

Quiz # 5
Econ 2610: Principles of Microeconomics, Spring 2010
Yogesh Uppal
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MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.
Each question is worth 1 one point.

1) Which of the following statements about elasticity of demand is correct?
A) Demand is more elastic the smaller percentage of the consumer's budget the item takes up.
B) The absolute value of the elasticity of demand ranges from zero to one.
C) Demand is more elastic in a long time period than it is in a short time period.
D) The elasticity of demand for a good in general is equal to the elasticity of demand for a specific brand of the good.
Answer: C

2) Suppose Joe is maximizing total utility within his budget constraint and the price of jeans is \$25 and yielded 100 units of extra satisfaction. If the price of a shirt is \$20, then the extra satisfaction received for the last shirt must be:
A) 500 units of utility.
B) 100 units of utility.
C) 80 units of utility.
D) None of the above
Answer: C

3) When price increases for an inferior good, the income and substitution effects:
A) work in opposite directions and quantity demanded increases.
B) work in the same direction to decrease quantity demanded.
C) work in the same direction to increase quantity demanded.
D) work in opposite directions and quantity demanded decreases.
Answer: D

4) Terence has \$50 per week to spend on Subway sandwiches and milkshakes. The price of a Subway sandwich is \$5 and the price of a milkshake is \$4. He buys 6 sandwiches and 5 milkshakes. The marginal utility of the 6th sandwich = 25; and the marginal utility of the 5th milkshake = 24. Which of the following is true?
A) He is not maximizing his utility because he is not spending all of his income.
B) He is maximizing his utility.
C) He is not maximizing his utility and should buy more milkshakes.
D) He is not maximizing his utility and should buy more subway sandwiches.
Answer: C

5) Suppose the market for coffee is in equilibrium at a price of \$4 per bag and 100 bags. Also, the market supply increases by 2 bags for each additional dollar increase in price. The elasticity of supply for good A is

A) 0.02

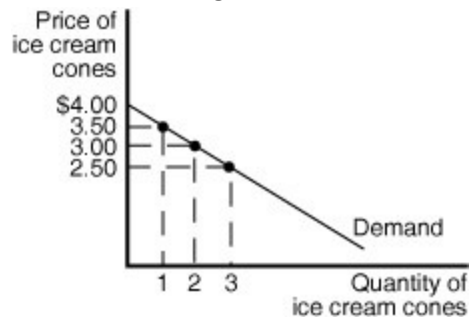
B) 0.04

C) 0.06

D) 0.09

Answer: Right answer is 0.08. You were credit for this question.

Figure 1



6) Refer to Figure 1. If the market price is \$2.50, what is Kendra's consumer surplus?

A) \$ 3.00

B) \$ 2.75

C) \$ 2.50

D) \$ 2.25

Answer: D

Exhibit 1.1

Consider the following utility schedule for Ann from consumption of pizza and soda. Suppose price of a pizza slice is \$2 and that of a cup of soda is \$1. She has \$10 to spend.

# of Slices of pizza	Total utility from pizza	MU_{pizza}	$\left(\frac{MU_{pizza}}{P_{pizza}}\right)$	# of cups of soda	Total utility from soda	MU_{soda}	$\left(\frac{MU_{soda}}{P_{soda}}\right)$
0	0	0	0	0	0	0	0
1	20	20	10	1	20	20	20
2	36	16	8	2	35	15	15
3	46	10	5	3	45	10	10
4	52	6	3	4	50	5	5
5	54	2	1	5	53	3	3
6	51	-3	-1.5	6	52	-1	-1

7) Refer to Exhibit 1.1. What is marginal utility of 3 rd slice of pizza?
A) 36
B) 46
C) 16
D) 10
Answer: D

8) Refer to Exhibit 1.1. What combination of pizza and soda maximizes her utility?
A) 4 slices of pizza and 5 cups of soda
B) 2 slices of pizza and 6 cups of soda
C) 3 slices of pizza and 4 cups of soda
D) 1 slice of pizza and 2 cups of soda
Answer: C

9) Refer to Exhibit 1.1. Suppose price of a pizza slice decreases. Choose the option which is true.
A) Ann's marginal utility per dollar of pizza will be lower and she will consume more pizza.
B) Ann's marginal utility per dollar of pizza will be lower and she will consume less pizza.
C) Ann's marginal utility per dollar of pizza will be higher and she will consume more pizza.
D) Ann's marginal utility per dollar of pizza will be higher and she will consume less pizza.
Answer: C

10) The law of diminishing marginal utility states that
A) Marginal utility increases as you consume more of a good.
B) Marginal utility decreases as you consume more of a good.
C) Marginal utility decreases as you consume less of a good.
D) None of the above
Answer: B