Chapter 2 Multiple Choice Questions

1. Which of the following is not an assumption of perfect competition
    a. perfect information
    b. many buyers and sellers
    c. each product has a unique quality
    d. freedom of entry and exit

[Insert Figure 2-24]

2. In Figure 2-24, if a new process reduces the cost of manufacturing this good, what would be the expected result?
    a. a shift from D_1 to D_3
    b. a shift from S_1 to S_3
    c. a shift from D_1 to D_2
    d. a shift from S_1 to S_2

3. In Figure 2-24, if a good is inferior and income falls, which of the following will result?
    a. a shift from D_1 to D_3
    b. a shift from S_1 to S_3
    c. a shift from D_1 to D_2
    d. a shift from S_1 to S_2

4. Let $P_D=100-1/2Q_D$ be the demand curve and $P_S= 20+1/2Q_S$ be the supply curve. Which of the following is the equilibrium price?
    a. P=80
    b. P=100
    c. P=60
    d. P=120

5. Let $P_D=100-1/2Q_D$ be the demand curve and $P_S= 20+1/2Q_S$ be the supply curve. What is the equilibrium quantity?
    a. Q=80
    b. Q=100
    c. Q=60
    d. Q=100

6. If an increase in the price of one good leads to a decrease in demand for another, the two goods are
    a. complements
    b. substitutes
    c. inferior goods
    d. marginal goods

7. If an increase in income leads to an increase in the demand for noodles, noodles must be
   a. an inferior good
   b. a normal good
   c. a luxury good
   d. a substitute good

8. If gasoline falls from $4 per gallon to $3 and the quantity demanded rises from 3 million gallons to 4 million, what is the arc elasticity of demand?
   a. 0
   b. ¾
   c. 4/3
   d. 1

9. The maximum a person is willing to pay for the first unit of a good is called
   a. maximum utility
   b. marginal utility
   c. marginal value
   d. total value

10. Consumer Surplus is equal to
   a. total value – total spending
   b. the net benefits of a market to consumers
   c. the area under the demand curve but above the price
   d. all of the above

11. If supply is $P= 20+1/2Q_S$ and P = 50, the quantity is ___ and the producer surplus is ___
   a. Q = 50, PS = 750
   b. Q = 60, PS = 900
   c. Q = 70, PS = 400
   d. Q = 60, PS = 1800

12. Lynn owns a small ballet supply store. He currently spends $80,000 per year on inventory, rent, and labor, and collects $120,000 in revenue. He could still be earning $20,000 as a dancer. His economic profit is
   a. $120,000
   b. $40,000
   c. $20,000
   d. $60,000

13. The formula for the slope of a budget line (with Y on the vertical axis) is
   a. $\Delta x/\Delta y$
   b. $-x/y$
   c. I/Py
   d. $-Px/Py$

14. The basic assumptions for preferences used in utility functions include all of the following EXCEPT

a. preferences are variable
b. preferences are transitive
c. preferences are complete
d. marginal utilities are generally positive

15. An indifference curve displays

a. a set of quantities that provide different levels of utility
b. a set of quantities that the person can afford
c. a set of quantities among which the person is indifferent
d. a set of prices that define a person's utility

16. With Y on the vertical axis, the slope of an indifference curve can be measured as

a. the change in total utility for a given change in preferences
b. The negative of the marginal utility of Y divided by the marginal utility of X
c. the negative of the marginal utility of X divided by the marginal utility of Y
d. $\Delta Y/\Delta X$ holding utility constant
e. b and d only
f. c and d only

17. At a utility maximum

a. the budget line is tangent to the indifference curve
b. (MUx/MUy) = Px/Py
c. MUx/Px = MUy/Py
d. all of the above
e. none of the above

Answers:

1. c
2. b
3. a
4. b
5. a
6. a
7. b
8. d
9. c
10. d
11. b
12. c
13. d
14. a
15. c
16. f
17. d