

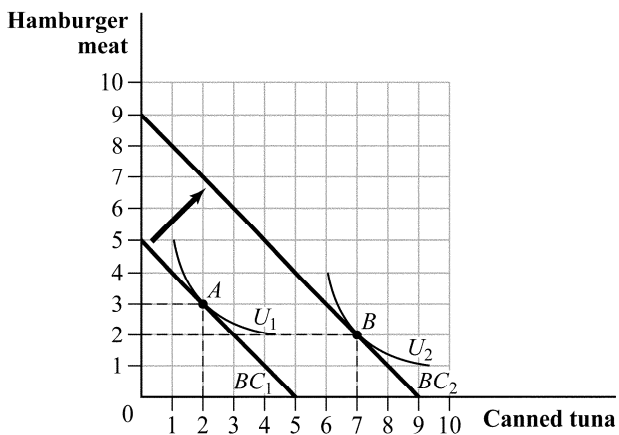
Quiz #3 -- October 7, 2021

You have until the end of class to complete the quiz. Answer the questions on the answer sheet. Pick the alternative that best completes the statement or answers the question. Be sure to write and bubble in your name and PantherID on the answer sheet. You may keep the test booklet.

1. Which of the following statements are TRUE?
- I. The substitution effect of a wage decrease means that people will work more hours.
 - II. The income effect of a wage decrease means that people will take more leisure.
 - III. If wages fall and people work fewer hours, the substitution effect dominates the income effect.
 - IV. If wages increase and people work fewer hours, the income effect dominates the substitution effect.
- A) I and IV B) II and III C) I, II, and IV D) III and IV

Use the following to answer question 2.

Figure 5.2

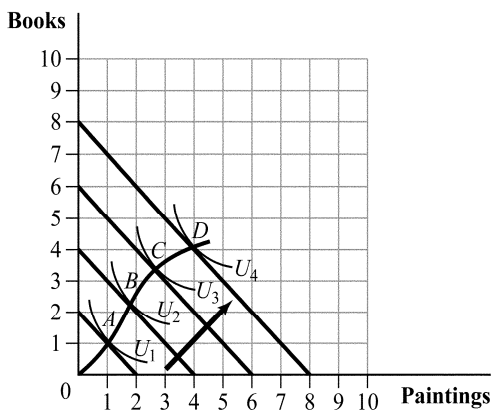


2. (Figure 5.2) Hamburger meat is a(n) _____ good and canned tuna is a(n) _____ good.
- A) normal; inferior B) inferior; inferior C) inferior; normal D) normal; normal

3. Ryan's Engel curve for potato chips is $I = 300C$, where I is weekly income and C measures the number of bags of potato chips. Ryan considers potato chips a(n):
- A) normal good.
 - B) inferior good.
 - C) inferior good at income levels above \$30,000.
 - D) inferior good at income levels above \$60,000.
4. 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.
- A) increases; decreases
 - B) decreases; decreases
 - C) increases; increases
 - D) decreases; increases

Use the following to answer question 5.

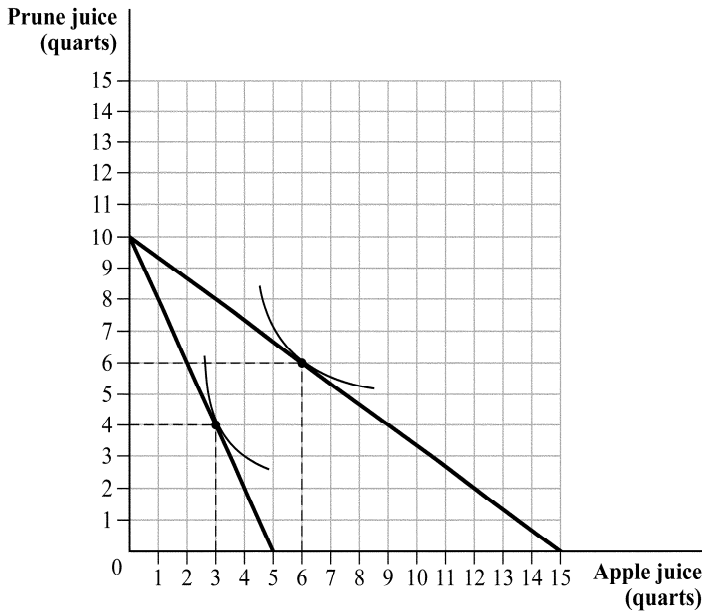
Figure 5.3



5. (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) Paintings are an inferior good at income levels higher than those associated with these bundles.
 - C) Books are an inferior good at income levels greater than those associated with bundle C .
 - D) Both books and paintings are normal goods up to the income level corresponding to bundle D .

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) II and III

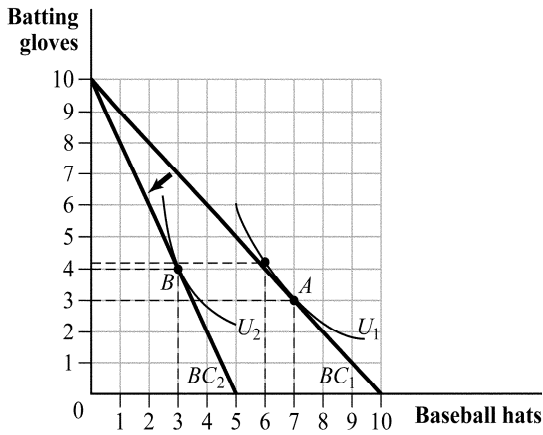
B) I and II

C) I

D) II and IV

Use the following to answer question 7.

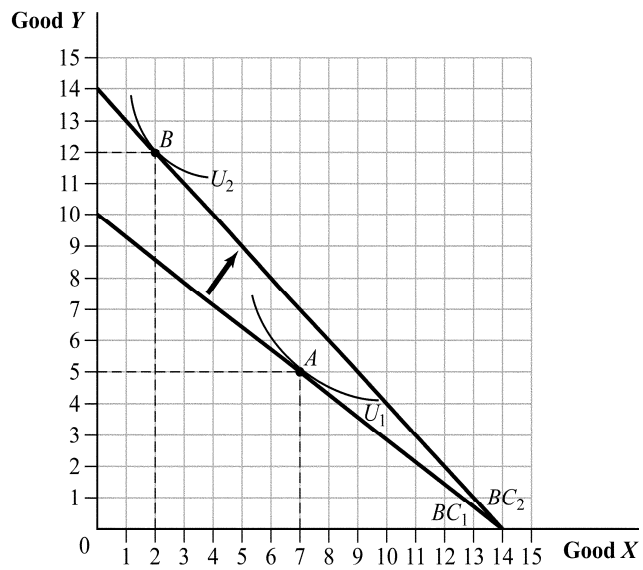
Figure 5.16



7. (Figure 5.16) The income effect of the price increase causes consumption of baseball hats to:
- A) increase by 1. B) decrease by 4. C) decrease by 1. D) decrease by 3.
8. A basic assumption of the short run is that a firm:
- A) can freely adjust the amount of labor and capital that it employs.
 B) can reduce the number of workers it uses, but it cannot adjust how much capital it uses.
 C) can employ more workers and add more capital to the production process.
 D) cannot adjust its workforce or the amount of capital it uses.
9. Jorge is a borrower and considers consumption both now and in the future to be normal goods. The interest rate decreases. Jorge is _____ as a result. This means that he will borrow _____ due to the income effect.
- A) Poorer, less. B) Richer, less. C) Richer, more. D) Poorer, more.

Use the following to answer question 10.

Figure 5.18



10. (Figure 5.18) Good X and good Y are:

- A) substitute goods.
- B) Giffen goods.
- C) perfect complements.
- D) complement goods.

Answer Key - F21-3

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