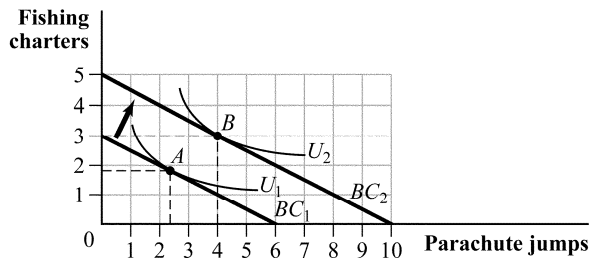


Quiz #3 -- October 8, 2020

Use the following to answer question 1.

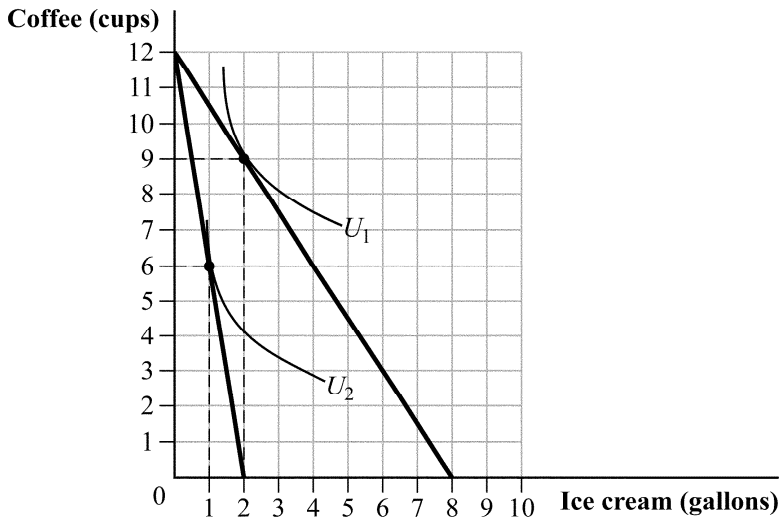
Figure 5.1



1. (Figure 5.1) Francis spends his income on fishing charters and jumping out of airplanes. Which of the following statements is TRUE?
 - A) Fishing charters are an inferior good.
 - B) An increase in income could cause the optimal consumption bundle to move from point *A* to point *B*.
 - C) Parachute jumps are an inferior good.
 - D) An increase in the price of parachute jumps could cause the optimal consumption bundle to move from point *A* to point *B*.

Use the following to answer question 2.

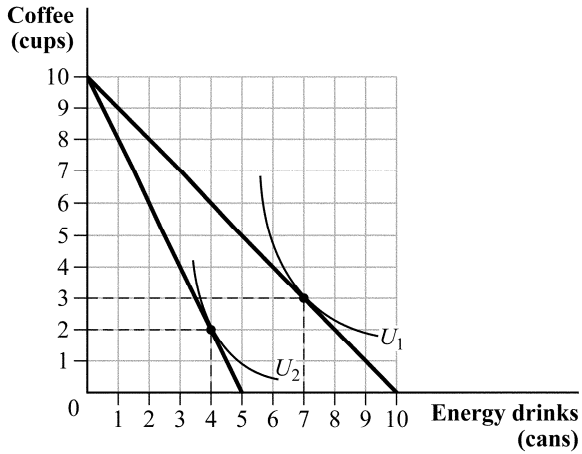
Figure 5.6



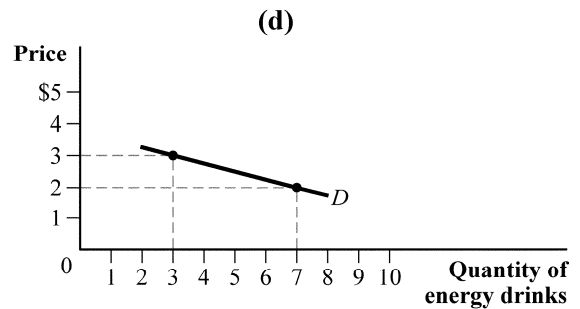
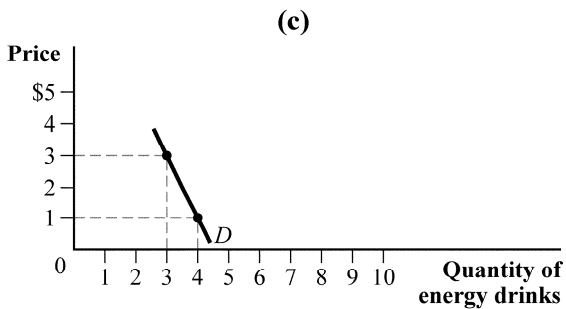
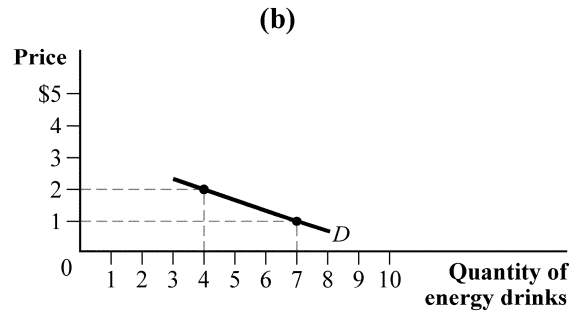
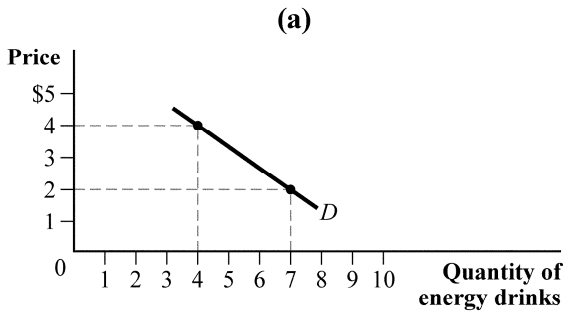
2. (Figure 5.6) Garth spends his income on ice cream and coffee, and coffee sells for \$1 a cup. If ice cream sells for \$6 per gallon, Garth will purchase:
- A) 2 gallons. B) 8 gallons. C) 1 gallon. D) 6 gallons.
3. A _____ in a good's price will _____ consumer purchasing power, while the substitution effect will _____ consumption of that good.
- A) fall; increase; increase C) rise; increase; increase
 B) fall; decrease; decrease D) rise; increase; decrease
4. Suppose the price of good X , a Giffen good, decreases. Which of the following statements are TRUE?
- I. The substitution effect of the price decrease causes consumers to buy less of good X .
 II. The substitution effect of the price decrease causes consumers to buy more of good X .
 III. The income effect of the price decrease causes consumers to buy more of good X .
 IV. The income effect of the price decrease causes consumers to buy less of good X .
- A) I and IV B) II and IV C) I and III D) II and III

Use the following to answer question 5.

Figure 5.5



5. (Figure 5.5) Suppose the consumer has \$10 to spend on energy drinks and coffee. Which of the following figures represents the consumer's demand curve for energy drinks?



A) panel (a)

B) panel (b)

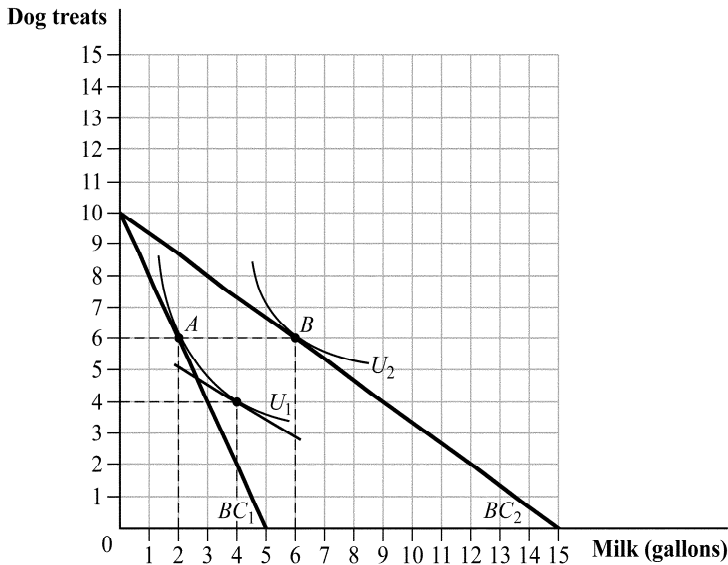
C) panel (c)

D) panel (d)

6. Suppose that $MU_X = Y$ and $MU_Y = X$. The prices of good X and good Y are \$5 and \$4, respectively. How many units of good X does the consumer buy if she has \$410 of income?
 A) 15 B) 41 C) 25 D) 33

Use the following to answer question 7.

Figure 5.10



7. (Figure 5.10) When the price of milk drops, the income effect _____ the quantity of milk consumed from _____.
- A) increases; 2 to 6 gallons C) decreases; 6 to 2 gallons
 B) increases; 4 to 6 gallons D) increases; 2 to 4 gallons
8. To calculate the market demand curve from individual demand curves:
- 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.
9. Natalie is a borrower and considers consumption both now and in the future to be normal goods. The interest rate increases. Natalie will borrow _____ due to the substitution effect and she will borrow _____ due to the income effect.
- A) More, more. B) More, less. C) Less, more. D) Less, less.

Answer Key - F20-3

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