**Sample True/False or Multiple Choice Questions:**

10. Scholastica is taking a class from Professor Chaos. Professor Chaos gives two tests in this course and determines a student’s grade as follows. He determines the smaller of the following two numbers: half of the score on the first test (which is a relatively easy test) and the total score on the second test. He gives each student a numerical score equal to the smaller number and then ranks the students. Scholastica would like to be ranked as high as possible in Professor Chaos’s rankings. If we represent her score on the first exam on the horizontal axis and her score on the second exam on the vertical axis, then her indifference curves

a. are L-shaped with kinks where the two exam scores are equal.

b. have sections with a slope -2 and sections with a slope 1/2.

c. are positively sloped.

d. are L-shaped with kinks where the exam 1 score is twice the exam 2 score.

e. are straight lines with a slope of -1/2.

15. A consumer has the utility function *U*(*x*, *y*) = *x* + 2*y*1/2. The price of good *x* is 2 and the price of good *y* is 1. The consumer’s income is 20. If the price of good *y* rises to 2, then entire change in demand for *y* is due to the substitution effect.

16. Cindy consumes goods *x* and *y*. Her demand for *x* is given by *x*(*px*, *m*) = 0.05*m* — 5.15*px*. Now her income is $419, the price of *x* is $3, and the price of *y* is $1. If the price of *x* rises to $4 and if we denote the income effect on her demand for *x* by *DI* and the substitution effect on her demand for *x* by *DS*, then

a. *DI* = -0.28 and *DS* = -0.52.

b. *DI* = -0.28 and *DS* = -4.88.

c. *DI* = -0.52 and *DS* = -0.52.

d. *DI* = 0 and *DS* = -2.00.

e. None of the above.

17. Rob consumes two goods, *x* and *y*. He has an allowance of $50 per week and is not endowed with either of the goods. If the price of good *x* increases and his substitution and income effects change demand in opposite directions,

a. good *x* must be a Giffen good.

b. good *x* must be an inferior good.

c. WARP is violated.

d. good *x* must be a normal good.

e. There is not enough information to judge whether good *x* is a normal or inferior good.

18. Neville from your workbook has a friend named Peregrine. Peregrine has the same demand function for claret as Neville, namely *q* = .02*m* - 2*p*, where *m* is income and *p* is price. Peregrine’s income is $6,500 and he initially had to pay a price of $50 per bottle of claret. The price of claret rose to $60. The substitution effect of the price change

a. reduced his demand by 20.

b. increased his demand by 20.

c. reduced his demand by 14.

d. reduced his demand by 26.

e. reduced his demand by 24.

19. Ivan spends his entire income on two goods. One of them is a Giffen good. If the price of the Giffen good rises, demand for the other good must fall.

20. Walt considers *x* and *y* to be perfect substitutes. They originally cost $10 and $9 respectively. His income is $720. One day the price of *x* drops to $8.

a. The income effect increases the quantity of *y* by 90.

b. The substitution effect increases the quantity of *y* by 80.

c. The substitution effect increases the quantity of *x* by 90.

d. The income effect increases the quantity of *x* by 80.

e. None of the above.

21. The following can be said about the income and substitution effects of a price increase on the demand for a good whose price rose:

a. The former is always positive and the latter is always negative.

b. Both can be either positive or negative.

c. While the latter is always negative, the former can be either positive or negative.

d. While the former is always negative, the latter can be either positive or negative.

e. The former can at times be negative, but it will never overwhelm the latter.

22. In 2000, Bruce spent his income on two goods, *x* and *y*. Between 2000 and 2001, the price of good *x* rose by 8% and the price of good *y* rose by 8%. In 2001, Bruce bought the same amount of *x* as he bought in 2000, but he bought more of good *y* than he had bought in 2000.

a. *y* is a normal good.

b. *y* is an inferior good.

c. *x* is an inferior good.

d. Nothing can be said about inferiority or superiority, since we don’t know what happened to income.

e. Bruce is acting irrationally, since the relative prices of *x* and *y* did not change.

23. Carlos consumes only two goods, apples and bananas. His utility function is given by *U*(*x*, *y*) = *a*3*b*2. He is endowed with *wa* apples and *wb* bananas. Unaware that prices are about to change, Carlos buys the quantities of apples and bananas that maximize his utility subject to his budget constraint. After he has made his purchases but before he has eaten them, the relative prices change. Carlos is then free to make further trades at the new relative prices if he wishes.

a. Carlos will definitely be better off after the price change.

b. Carlos will definitely be worse off after the price change.

c. Carlos will be better off after the price change if the price of the good for which he is a net seller rises relative to the price of the other good.

d. Carlos will be better off after the price change if the price of the good for which he is a net buyer rises relative to the price of the other good.

e. Carlos’s utility will not be affected by the price change.

24. Rudolf obeys the weak axiom of revealed preferences. His preferences don’t change over time. One year he could afford bundle *x* but bought bundle *y*. If another year he buys bundle *x*, then he can’t afford bundle *y*.

25. In 1991, good *x* cost $5 and good *y* cost $1. The current price of good *x* is $7 and the current price of good *y* is $6. In 1991 the consumption bundle was (*x*, *y*) = (2, 4). The current consumption bundle is (*x*, *y*) = (5, 3). The Laspeyres index of current prices relative to 1991 prices is closest to which of the following numbers?

a. 3.79

b. 2.71

c. 0.26

d. 1.89

e. 1.26

26. Twenty years ago, Dmitri consumed bread which cost him 10 kopeks a loaf and potatoes which cost him 20 kopeks a sack. With his income of 330 kopeks, he bought 9 loaves of bread and 12 sacks of potatoes. Today he has an income of 452 kopeks. Bread now costs him 22 kopeks a loaf and potatoes cost him 17 kopeks a sack. Assuming his preferences haven’t changed (and the sizes of loaves and sacks haven’t changed), when was he better off?

a. He was better off 20 years ago.

b. He is better off today.

c. He was equally well off in the two periods.

d. From the information given here, we are unable to tell.

e. None of the above.

27. When prices are ($4, $2), Tomoko chooses the bundle (9, 18), and when prices are ($1, $2), she chooses the bundle (8, 14).

a. The bundle (8, 14) is revealed preferred to the bundle (9, 18) and she does not violate WARP.

b. She violates SARP but not WARP.

c. The bundle (9, 18) is revealed preferred to the bundle (8, 14) and she does not violate WARP.

d. She violates WARP.

e. None of the above.

29. Mike consumes two commodities, *x* and *y*, and his utility function is min{*x* + 2*y*, *y* + 2*x*}. He chooses to buy 8 units of good *x* and 16 units of good *y*. The price of good *y* is $.50. What is his income?

a. $32

b. $40

c. $24

d. $16

e. Mike’s income cannot be found unless the price of *x* is given too.

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| Cevap Anahtarı |  |
| 1 | c | 20 | c |
| 2 | e | 21 | c |
| 3 | c | 22 | a |
| 4 | TRUE | 23 | a |
| 5 | FALSE | 24 | TRUE |
| 6 | FALSE | 25 | b |
| 7 | b | 26 | b |
| 8 | b | 27 | c |
| 9 | c | 28 | d |
| 10 | d | 29 | d |
| 11 | FALSE | 30 | d |
| 12 | TRUE | 31 | c |
| 13 | TRUE | 32 | c |
| 14 | d |
| 15 | TRUE |
| 16 | b |
| 17 | b |
| 18 | c |
| 19 | TRUE |
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