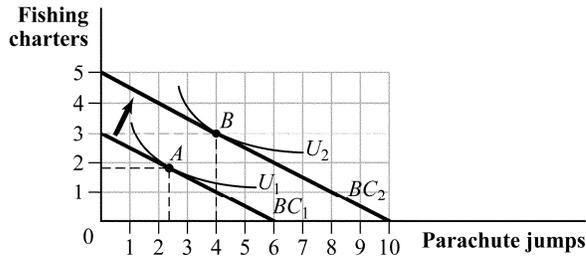


Quiz #3 -- February 22, 2018

Use the following to answer question 1.

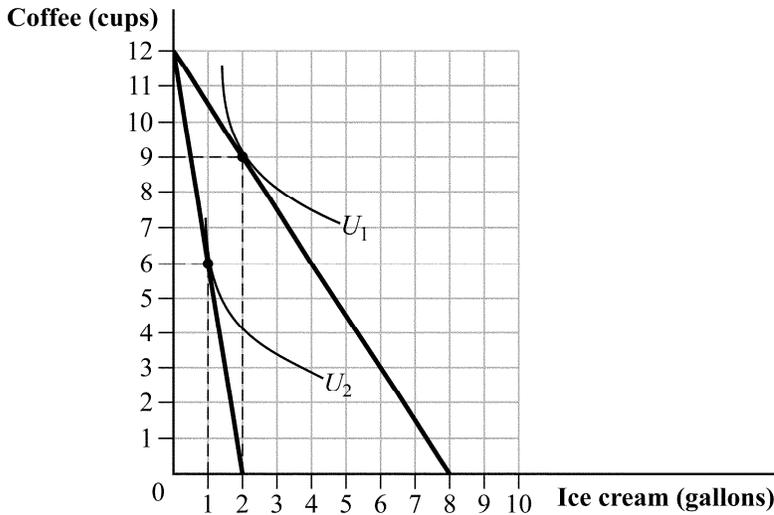
Figure 5.1



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) Parachute jumps are an inferior good.
 - C) An increase in the price of parachute jumps could cause the optimal consumption bundle to move from point *A* to point *B*.
 - D) An increase in income could cause the optimal consumption bundle to move from point *A* to point *B*.
2. A basic assumption of the long run is that a firm:
 - A) cannot change the amount of labor or capital that it employs.
 - B) cannot change the amount of capital that it employs but can change the amount of labor.
 - C) can change the amount of labor and capital that it employs.
 - D) can change the amount of capital that it employs but not the amount of labor.

Use the following to answer question 3.

Figure 5.6

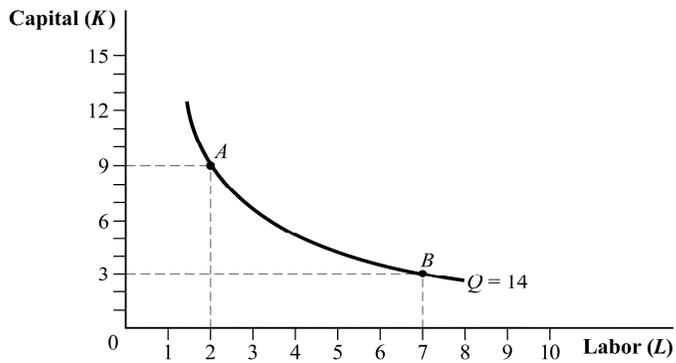


3. (Figure 5.6) Garth spends his income on ice cream and coffee, and coffee sells for \$1 a cup. If ice cream sells for \$1.50 per gallon, Garth will purchase:
- A) 2 gallons. B) 1 gallon. C) 6 gallons. D) 8 gallons.
4. The income effect of a price change predicts that a _____ in a good's price will _____ consumer purchasing power, leading to a(n) _____ in consumption of _____ goods.
- A) rise; increase; increase; inferior C) fall; increase; increase; normal
 B) rise; increase; decrease; inferior D) fall; decrease; decrease; normal
5. Suppose the price of good X , a Giffen good, increases. Which of the following statements are TRUE?
- I. The substitution effect of the price increase causes consumers to buy less of good X .
 II. The substitution effect of the price increases causes consumers to buy more of good X .
 III. The income effect of the price increase causes consumers to buy more of good X .
 IV. The income effect of the price increase causes consumers to buy less of good X .
- A) II and IV B) I and IV C) I and III D) II and III

6. To calculate the market demand curve from individual demand curves:
- A) exponentiate the individual demand curves.
 - B) horizontally sum the individual demand curves.
 - C) vertically sum the individual demand curves.
 - D) add up the prices of the individual demand curves, holding the quantities constant.
7. Brenda's Pastry employs three workers who produce 6 dozen pastries per hour. After Brenda hires a fourth worker, the number of pastries produced increases to 7 dozen per hour. Because the marginal product of the fourth worker is _____ than the average product of three workers the average product must _____.
- A) less; fall
 - B) greater; fall
 - C) less; rise
 - D) greater; rise
8. Natalie is a borrower and considers consumption both now and in the future to be normal goods. The interest rate decreases. Natalie will borrow _____ due to the substitution effect and she will borrow _____ due to the income effect.
- A) More, less.
 - B) Less, more.
 - C) More, more.
 - D) Less, less.
9. Suppose a firm is currently minimizing costs in the long run with marginal product of labor and marginal product of capital given by K and L , respectively. If the price of capital falls by 50%, the capital-to-labor ratio will:
- A) increase fivefold.
 - B) decrease by 50%.
 - C) double.
 - D) increase by 50%.

Use the following to answer question 10.

Figure 6.3



10. (Figure 6.3) Which of the following statements is (are) TRUE?

- I. More output is produced at point A than at point B .
- II. The ratio of the marginal product of labor to the marginal product of capital is higher at point A than at point B .
- III. The $MRTS_{LK}$ is equal at points A and B .

A) III

B) I, II, and III

C) II

D) II and III

Answer Key - S18-3

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