Multiple Choice Questions

1. (Consider This) Unlike newspaper dispensing devices, soft drink dispensing machines do not permit people to take more than one can or bottle with each payment. The reason is that the:
   A. opportunity cost of additional cans or bottles of soft drink increase very rapidly.
   B. marginal utility of extra soft drink cans or bottles declines slowly, particularly because they are storable and can be consumed later.
   C. marginal utility of extra soft drink cans or bottles declines quite rapidly.
   D. opportunity cost of additional cans or bottles of soft drink increase very slowly.

2. The indifference curve in the above diagram yields Juan 100 units of utility. If Juan's money income were to increase by 20 percent, the indifference curve would:
   A. shift leftward.
   B. shift rightward.
   C. become steeper.
   D. not be affected.

3. "Essential" water is cheaper than "nonessential" diamonds because:
   A. new industrial uses for diamonds have been discovered.
   B. the supply of water is great relative to demand and the supply of diamonds is small relative to demand.
   C. although the total utility of diamonds is greater, their marginal utility is small.
   D. the supply of diamonds is great relative to demand and the supply of water is small relative to demand.
4. Refer to the above diagram where $xy$ is the relevant budget line and $I_1$, $I_2$, and $I_3$ are indifference curves. The equilibrium position for the consumer is at:
A. any point on $xy$.
B. point $M$.
C. point $K$.
D. point $J$.

5. Suppose you have a limited money income and you are purchasing products A and B whose prices happen to be the same. To maximize your utility you should purchase A and B in such amounts that:
A. their marginal utilities are the same.
B. their total utilities are the same.
C. their marginal and total utilities are proportionate.
D. the income and substitution effects associated with each are equal.

6. Where total utility is at a maximum, marginal utility is:
A. negative.
B. positive and increasing.
C. zero.
D. positive but decreasing.

7. In purchasing products A and B, a consumer is in equilibrium when:
A. $\frac{MU_a}{P_a} = \frac{MU_b}{P_b}$
B. $\frac{MU_a}{P_a} = \frac{MU_b}{P_b}$
C. $MU_a - MU_b = P_a/P_b$
D. $MU_a \times P_a = MU_b \times P_b$
8. Refer to the budget line shown in the diagram above. The absolute value of the slope of the budget line is:
A. $MU_x/MU_y$.
B. one-half.
C. $P_y/P_C$.
D. $P_C/P_D$.

9. An increase in money income shifts the consumer's:
A. budget line to the right.
B. indifference curves to the left.
C. budget line to the left.
D. indifference curves to the right.

10. The theory of consumer behavior assumes that:
A. consumers behave rationally, maximizing their satisfactions.
B. consumers have unlimited money incomes.
C. consumers do not know how much marginal utility they obtain from successive units of various products.
D. marginal utility is constant.

11. Refer to the above diagram where $xy$ is the relevant budget line and $I_1$, $I_2$, and $I_3$ are indifference curves. At point $K$:
A. $MU_x = MU_y$.
B. $MRS = P_y/P_y$.
C. $MRS = P_y/P_C$.
D. $P_x$ exceeds $P_y$.

12. Marginal utility is the:
A. sensitivity of consumer purchases of a good to changes in the price of that good.
B. change in total utility obtained by consuming one more unit of a good.
C. change in total utility obtained by consuming another unit of a good divided by the change in the price of that good.
D. total utility associated with the consumption of a certain number of units of a good divided by the number of units consumed.
13. If a consumer chooses a combination of goods that lies inside of her budget line, the consumer:
A. is maximizing utility.
B. is spending in excess of her current income.
C. could obtain more goods with her money income.
D. has upsloping indifference curves.

14. Brenda says, "You would have to pay me $50 to attend that pro wrestling event." For Brenda, the marginal utility of the event is:
A. zero.
B. positive, but declines rapidly.
C. negative.
D. positive, but less than the ticket price.

15. (Last Word) Most people do not steal because:
A. the marginal utilities of stolen goods diminish as more of them are obtained.
B. the marginal utilities of stolen goods are negative.
C. their marginal costs, including guilt costs, are too high.
D. stolen goods can be sold only at deep discounts.

16. Some modern theories of consumer behavior have:
A. emphasized that consumption is basically an instantaneous act.
B. contended that in the $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ equation MU is understated for time-intensive goods.
C. introduced the opportunity cost of time as a component of product price.
D. argued that inflationary expectations negate the theory of consumer behavior.

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<th>Total utility</th>
<th>Marginal utility</th>
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<tr>
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<td>0</td>
</tr>
<tr>
<td>1</td>
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</tr>
<tr>
<td>2</td>
<td>35</td>
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<tr>
<td>4</td>
<td>40</td>
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17. Refer to the above data. The value for $W$ is:
A. 15.
B. 20.
C. 25.
D. 30.
Answer the next question(s) on the basis of the following marginal utility data for products X and Y. Assume that the prices of X and Y are $4 and $2 respectively and that the consumer’s income is $18.

<table>
<thead>
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<th>Units of Y</th>
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<tr>
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18. Refer to the above data. If the price of X decreases to $2, then the utility-maximizing combination of the two products is:
A. 2 of X and 5 of Y.
B. 4 of X and 6 of Y.
C. 6 of X and 3 of Y.
D. 4 of X and 5 of Y.

19. Prashanth decides to buy a $75 ticket to a particular New York professional hockey game rather than a $50 ticket for a particular Broadway play. We can conclude that Prashanth:
A. is relatively unappreciative of the arts.
B. obtains more marginal utility from the play than from the hockey game.
C. has a higher “marginal utility to price ratio” for the hockey game than for the play.
D. has recently attended several other Broadway plays.

20. Mrs. Green is spending all her money income by buying bottles of soda and bags of pretzels in such amounts that the marginal utility of the last bottle is 60 utils and the marginal utility of the last bag is 30 utils. The prices of soda and pretzels are $.60 per bottle and $.40 per bag respectively. It can be concluded that:
A. the two commodities are substitute goods.
B. Mrs. Green should spend more on pretzels and less on soda.
C. Mrs. Green should spend more on soda and less on pretzels.
D. Mrs. Green is buying soda and pretzels in the utility-maximizing amounts.
21. Refer to the above diagram. If the budget line shifts from \(ab\) to \(ac\) the:
A. price of \(K\) has increased.
B. price of \(K\) has decreased.
C. consumer’s money income has fallen.
D. price of \(J\) has increased.

22. The utility-maximizing rule:
A. is inconsistent with the law of demand.
B. implies a leftward shifting demand curve.
C. implies a perfectly elastic demand curve.
D. is consistent with the law of demand.

23. Noncash gifts:
A. increase the utility of recipients by introducing them to products they have not consumed before.
B. reduce recipient utility relative to a cash gift because noncash gifts often fail to match recipient preferences.
C. entail as much utility as do cash gifts.
D. increase the utility of recipients because many people are uncertain of their own preferences.

24. (Consider This) A topographical map shows successively higher equal-elevation lines, whereas an indifference map shows successively higher levels of total:
A. utility.
B. revenue.
C. profit.
D. cost.
25. Mr. Chan has an income of $20 that he is spending on donuts and cheese in such amounts that he derives 25 utils of satisfaction from the donuts and 25 utils of satisfaction from the cheese. On the basis of this information we:
A. cannot say whether or not Chan is buying donuts and cheese in equilibrium amounts.
B. can say that Chan should buy more cheese and fewer donuts.
C. can say that Chan should buy more donuts and less cheese.
D. can say that Chan is buying the utility-maximizing amounts of donuts and cheese.

26. Marginal utility:
A. is equal to total utility divided by the number of units consumed.
B. is equal to total utility if the demand curve is linear.
C. increases as more of a product is consumed.
D. diminishes as more of a product is consumed.

27. To maximize utility a consumer should allocate money income so that the:
A. elasticity of demand on all products purchased is the same.
B. marginal utility obtained from the last dollar spent on each product is the same.
C. total utility derived from each product consumed is the same.
D. marginal utility of the last unit of each product consumed is the same.

28. Utility:
A. is synonymous with usefulness.
B. is want-satisfying power.
C. is easy to quantify.
D. rarely varies from person to person.

29. Refer to the above diagram where \( xy \) is the relevant budget line and \( I_1, I_2, \) and \( I_3 \) are indifference curves. If the consumer is initially at point \( L \), he or she should:
A. strive for point \( N \) by obtaining a larger money income.
B. purchase more of \( X \) and less of \( Y \).
C. remain at that point to maximize utility.
D. purchase more of \( Y \) and less of \( X \).

30. The marginal utility of the last unit of A consumed is 12 and the marginal utility of the last unit of B consumed is 8. What set of prices for A and B respectively would be consistent with consumer equilibrium?
A. $4 and $6
B. $6 and $4
C. $8 and $12
D. $16 and $9
Pre-Test Chapter 19 ed17 Key

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<td>15. C</td>
<td>25. A</td>
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