Good y is an inferior good.
 - D. the income effect dominates the substitution effect for good x .
 - E. the substitution effect dominates the income effect for good x .



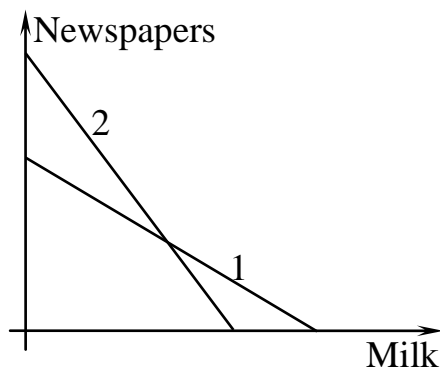
4. In the diagram above, given that U_1 represents a higher utility than U_0 , shirts are a(n):

- (A) inferior good
- (B) normal good
- (C) substitute good to shoes
- (D) complement good to shoes
- (E) Giffen good

5. An increase in income with no changes in the price of either good will cause the consumer's budget line to:

- A. Pivot so that it becomes flatter.
- B. Shift inward.
- C. Pivot so that it becomes steeper.
- D. Shift outward.
- E. None of the above.

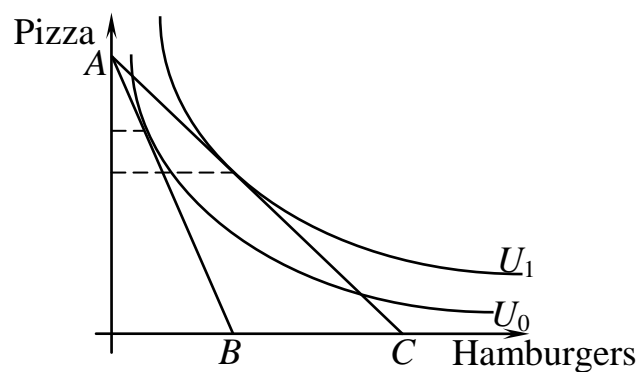
6. Mr. Smith consumes only milk and newspapers. Once he found that his budget line moved from position 1 to position 2 (see the graph below). How could it be explained?



- A. The price of milk has increased, the price of newspapers stayed the same, and Mr. Millionaire's income stayed the same.
- B. The price of newspapers has increased, the price of milk stayed the same, and Mr. Millionaire's income stayed the same.
- C. The price of milk has increased, the price of newspapers stayed the same, and Mr. Millionaire's income has increased.
- D. The price of newspapers has increased, the price of milk stayed the same, and Mr. Millionaire's income has increased.
- E. The price of milk has increased, the price of newspapers has decreased, and the income stayed the same.
- F. More than one answer is correct.

7. Suppose a consumer decreases her consumption of good x when the price of good y rises. Which of the following is the most likely explanation for this behaviour?

- A. goods x and y are substitutes.
- B. good x is an inferior good.
- C. good y is an inferior good.
- D. the income effect dominates the substitution effect for good x .
- E. the substitution effect dominates the income effect for good x .
- F. none of the above.



8. Using diagram above, rotation of the budget constraint from the position AB to AC is caused by a(n) _____ in the price of hamburgers. Given the indifference curves, pizza is a _____ for hamburgers.

- A. increase ; substitute
- B. increase ; complement
- C. decrease ; substitute
- D. decrease ; complement
- E. not enough information to answer

9. Suppose a person consumes two goods: pepsi and sandwiches. An increase in the price of a sandwich will:

- A. Increase consumption of pepsi if the income effect dominates the substitution effect.
- B. Increase consumption of pepsi if the substitution effect dominates the income effect.
- C. Increase consumption of sandwiches if the income effect dominates the substitution effect.
- D. Increase consumption of sandwiches if the substitution effect dominates the income effect.
- E. More than one answer is correct.
- F. None of the above.

10. Suppose that the marginal utilities from the first 5 units of good X consumed are 10, 8, 6, 5 and 4, respectively. Then:

- A. Total utility when 5 units of X are consumed is 33
- B. The utility function is decreasing with X
- C. Consumer does not strictly prefer large quantities of X
- D. All of the above statements are true
- E. None of the above statements is true