Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

SKU: 9780415603690-TEST-BANK

TEST BANK

© Michael E. Wetzstein, 2012

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

1. A science concerned with the allocation of scarce resources for satisfying unlimited wants is
   a. The art of economics
   b. Economics
   c. Applied economics
   d. All of the above.

2. The objective of economics is to
   a. Maintain stable prices with full employment
   b. Maximize a firm's profit
   c. Maximize social welfare
   d. Develop rules that efficiently allocate resources.

3. Overall economics is concerned with
   a. The allocation of resources to satisfy wants
   b. Firms maximizing profits
   c. Consumers maximizing satisfaction
   d. How government manages the economy.

4. Economics is best defined as the study of:
   a. How consumers maximizes happiness
   b. How firms decide how many employees to hire
   c. How choices are made by agents with insatiable wants and limited resources
   d. How government interacts with consumers and firms.

5. Which of the following is an example of scarcity?
   a. If you choose to stay up late and then sleep in, you will not study in the morning
   b. Creating a public park, reduces land for an industrial park
   c. Purchasing a meal plan versus cooking on your own and saving money for gasoline
   d. All of the above.

6. Which of the following is a normative statement?
   a. Gasoline prices are rising faster than inflation
   b. We should address the rising U.S. income inequality
   c. Rising cigarette taxes will reduce the number of new users
   d. All of the above.

7. A difference between positive and normative statements is
   a. Positive statements are always true because they are based on value judgments
   b. Normative statements are political and positive statements involve economics
   c. Only positive statement can be verified through empirical investigation
   d. Only normative statements can be verified through economic theory.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

8. _____ is a state where social welfare is maximized for a given resource constraint.
   a. Local bliss
   b. Global bless
   c. Social welfare
   d. Satiation.

9. _____ is a household or firm within an economy.
   a. Element
   b. Actor
   c. Agent
   d. Player.

10. Which topics would most likely be studied in a microeconomics course?
    a. Asians increasing their demand for automobiles
    b. Oil price affects on inflation
    c. Housing market affect on employment
    d. All of the above.

11. A market is defined as
    a. An exchange of commodities through price signals
    b. Demand equaling supply
    c. Price signals indicating what, how and for whom to produce
    d. Interactions of consumers and producers.

12. _____ is applied economics that takes goals from normative economics and determines how to achieve them using positive economics.
    a. Managerial economics
    b. Political economics
    c. Act of economics
    d. Behavioral economics.

13. A _____ is a theory tested a number of times and its explanatory power accepted.
    a. Hypothesis
    b. System
    c. Model
    d. Paradigm.

14. Solving a mathematical model with algebra is known as the
    a. Numerical solution
    b. Econometric solution
    c. Analytical solution
    d. Mathematical solution.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

15. A model of consumer demand states quantity demanded depends on the price of the commodity, the prices of substitutes, income, population and consumers' tastes and preferences. In this model, the quantity demanded is known as the
    a. Predicted variable
    b. Exogenous variable
    c. Control variable
    d. Endogenous variable.

16. Which statement is true?
    a. The Babylonian statistical analysis can provide an indication of the direction of the change but not the magnitude.
    b. Economists who applied mathematical reasoning to a minimum of data are following in the Babylonian tradition
    c. The Greeks relied on abstract principles for their proofs
    d. All of the above.

17. Altering a model's exogenous variables to predict a particular outcome is known as
    a. Prediction
    b. Explanation
    c. Control
    d. All of the above.

18. The method economists use to examine a change in an exogenous variable by comparing one equilibrium position to another is
    a. Prediction
    b. Control
    c. Comparative statics
    d. All of the above.

19. When economists investigate broader questions about the efficiency and welfare implications of economic activities, a(n) _____ model is required
    a. General equilibrium
    b. Partial equilibrium
    c. Econometric
    d. National.

20. _____ is defined as generalizations made at the micro level are not necessarily true at the macro level.
    a. The fallacy of division
    b. The fallacy of composition
    c. General equilibrium
    d. Partial equilibrium.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

21. Economists use _____, simplified representations of reality, to increase our understanding of an economic issue.
    a. Paradigms
    b. Assumptions
    c. Assertions
    d. Models.

22. Variables whose values are predetermined outside a model are _____ variables.
    a. Endogenous
    b. Exogenous
    c. Predicted
    d. Assumed.

23. _____ is where there is no incentive for consumers or firms to change their market behavior.
    a. Market equilibrium
    b. Local bliss
    c. Marshallian cross
    d. All of the above.

24. The Marshallian cross is an example of a(n)
    a. General equilibrium model
    b. Partial equilibrium model
    c. Economic model
    d. Market model.

25. An economist looking at the impact of a change in the price of gasoline on the market for gasoline as well as other markets is using a _____ model.
    a. General equilibrium
    b. Partial equilibrium
    c. Market
    d. Economic.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

1. Andrea cannot decide between two commodity bundles. She is paralyzed by indecision, which is a violation of the _____ axiom.
   a. Completeness
   b. Transitivity
   c. Nonsatiation
   d. Strict Convexity.

2. First order partial derivatives of the utility function are
   a. Marginal benefits
   b. Marginal costs
   c. Marginal utilities
   d. None of the above.

3. Which preference axiom is violated when indifference curves intersect?
   a. Completeness
   b. Transitivity
   c. Strict Convexity
   d. Nonsatiation.

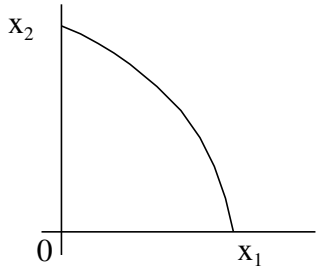
4. Given Completeness and Transitivity axioms
   a. Households prefer averages to extremes
   b. Households are rational
   c. More is preferred to less
   d. All of the above.

5. As you move down along an indifference curve
   a. Utility increases
   b. Utility decreases
   c. The commodity bundle is constant
   d. Utility is constant.

6. More of any one commodity shifting the household to a higher indifference curve is represented by the _____ axiom.
   a. Transitivity
   b. Completeness
   c. Nonsatiation
   d. Strict Convexity.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

7. The following indifference curve represents a violation of the _____ axiom.



a. Transitivity
b. Strict Convexity
c. Nonsatiation
d. Completeness.

8. The slope of an indifference curve is the negative of the
a. Marginal rate of substitution
b. Marginal indifference
c. Price ratio
d. Marginal utility.

9. Why is the slope of an indifference curve generally considered to be negative?
a. Due to the Nonsatiation axiom
b. Diminishing marginal utility
c. An increase in one commodity must compensate for a decrease in another
d. All of the above.

10. The marginal rate of substitution x_2 for x_1 is defined as
a. The rate at which a household is willing to substitute commodity x_2 for x_1
b. $-dx_2/dx_1|_{dU=0}$
c. How much a household is willing to pay in terms of x_1 to consume more of x_2
d. All of the above.

11. For two commodities x_1 and x_2, a negatively sloping indifference curve implies
a. MRS(x_2 for x_1) < 0
b. $dx_2/dx_1|_{dU=0} < 0$
c. $\partial MU_1/\partial x_1 < 0$
d. All of the above.

12. MRS(x_2 for x_1) can be expressed as
a. $dx_2/dx_1|_{dU=0}$
b. MU_1/MU_2
c. MU_2/MU_1
d. x_1/x_2.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

13. The MRS(x_2 for x_1) for the utility function $U = x_1x_2^2$ is
    a. $x_2/(2x_1)$
    b. x_1/x_2
    c, $x_1/(2x_2)$
    d. x_2/x_1.

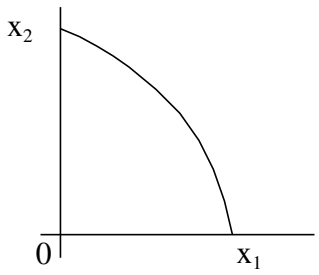
14. A diminishing marginal rate of substitution implies
    a. Indifference curves are downward sloping
    b. Consumers are rational
    c. Indifference curves are strictly convex
    d. Indifference curves are strictly concave.

15. The assumption of transitive preferences implies indifference curves
    a. Are downward sloping
    b. Are strictly concave
    c. Are strictly convex
    b. Do not cross.

16. A positive sloping indifference curve violates which axiom?
    a. Transitivity
    b. Strict Convexity
    c. Completeness
    d. Nonsatiation.

17. For utility maximization the following must hold
    a. All the preference axioms
    b. A rational nonsatiated household
    c. Completeness and Transitivity axioms along with diminishing marginal utility
    d. None of the above.

Refer to the following graph of Brian's preference for Questions 18-20.



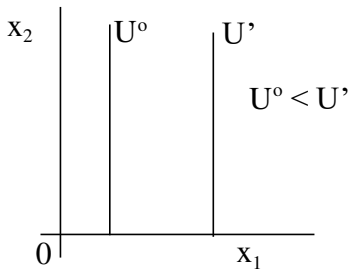
18. Brain considers commodities x_1 and x_2 as
    a. Perfect substitutes
    b. Perfect complements
    c. Bad commodities
    d. Extreme commodities.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

19. Brian's MRS(x_2 for x_1) is
    a. Diminishing
    b. Increasing
    c. Positive
    d. Constant.

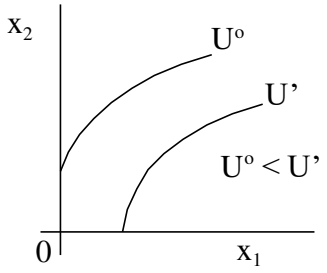
20. Which preference axiom is not satisfied by Brian's preferences?
    a. Transitivity
    b. Nonsatiation
    c. Completeness
    d. Strict Convexity.

21. In the following graph are Sara's preferences for commodities x_1 and x_2.



    Which statement concerning her preferences is correct?
    a. Commodity x_2 yields no satisfaction
    b. Commodity x_1 yields no satisfaction
    c. She is satiated with commodity x_2
    d. She is satiated with commodity x_1.

22. In the following graph are Hazel's preferences for commodities x_1 and x_2.

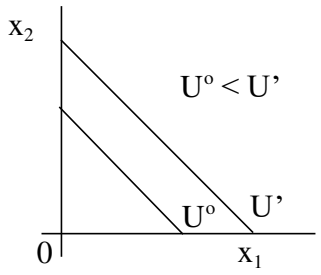


    Which statement concerning her preferences is correct?
    a. Transitivity
    b. Strict Convexity
    c. Completeness
    d. All of the above.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

23. Given Hazel's preferences in question 22, which statement is true for commodity x_2?
    a. It is a perfect complement for x_1
    b. It is a perfect substitute for x_1
    c. It is an imperfect substitute for x_1
    d. It is a bad commodity.

24. In the following graph are Donald's preferences for commodities x_1 and x_2.



    His preferences indicate
    a. Perfect substitutes
    b. Perfect complements
    c. Diminishing MRS
    d. He will only purchase one or the other commodity.

25. Given Donald's preferences in Question 24, his MRS is
    a. Increasing
    b. Decreasing
    c. Constant
    d. None of the above.

26. Which statement is not true concerning perfect complement preferences?
    a. Transitive and completeness preferences
    b. Nonsatiation and strictly convex preferences
    c. Transitive and nonsatiation preferences
    d. Completeness and nonsatiation.

27. (Appendix) Which statement is true?
    a. The MRS is based on a cardinal ranking of commodity bundles
    b. A positive monotonic transformation of the utility function requires all the preference axioms to hold
    c. A monotonic transformation of the utility function does not change the preference ordering.
    d. A monotonic transformation of the utility function does not change the marginal utilities.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

1. Prices are based on the assumption that commodities are traded in a market and publicly quoted. This is known as the
   a. Law of One Price
   b. Universality of markets
   c. Exclusivity of markets
   d. Enforceability of markets.

2. Assume chips are measured on the horizontal axis with cola on the vertical axis. If the price of chips increases relative to that of cola, the budget constraint will become
   a. Steeper
   b. Flatter
   c. Steeper and shifted inward
   d. Flatter and shifted inward.

3. Measuring the quantity of salad on the vertical axis and soup on the horizontal axis. If the budget line becomes steeper while the vertical intercept is unchanged, which of the following may have of occurred?
   a. The price of salad decreased
   b. Income increased for soup
   c. The price of soup increased
   d. The price of soup increased while the price of salad declined.

4. Eugene a health nut has $100 to spend on vitamins A and C. Vitamin A costs $5 per bottle and vitamin C $1 per bottle. Which of the following represents Eugene's budget constraint?
   a. $A = 20 – (1/5)C$
   b. $5A = 20 – C$
   c. $A + C = 100$
   d. $A = 100 – 5C$.

5. With the $5 lunch special and $2 cup of coffee, Berta would allocate her $100 budget on 25 cups of coffee and 10 lunches. When the lunch special ended, so lunches now cost $10, her boss gave Berta an additional $50 so that she could buy the same lunch/coffee combination as with the special. Which statement is true?
   a. Berta's satisfaction remains unchanged
   b. Berta's satisfaction increased
   c. Berta's satisfaction remained unchanged, but she consumers more coffee and less lunches
   d. Berta's satisfaction increased, but she consumers less coffee and more lunches.

6. If Kelly's marginal rate of substitution of pancakes for eggs is 3, the price of pancakes is $2 and that of eggs is $6, then Kelly will
   a. Be in equilibrium
   b. Reduce pancake consumption and consume more eggs
   c. Reduce egg consumption and consume more pancakes
   d. Increase the price of pancakes relative to the price of eggs.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

7. In terms of a budget constrain, which is not true?
   a. Change in income will not affect the slope
   b. Quantity discounts result in a convex budget constraint
   c. They are always linear
   d. A price change tilts the budget constraint.

8. Marjean's utility function for pants, J, and skirts, S, is U = JS. If the price of pants is $25 each and skirt $50 each, how will Marjean allocate her $200 budget?
   a. 2 pants and 4 skirts
   b. 4 pants and 2skirts
   c. 8 pants and 4 skirts
   d. 3 pants and 3 skirts.

9. If MRS(x_2 for x_1) = 5, $p_1/p_2 = 3$ and Sara has exhausted her income, then she
   a. Is maximizing her utility
   b. Can enhance her utility by increasing her consumption of x_1
   c. Can enhance her utility by increases her consumption of x_2
   d. Can enhance her utility by increasing her consumption of both commodities.

10. Consider a household with perfect substitute preferences for two commodities. Which statement describes how the household will allocate its purchases?
    a. It will allocate all of its income equally between the two commodities
    b. It will allocate all of its income where the MRS is equal to the price ratio
    c. It will allocate all of its income where the marginal utilities per dollar are equal
    d. It will allocate all of its income to the commodity with the highest marginal utility per dollar.

11. What is true about commodities represented by the utility function $U = x_1 + x_2$?
    a. The diminishing marginal rate of substitution axiom holds
    b. They are perfect substitutes
    c. They are perfect complements
    d. The consumer is indifferent between x_1 or x_2.

12. A household purchasing two commodities (x_1 and x_2) will maximize utility where
    a. $MU_1 = MU_2$
    b. $MU_1/p_1 = MU_2/p_2$
    c. $MU_1/p_2 = MU_2/p_1$
    d. $MRS_1 = MRS_2$.

13. Considering the utility function $U = 2x_1 + x_2$ with prices $p_1 = 2$ and $p_2 = 1$, which statement is true?
    a. There is no unique utility maximizing solution regardless of income level
    b. The commodities are perfect substitutes
    c. The price ratio is equal to the MRS
    d. All of the above.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

14. Christopher has an income of 120 and faces prices $p_1 = 2$ and $p_2 = 3$. His utility function is $U = 5x_1^{1/2}x_2^{1/2}$. Christopher's utility maximizing bundle is
    a. (10, 20)
    b. (30, 20)
    c. (20, 30)
    d. (20, 20).

15. (Appendix) The Weak Axiom of Revealed Preference states
    a. If $\vec{x}^1 \succ^* \vec{x}^2$, $\vec{x}^2 \succ^* \vec{x}^3$, then $\vec{x}^3 \not\succ^* x^1$
    b. **If $\vec{x}^1 \succ^* \vec{x}^2 \rightarrow \vec{x}^2 \not\succ^* \vec{x}^1$**
    c. If $\vec{x}^1 \succ^* \vec{x}^2 \rightarrow \vec{x}^2 \succ^* \vec{x}^1$
    d. If $\vec{x}^1 \succ^* \vec{x}^2$, $\vec{x}^2 \succ^* \vec{x}^3$, then $\vec{x}^3 \succ^* x^1$.

16. (Appendix) Revealed preference determines a household's preference ordering for bundles based on
    a. Predictions of consumer behavior
    b. Marketing surveys
    c. The observed market behavior
    d. Economic theory and empirical inferences.

17. An income subsidy will generally
    a. Decrease household's utility more than providing commodities at subsidized prices
    b. Increase household's utility more than providing commodities at subsidized prices
    c. Lead to a reallocation of commodities toward luxury goods
    d. Lead to a reallocation of commodities with higher prices.

18. There exists a black market for food stamps because
    a. Households receive disutility when using food stamps
    b. Household's utility is lower when using food stamps
    c. Subsidized prices are preferred by policymakers
    d. Not all stores accept food stamps.

19. (Appendix) Determining a household's preference ordering for commodity bundles based on the observed market behavior is
    a. Consumer theory
    b. Revealed market theory
    c. Revealed preference theory
    d. Market theory.

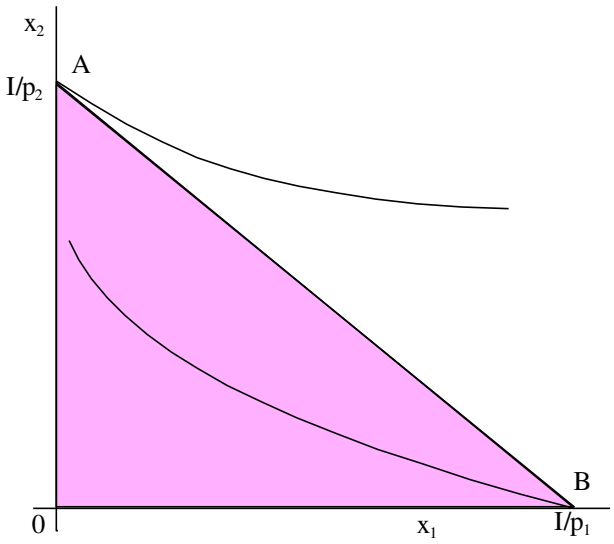
20. Which statement is true?
    a. Lump-sum income taxes are generally more efficient because they do not incorporate price distortions
    b. Lump-sum income taxes decrease general purchasing power
    c. Lump-sum income taxes may have negative incentives to work
    d. All of the above.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

21. Consider the following problem:
$\mathcal{L}(x_1, x_2, \lambda) = U(x_1, x_2) + \lambda(I - p_1x_1 - p_2x_2)$.
If a household is maximizing utility subject to an income constraint, λ represents
a. The Lagranian
b. The exogenous variable
c. Marginal cost of increasing utility by an additional unit of income
d. Marginal utility of income.

22. If $MU_j/p_j < \lambda^*$, then a household will
a. Decrease its consumption of x_j
b. Increase its consumption of x_j
c. Adjust its consumption allocation so the marginal utility of income will decline
d. Increase its consumption of all other commodities.

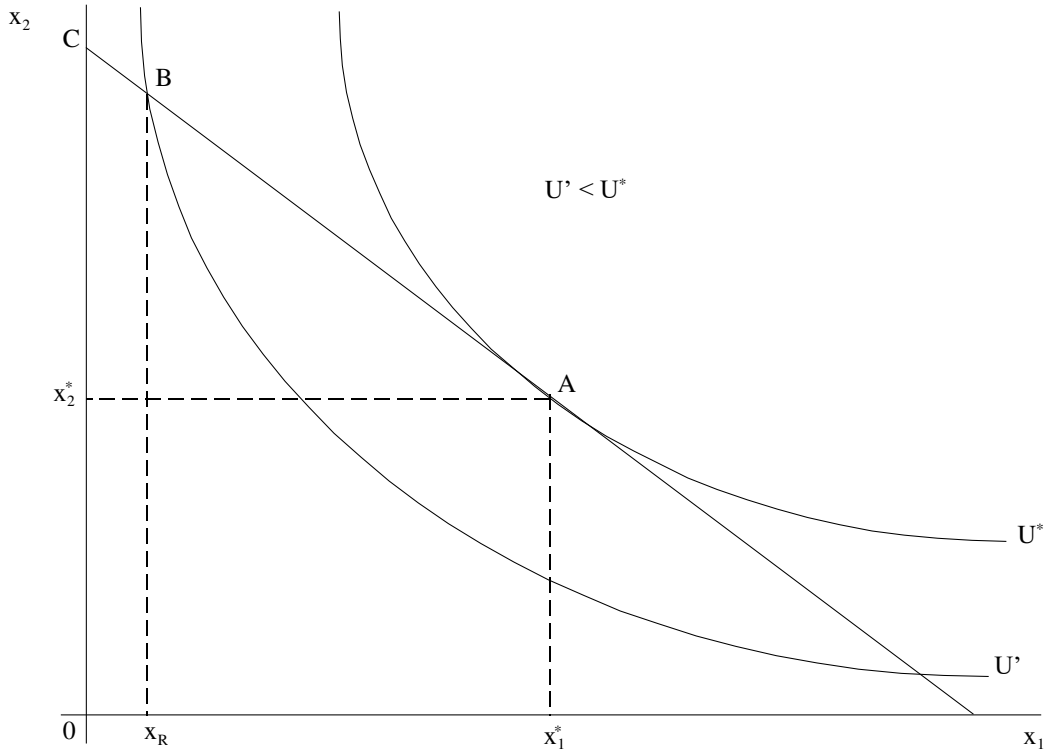
23. Considering the following graph, which statements is true?



a. The optimal solution is B
b. The optional solution is A
c. Utility is maximized for a given level of income
d. The solution is a corner solution, so there is no optimal solution.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

24. Consider the following graph.



If the government restricts the amount of chocolate consumption to x_R. The effective budget constraint is

a. CBA
b. CAx_1^*
c. CBx_R
d. $x_2^*Ax_1^*$.

25. Economists generally argue that, for one household, lump-sum income taxes are generally preferable to per-unit taxes on specific commodities because
a. There is no distortion of market prices
b. Marginal utility per dollar for the commodities are equal
c. The household is still maximizing utility
d. All of the above.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank

1. A demand function is homogenous of degree zero when
   a. Household demand is not affected by pure inflation
   b. Households suffer from money illusion
   c. Increasing prices and income by the same proportion increases consumption by the same proportion
   d. The Euler theorem holds.

2. Representing quantity demanded as a function of relative prices and real income assumes
   a. Consumers are rational
   b. Demand functions are homogenous of degree zero
   c. The weak axiom of revealed preference
   d. Homothetic preferences.

3. A curve connecting all points where indifference curves are tangent to parallel budget lines is the
   a. Income curve
   b. Income expansion path
   c. Price consumption path
   d. Engel curve.

4. A curve representing a relationship between demand for a commodity and income is called a(n)
   a. Demand curve
   b. Quality demanded curve
   c. Income consumption curve
   d. Engel curve.

5. For a normal good, which statement is true?
   a. Engel curves are positively sloped
   b. Engel curves are negatively sloped
   c. An increase in income does not result in purchasing more of a commodity
   d. The Engel curve is at first negatively sloped, but as income increases it becomes positively sloped.

6. A household has homothetic preferences if it
   a. Saves 10% of its income regardless of its income level
   b. Has horizontal Engel curves
   c. Has linear Engel curves starting at some minimum level of consumption
   d. Has an Engel curve that is homothetic to degree one.

Microeconomic Theory second edition - Concepts and Connections 1st edition Wetzstein Test Bank