

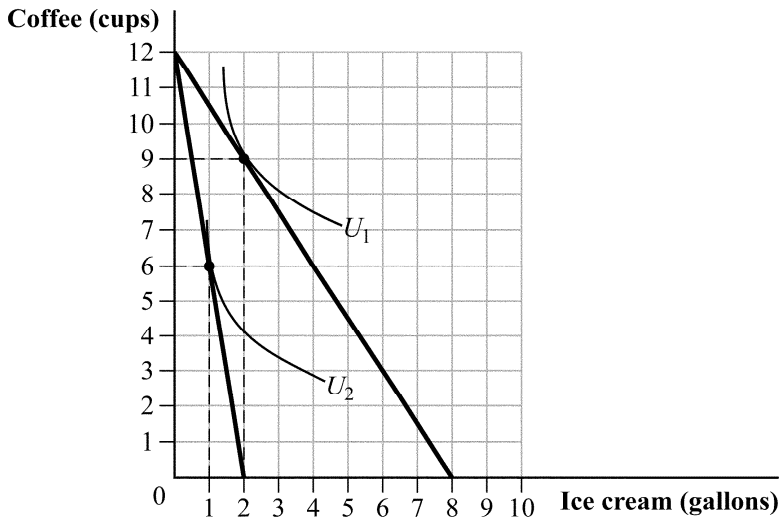
Quiz #3 -- February 25, 2021

1. 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.

2. Suppose that $U = \min\{2X, 0.5Y\}$, where X is units of good X and Y is units of good Y . The price of good X is \$1 and the price of good Y is \$2. What is the minimum expenditure necessary to achieve a utility level of 100?
 - A) \$333.33
 - B) \$550
 - C) \$1,200
 - D) \$450

Use the following to answer question 3.

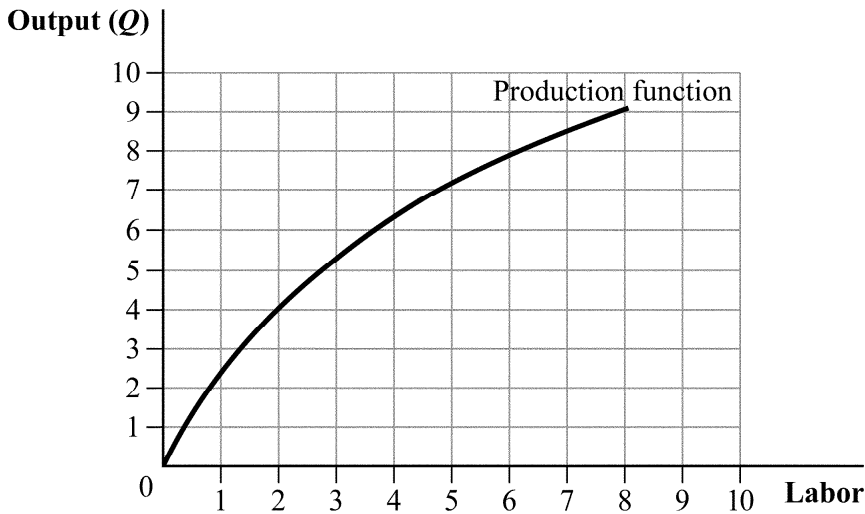
Figure 5.6



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 \$6.00 per gallon, Garth will purchase:
- A) 2 gallons. B) 8 gallons. C) 1 gallon. D) 6 gallons.
4. Natalie is a borrower and considers consumption both now and in the future to be normal goods. The interest rate increases. Natalie is _____ as a result. This means that she will borrow _____ due to the income effect.
- A) Richer, more. B) Richer, less. C) Poorer, more. D) Poorer, less.
5. Suppose that $MU_Y = 30$, $MU_X = 10$, $P_Y = \$2$, and $P_X = \$1$. Which of the following statements is TRUE?
- A) The consumer is maximizing utility.
 B) The consumer could increase utility by giving up 1 unit of good Y for 2 units of good X .
 C) The consumer could increase utility by giving up 2 units of good X for 1 unit of good Y .
 D) The consumer is receiving less marginal utility per dollar from good Y than from good X .

Use the following to answer question 6.

Figure 6.1



6. (Figure 6.1) The average product at $L = 2$ and $L = 8$ respectively are:
A) 2 and 1.13. B) 0.5 and 0.89. C) 8 and 72. D) 1.5 and 0.5.
7. In 2010, the average household spent \$1,178 on telephone services and \$333 on nonalcoholic drinks. From this information, we can conclude that:
A) the substitution effect of a price change will be larger for telephone services than for nonalcoholic drinks.
B) an increase in the price of telephone services will cause a larger income effect than a similar increase in the price of nonalcoholic drinks.
C) an increase in the price of nonalcoholic drinks will cause a larger income effect than a similar increase in the price of telephone services.
D) the substitution effect of a price change will be larger for nonalcoholic drinks than for telephone services.

Answer Key - S21-3

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