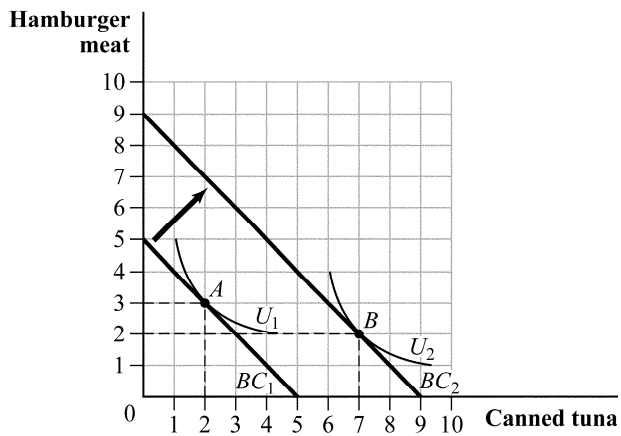


Quiz #3 -- October 19, 2017

- Frank's utility function is $U = 10X + 6Y$. Frank has a budget of \$60 to spend on goods X and Y . The price of good X is \$3 and the price of good Y is \$2. How many units of good X and good Y does Frank purchase?
 - $X = 20$ and $Y = 0$
 - $X = 0$ and $Y = 10$
 - $X = 15$ and $Y = 5$
 - $X = 10$ and $Y = 20$

Use the following to answer question 2.

Figure 5.2

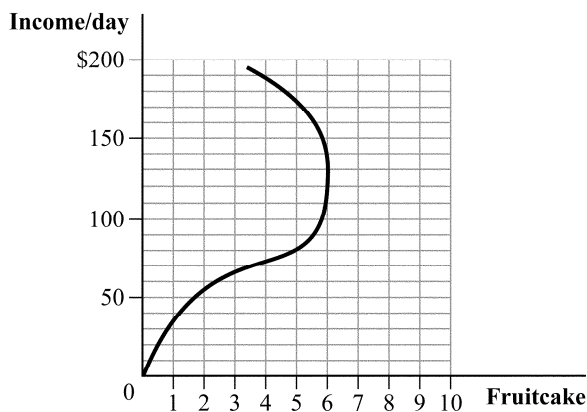


- (Figure 5.2) In the figure, hamburger meat is a(n) _____ good and canned tuna is a(n) _____ good.
 - normal; normal
 - inferior; normal
 - inferior; inferior
 - normal; inferior

3. Billy is maximizing utility subject to his limited income. As a result, which of the following statements is TRUE?
- A) The slope of the indifference curve is twice the slope of the budget constraint.
 - B) The indifference curve intersects the budget constraint at precisely two points.
 - C) The budget constraint is tangent to the indifference curve.
 - D) The $MRS_{XY} = P_X P_Y$.

Use the following to answer question 4.

Figure 5.4

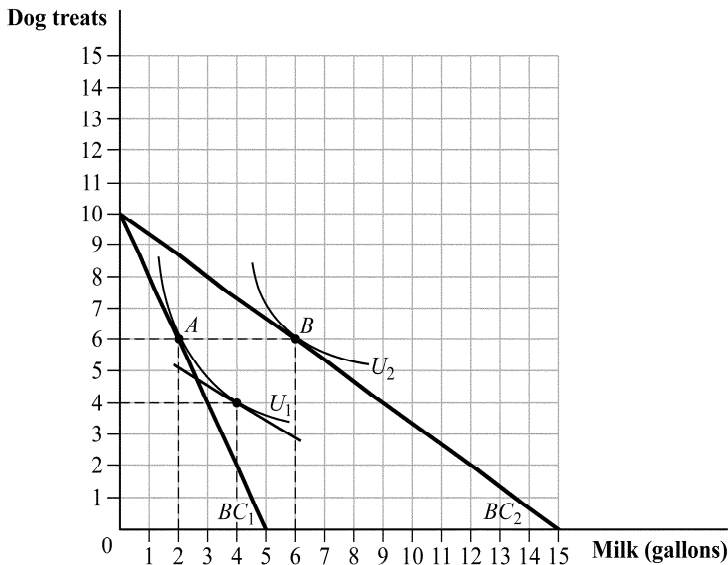


4. (Figure 5.4) Which of the following statements is TRUE?
- A) Fruitcake is an inferior good, regardless of the income level.
 - B) Fruitcake is a normal good, regardless of the income level.
 - C) Fruitcake is a normal good and then becomes an inferior good at income levels above \$120.
 - D) Fruitcake is an inferior good and then becomes a normal good at income levels above \$120.
5. The income effect of a price change predicts that a:
- A) fall in a good's price will increase consumer purchasing power, leading to an increased consumption of normal goods.
 - B) fall in a good's price will decrease consumer purchasing power, leading to a decreased consumption of normal goods.
 - C) rise in a good's price will increase consumer purchasing power, leading to an increased consumption of inferior goods.
 - D) rise in a good's price will increase consumer purchasing power, leading to a decreased consumption of inferior goods.

6. A basic assumption of the short run is that a firm:
- A) can employ more workers and add more capital to the production process.
 - B) cannot adjust its workforce or the amount of capital it uses.
 - C) can reduce the number of workers it uses, but it cannot adjust how much capital it uses.
 - D) can freely adjust the amount of labor and capital that it employs.

Use the following to answer question 7.

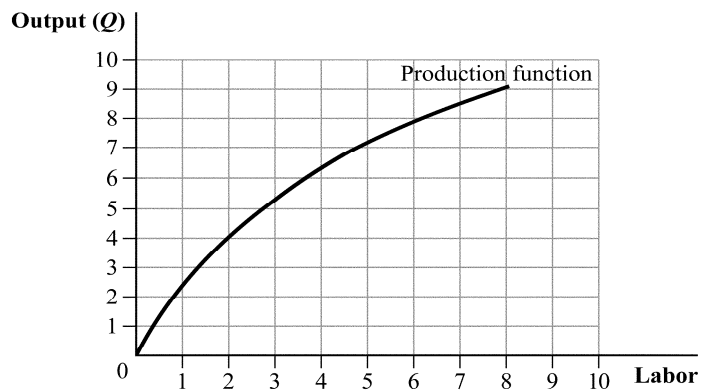
Figure 5.9



7. (Figure 5.9) What is the size of the substitution effect associated with the decrease in the price of milk?
- A) The quantity of milk consumed increases from 2 to 6 gallons.
 - B) The quantity of milk consumed increases from 4 to 6 gallons.
 - C) The quantity of milk consumed decreases from 6 to 2 gallons.
 - D) The quantity of milk consumed increases from 2 to 4 gallons.
8. To calculate the market demand curve from individual demand curves, we:
- A) vertically sum the individual demand curves.
 - B) horizontally sum the individual demand curves.
 - C) exponentiate the individual demand curves.
 - D) add up the prices of the individual demand curves, holding the quantities constant.

Use the following to answer question 9.

Figure 6.1



9. (Figure 6.1) The average product at $L = 2$ and $L = 8$ are _____ and _____ respectively.
- A) 2; 1.13
 - B) 0.5; 0.89.
 - C) 8; 72
 - D) 1.5; 0.5
10. Jorge is a saver. The interest rate decreases. Jorge will save _____ due to the substitution effect and he will save _____ due to the income effect.
- A) More, more.
 - B) More, less.
 - C) Less, more.
 - D) Less, less.

Answer Key - F17-3

1. A
2. B
3. C
4. C
5. A
6. C
7. D
8. B
9. A
10. C