

Chapter 4

The Theory of Consumer Choice

Test B

1. The theory of consumer choice provides a more complete understanding of demand by examining

- a. the tradeoffs people face in their role as consumers.
- b. the role of suppliers and how they attempt to maximize profits.
- c. individuals who are unaware of how to maximize their well-being.
- d. individuals who make irrational consumption decisions.

ANSWER: a. the tradeoffs people face in their role as consumers.

2. A budget constraint shows

- a. consumption bundles that makes a consumer equally satisfied.
- b. the prices a consumer must pay for two products he consumes.
- c. the rate at which a consumer is willing to trade one good for another.
- d. the various consumption bundles that a consumer can afford with a given income.

ANSWER: d. the various consumption bundles that a consumer can afford with a given income.

3. A point outside a consumer's budget constraint

- a. cannot be reached given the consumer's current income.
- b. shows that the consumer is not spending all of her income.
- c. would represent the consumer's optimum.
- d. means that one of the two goods must be an inferior good.

ANSWER: a. cannot be reached given the consumer's current income.

NOTE: THE FOLLOWING QUESTION IS REPEATED FROM THE ON-LINE QUIZZES. YOUR STUDENTS MAY HAVE ALREADY SEEN THIS QUESTION AND ITS ANSWER.

4. Which of the following leads to a parallel shift of the budget line?

- a. a 10 percent increase in the price of both goods
- b. a 20 percent reduction in the price of both goods
- c. a 30 percent increase in income
- d. a 10 percent increase in the price of one of the goods only

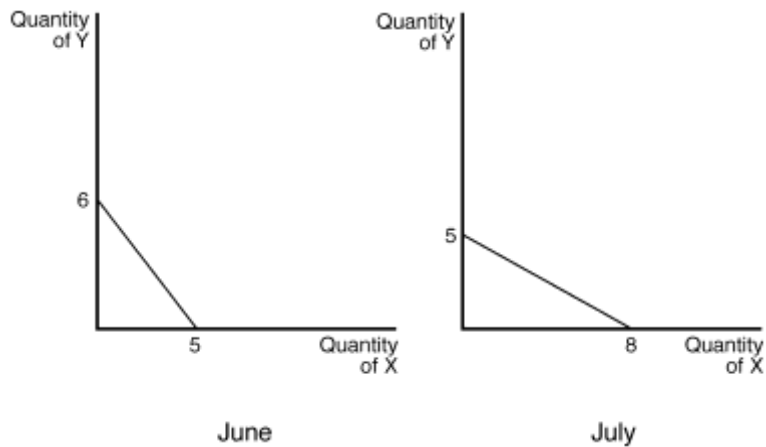
ANSWER: c. a 30 percent increase in income

5. The relative price of two goods equals

- a. the marginal rate of substitution.
- b. the slope of an indifference curve.
- c. the slope of the budget constraint.

- d. consumer optimum.

ANSWER: c. the slope of the budget constraint.



6. Given the graphs shown, if a consumer's income remains constant from June to July, what has happened to the prices of X and Y?

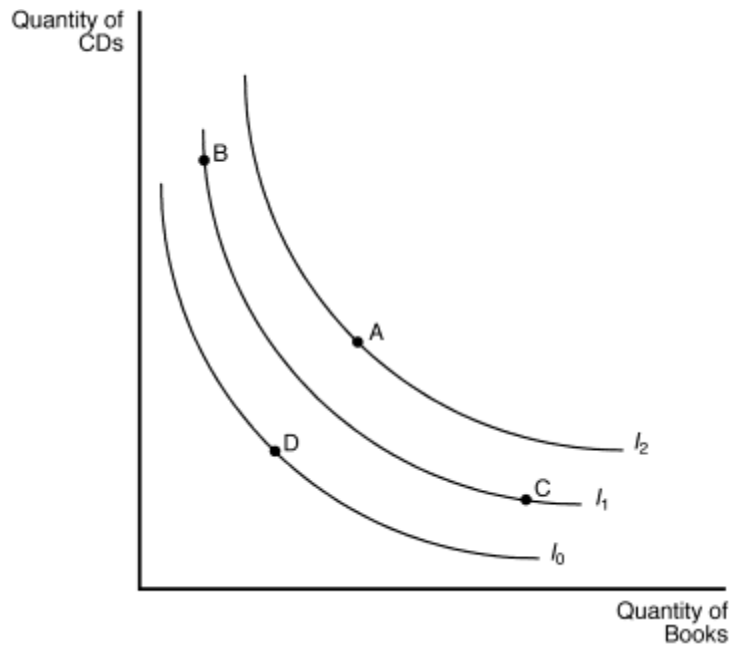
- a. The prices of both X and Y increased in July.
- b. The prices of both X and Y decreased in July.
- c. The price of X has increased and the price of Y has decreased.
- d. The price of Y has increased and the price of X has decreased.

ANSWER: d. The price of Y has increased and the price of X has decreased.

7. For a consumer, any point on the same indifference curve yields

- a. different levels of satisfaction.
- b. constraints faced by the consumer.
- c. the same level of satisfaction.
- d. an income level sufficient to make an individual happy.

ANSWER: c. the same level of satisfaction.



8. Given the graph shown, which of the following would be a true statement?
- Points D and C will yield the same level of satisfaction for this consumer.
 - If this consumer moves from Point B to Point D her utility will increase.
 - Point A is preferred to all other points identified in the figure.
 - If this consumer chooses point C over point B it is obvious that she prefers CDs over books.

ANSWER: c. Point A is preferred to all other points identified in the figure.

9. A consumer who reduces his consumption of one good will remain on the same indifference curve only if he
- doesn't change his consumption of another good.
 - reduces his consumption of another good.
 - increases his consumption of another good.
 - He will not be able to stay on the same indifference curve if he reduces his consumption of one good.

ANSWER: c. increases his consumption of another good.

10. The marginal rate of substitution
- measures the rate at which a consumer is willing to trade one good for another.
 - is always constant.
 - is the slope of a consumer's budget constraint.
 - identifies the point where the budget constraint and the indifference curve are tangent.

ANSWER: a. measures the rate at which a consumer is willing to trade one good for another.

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11. Because consumers prefer more consumption to less, they
- prefer indifference curves with positive slopes.
 - prefer lower indifference curves to higher indifference curves.
 - prefer higher indifference curves to lower indifference curves.
 - are generally unable to place all consumption bundles on an indifference curve.

ANSWER: c. prefer higher indifference curves to lower indifference curves.

12. Indifference curves are bowed inward because people are
- unwilling to substitute one good for another.
 - more willing to give up goods that they have in abundance.
 - less willing to give up goods that they have in abundance.
 - generally willing to consume more of one good over another.

ANSWER: b. more willing to give up goods that they have in abundance.

13. Two goods that are perfect complements will have indifference curves that are
- right angles.
 - intersecting.
 - straight lines.
 - upward sloping.

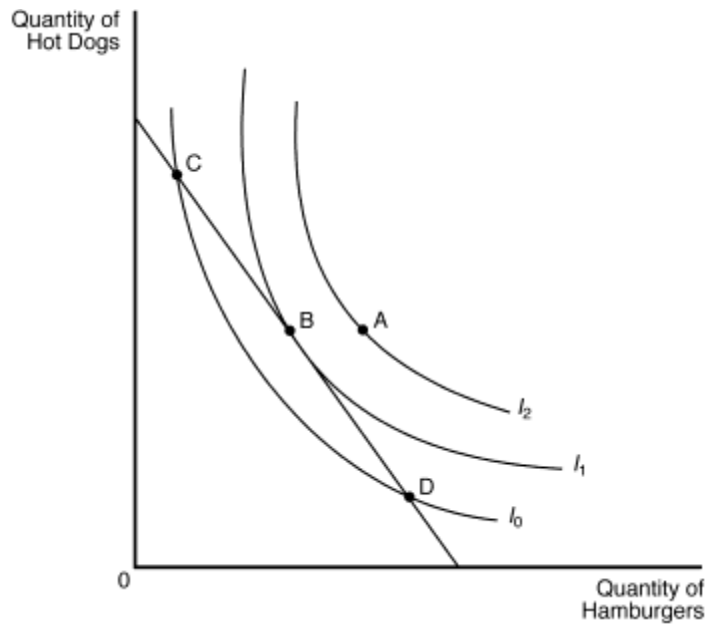
ANSWER: a. right angles.

14. When a consumer reaches the highest indifference curve possible, she has maximized her
- income.
 - utility.
 - preferences.
 - substitution effect.

ANSWER: b. utility.

15. The consumer's optimum occurs where the
- highest attainable indifference curve is just tangent to the budget line.
 - consumer maximizes his satisfaction and has some income left over.
 - consumer buys equal amounts of both goods.
 - consumer will be on the indifference curve lying closest to the origin.

ANSWER: a. highest attainable indifference curve is just tangent to the budget line.



16. Given the graph shown, what must occur for this consumer to be able to reach I_2 ?
- The price of hot dogs must decrease.
 - The price of hamburgers must decrease.
 - The consumer's income must increase.
 - Any of the above would allow the consumer to reach I_2 .

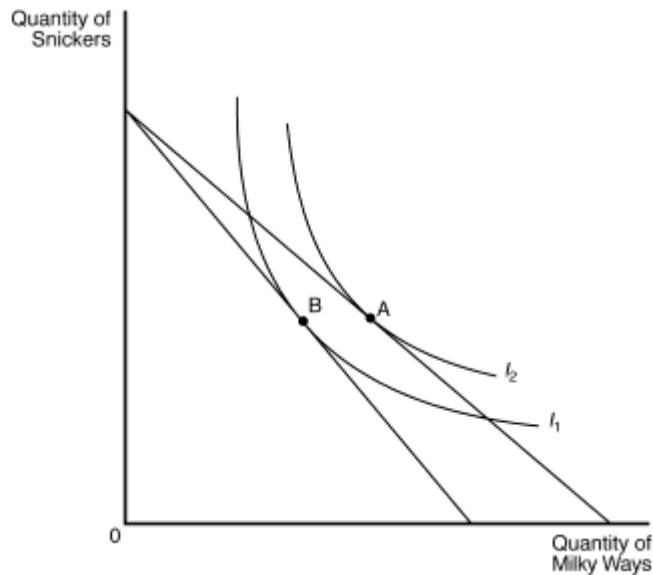
ANSWER: d. Any of the above would allow the consumer to reach I_2 .

TYPE: M KEY1: G SECTION: 3 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 7
RANDOM: N

17. An inferior good is any good that
- is of lesser quality than a normal good.
 - an increase in income increases consumption of the good.
 - an increase in income decreases consumption of the good.
 - a rational consumer would not generally choose to buy.

ANSWER: c. an increase in income decreases consumption of the good.

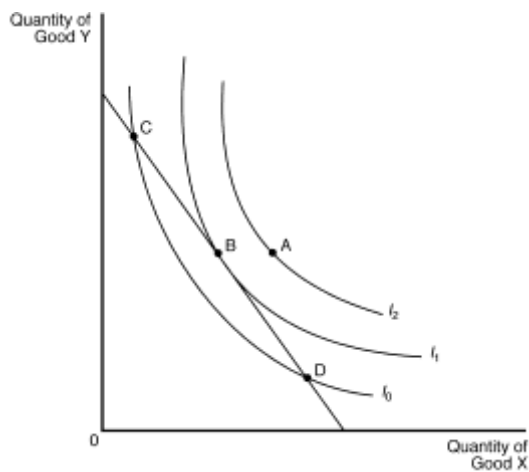
TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y



18. According to the graph shown, if this consumer is currently at point B, what change allows her to move to point A?

- a. a decrease in the price of Snickers
- b. an increase in the price of Snickers
- c. an increase in the price of Milky Ways
- d. a decrease in the price of Milky Ways

ANSWER: d. a decrease in the price of Milky Ways



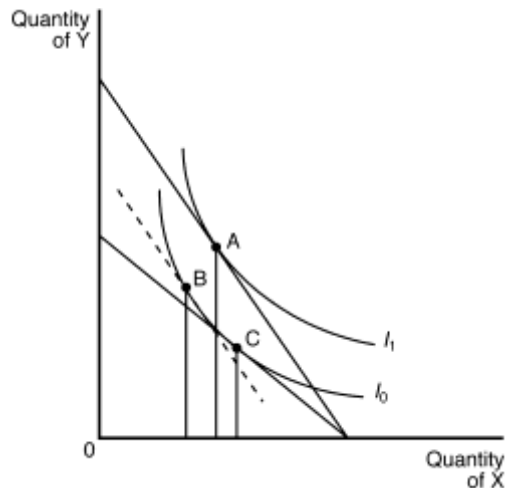
19. According to the graph shown, a consumer currently at Point D would be

- a. maximizing her utility and spending her entire income.
- b. maximizing her utility, but not spending her entire income.
- c. not maximizing her utility, but spending her entire income.
- d. not maximizing her utility because she is not spending her entire income.

ANSWER: c. not maximizing her utility, but spending her entire income.

20. Economic theory suggests that demand curves can sometimes slope upward
- if a good is a strongly inferior good with a dominant income effect.
 - when the supply curve for the good is downward sloping.
 - when consumers no longer prefer more to less.
 - if a good is a normal good with a dominant income effect.

ANSWER: a. if a good is a strongly inferior good with a dominant income effect.



21. On the graph shown, if the consumer is currently at point C, a change to point B would show the
- income effect.
 - budget effect.
 - price effect.
 - substitution effect.

ANSWER: d. substitution effect.

22. A Giffen good has
- an upward-sloping demand curve.
 - a downward-sloping demand curve.
 - a horizontal demand curve.
 - a vertical demand curve.

ANSWER: a. an upward-sloping demand curve.

23. The theory of consumer choice can be used to
- understand producers' response to demand.
 - derive a demand curve.
 - clarify why consumers generally prefer less of a good to more.

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- d. show how individuals' activities determine the preferences of a society.

ANSWER: b. derive a demand curve.

24. If an individual's labor supply curve is backward bending this would suggest that he will

- a. work more as wage rates rise.
- b. work less as wage rates rise.
- c. work the same no matter what the wage rate.
- d. demand more leisure as wage rates fall.

ANSWER: b. work less as wage rates rise.

25. Rational consumers who are saving for retirement may choose to save less when interest rates rise if

- a. they are likely to inherit a large sum of money.
- b. they realize that they will need much less money after retirement to maintain the same standard of living.
- c. the substitution effect dominates the income effect.
- d. the income effect dominates the substitution effect.

ANSWER: d. the income effect dominates the substitution effect.

1 ANSWER: a. the tradeoffs people face in their role as consumers.

TYPE: M KEY1: C SECTION: 4 OBJECTIVE: 6 RANDOM: Y

2 ANSWER: d. the various consumption bundles that a consumer can afford with a given income.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3 ANSWER: a. cannot be reached given the consumer's current income.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4 ANSWER: c. a 30 percent increase in income

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5 ANSWER: c. the slope of the budget constraint.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6 ANSWER: d. The price of Y has increased and the price of X has decreased.

TYPE: M KEY1: G SECTION: 1 OBJECTIVE: 1 GRAPH FORMAT: M QUESTION INSTRUCTION: 4
RANDOM: N

7 ANSWER: c. the same level of satisfaction.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 1 RANDOM: Y

8 ANSWER: c. Point A is preferred to all other points identified in the figure.

TYPE: M KEY1: G SECTION: 2 OBJECTIVE: 2 GRAPH FORMAT: M QUESTION INSTRUCTION: 6
RANDOM: N

9 ANSWER: c. increases his consumption of another good.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10 ANSWER: a. measures the rate at which a consumer is willing to trade one good for another.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11 ANSWER: c. prefer higher indifference curves to lower indifference curves.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

12 ANSWER: b. more willing to give up goods that they have in abundance.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

13 ANSWER: a. right angles.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

14 ANSWER: b. utility.

TYPE: M KEY1: C SECTION: 2 OBJECTIVE: 2 RANDOM: Y

15 ANSWER: a. highest attainable indifference curve is just tangent to the budget line.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 3 RANDOM: Y

16 ANSWER: d. Any of the above would allow the consumer to reach I2.

TYPE: M KEY1: G SECTION: 3 OBJECTIVE: 3 GRAPH FORMAT: M QUESTION INSTRUCTION: 7
RANDOM: N

17 ANSWER: c. an increase in income decreases consumption of the good.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

18 ANSWER: d. a decrease in the price of Milky Ways

TYPE: M KEY1: G SECTION: 3 OBJECTIVE: 4 GRAPH FORMAT: M QUESTION INSTRUCTION: 1
RANDOM: N

19 ANSWER: c. not maximizing her utility, but spending her entire income.

TYPE: M KEY1: G SECTION: 3 OBJECTIVE: 4 GRAPH FORMAT: M QUESTION INSTRUCTION: 1
RANDOM: N

20 ANSWER: a. if a good is a strongly inferior good with a dominant income effect.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 5 RANDOM: Y

21 ANSWER: d. substitution effect.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 5 RANDOM: Y

22 ANSWER: a. an upward-sloping demand curve.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 5 RANDOM: Y

23 ANSWER: b. derive a demand curve.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 5 RANDOM: Y

24 ANSWER: b. work less as wage rates rise.

TYPE: M KEY1: D SECTION: 4 OBJECTIVE: 6 RANDOM: Y

25 ANSWER: d. the income effect dominates the substitution effect.

TYPE: M KEY1: C SECTION: 4 OBJECTIVE: 6 RANDOM: Y