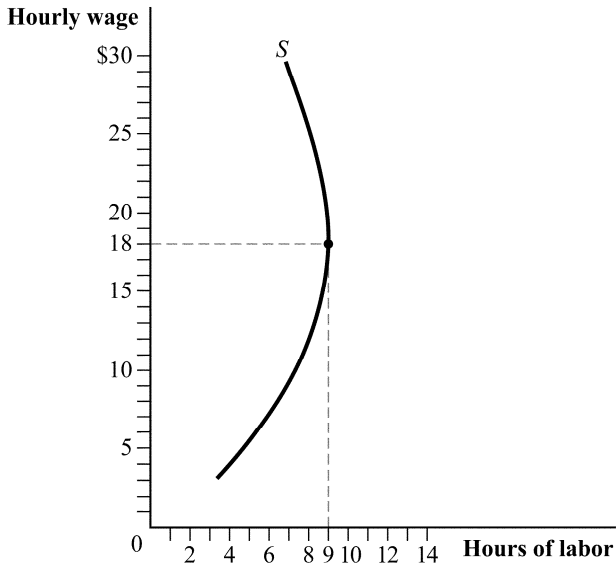


Quiz #3, October 10, 2019

Use the following to answer question 1.

Figure 5.13



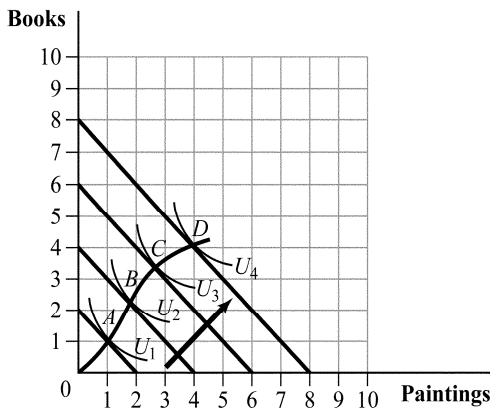
- (Figure 5.13) Which of the following statements is (are) TRUE?
 - At a wage above \$18, the income effect dominates the substitution effect.
 - At a wage below \$18, the substitution effect dominates the income effect.
 - At a wage above \$18, the substitution effect dominates the income effect.
 - At a wage below \$18, the income effect dominates the substitution effect.

A) I and II B) II and III C) III and IV D) I
- Suppose that good X and good Y are substitutes and good X and good Z are complements. When the price of a good Y _____ or the price of good Z _____, the demand for good X shifts outward.
 - increases; decreases
 - increases; increases
 - decreases; decreases
 - decreases; increases

3. Nancy's ratio of marginal utility for coffee and lipstick is 3:1, while the price ratio of coffee to lipstick is 1.5:1. Which of the following statements is (are) TRUE?
- I. Coffee provides Nancy with 3 times the marginal utility of lipstick.
 - II. Nancy could increase utility by decreasing her consumption of coffee by 3 units and increasing her consumption of lipstick by 1.5 units.
 - III. Nancy could increase utility by decreasing her consumption of lipstick by 3 units and increasing her consumption of coffee by 2 units.
 - IV. Nancy could increase utility by decreasing her consumption of coffee by 1 unit and increasing her consumption of lipstick by 3 units.
- A) IV only B) I and II C) I and III D) III only

Use the following to answer question 4.

Figure 5.3

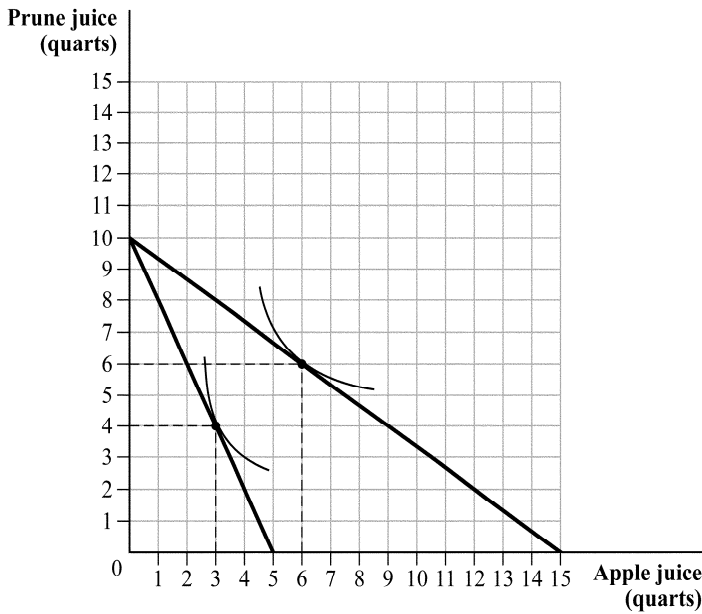


4. (Figure 5.3) Which of the following statements is TRUE?
- A) Books are an inferior good at income levels greater than those associated with bundle *B*.
 - B) Books are an inferior good at income levels greater than those associated with bundle *C*.
 - C) Both books and paintings are normal goods up to the income level corresponding to bundle *D*.
 - D) Paintings are an inferior good at income levels higher than those associated with these bundles.

5. 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?
- A) $X = 20$ and $Y = 0$ C) $X = 15$ and $Y = 5$
 B) $X = 0$ and $Y = 10$ D) $X = 10$ and $Y = 20$

Use the following to answer question 6.

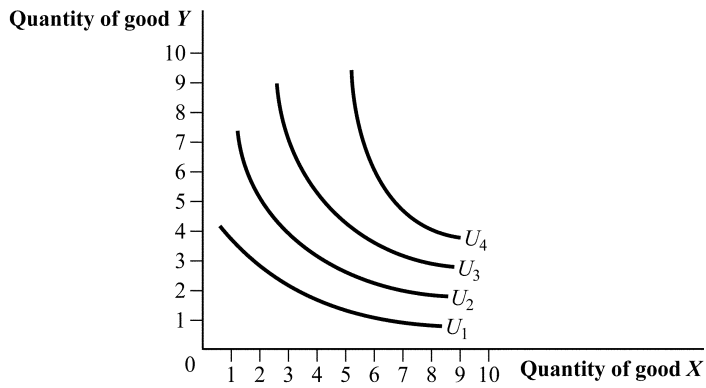
Figure 5.8



6. (Figure 5.8) Refer to Figure 5.8, depicting the consumer's indifference curves and budget constraints. Suppose the consumer has \$20 of income to spend on apple and prune juice. Which of the following statement(s) is (are) TRUE?
- I. At \$2 per quart, the consumer buys 3 quarts of apple juice.
 II. At \$4 per quart, the consumer buys 3 quarts of apple juice.
 III. At \$1.33 per quart, the consumer buys 6 quarts of apple juice.
 IV. At \$0.75 per quart, the consumer buys 6 quarts of apple juice.
- A) I and II B) II and III C) II and IV D) I

Use the following to answer question 7.

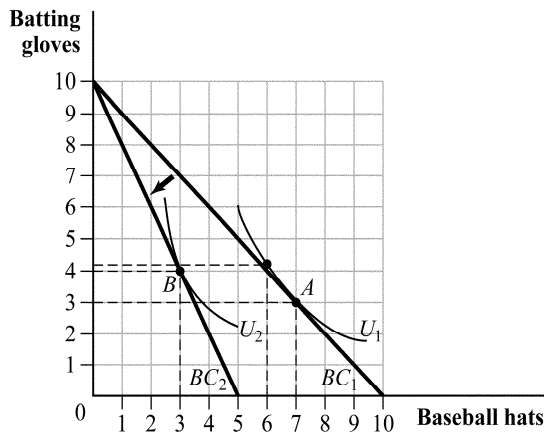
Figure 5.12



7. (Figure 5.12) The substitution effect will be largest for indifference curve:
A) U_1 . B) U_2 . C) U_3 . D) U_4 .

Use the following to answer question 8.

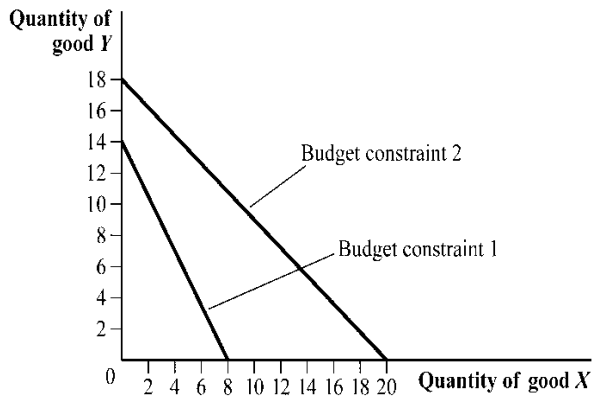
Figure 5.16



8. (Figure 5.16) The income effect of the price increase causes consumption of baseball hats to:
- A) decrease by 1. B) decrease by 3. C) decrease by 4. D) increase by 1.

Use the following to answer question 9.

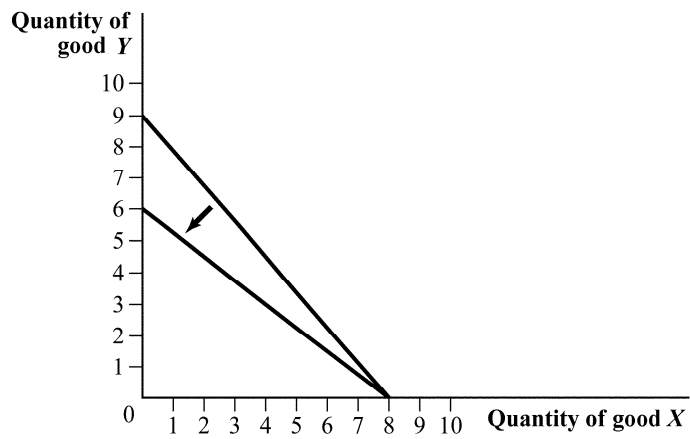
Figure 4.14



9. (Figure 4.14) For budget constraint 2, suppose that the price of good Y is \$90 per unit. What is the price of good X ?
- A) \$92 B) \$88 C) \$81 D) \$102.24

Use the following to answer question 10.

Figure 4.13



10. (Figure 4.13) What rotated the budget constraint?
- A) an increase in the price of good X
 - B) a decrease in the price of good Y
 - C) a decrease in income
 - D) an increase in the price of good Y

Answer Key - F19-3

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