

True/False – one point each

- T** **F** 1. One must have both utility and purchasing power to have demand for a good.
- T** **F** 2. Increased scarcity of a product is signaled by a rise in the price of the product.
- T** **F** 3. As the price falls for microcomputers, the demand for related software decreases.
- T** **F** 4. The fallacy of composition is believing what is true for me is true for everyone.
- T** **F** 5. If price increases, demand must have increased.
- T** **F** 6. I will spend more on a good that provides negative utility.
- T** **F** 7. The income and substitution effect explain why we buy more at lower prices.
- ~~**T** **F** 8. Cross-price elasticity is negative between cake and Pepsi.~~
- T** **F** 9. Our goal as consumers is to minimize our utility.
- T** **F** 10. Choosing an alternative with the lowest opportunity cost is equivalent to choosing the alternative where marginal utility divided by marginal cost is greatest.
- T** **F** 11. Demand will be upward sloping if marginal utility declines with additional consumption.
- T** **F** 12. If demand decreases for houses we expect consumer surplus to decline from house purchases.
- T** **F** 13. If the price of oranges increases demand decreases.
- T** **F** 14. If I own a hotel and learn demand for room rentals is inelastic, I should lower room rates charged.
- T** **F** 15. Demand for charcoal will increase if the price of charcoal using barbecue grills is substantially reduced.
- T** **F** 16. The quantity of apples people plan to buy this month depends on the quantity produced.
- T** **F** 17. When a good is inelastic the quantity demanded of that good is the same at all prices.
- T** **F** 18. When the price elasticity of demand is greater than 1 (>1) then demand is inelastic.
- T** **F** 19. A normal good, like cotton shirts, will have an income elasticity that is positive.
- T** **F** 20. The more sensitive quantity demanded is to price the larger is the elasticity.
- T** **F** 21. The value of a good minus the price of that good represents consumer surplus.
- T** **F** 22. If a firm increases the price of the good and total revenue increases, the firm is operating on the inelastic portion of the demand curve.
- T** **F** 23. Scarcity is not a problem of the rich.
- T** **F** 24. If the consumption of one good increases the utility of another good, the two goods are complements.
- T** **F** 25. Fallacy of composition states that what is true for the individual is not necessarily true for the group.
- T** **F** 26. Decisions are made based on marginal benefits and costs, not total benefits and costs.
- T** **F** 27. If we get less utility from a good today than yesterday, demand has increased.
- T** **F** 28. Increased scarcity would cause prices to fall.
- T** **F** 29. Elasticity is the same as slope.
- T** **F** 30. The relative change in quantity demanded is always the same if price changes by a constant fixed amount.
- T** **F** 31. Opportunity cost is the net value of the next best alternative to the one you chose.

- T** **F** 32. Economics is the study of resource allocation that results from individual decision making.
- T** **F** 33. A firm need not provide utility in excess of cost to a consumer after the firm becomes large.
- T** **F** 34. Marginal utility will eventually increase as we consume more of a good.
- T** **F** 35. The increase in gasoline prices in Columbia has decreased the demand for gasoline.

Multiple choice – two points each

- _____ 36. Explicit costs are usually:
- a.) opportunity costs
 - b.) time spent
 - c.) **cash outlays**
 - d.) the key to all economics
- _____ 37. If the marginal utility for pizza is decreasing but positive, then:
- a.) **the total utility for pizza is increasing**
 - b.) the total utility for pizza is decreasing
 - c.) the total utility for pizza is negative
 - d.) additional pizza yields zero satisfaction
- _____ 38. Following the decision rule will lead to:
- a.) low costs
 - b.) higher demand
 - c.) **utility maximization**
 - d.) higher opportunity costs
- _____ 39. Which of the following statements is true?
- a.) total utility is the satisfaction from the entire consumption of a good
 - b.) utility measures the satisfaction obtained from a good
 - c.) marginal utility is the additional satisfaction from consuming the last unit
 - d.) **all of the above**
- _____ 40. All of the following are factors that will shift the demand curve, EXCEPT:
- a.) the price of related goods
 - b.) income
 - c.) preferences
 - d.) **the price of the good itself**

- _____ 41. The market demand for a particular good:
- a.) **is the sum of individual demands for the good**
 - b.) shows that sellers will produce more at lower prices, *ceteris paribus*
 - c.) shows that consumers will purchase more at higher prices, *ceteris paribus*
 - d.) all of the above
- _____ 42. Cross price elasticity measures the
- a.) horizontal shift in demand caused by a change in the price of the good
 - b.) **horizontal shift in demand caused by a change in the price of another good**
 - c.) vertical shift in demand caused by a change in the price of another good
 - d.) vertical shift in demand caused by a change in expectations
- _____ 43. *Ceteris paribus*, when demand is price inelastic, a rise in:
- a.) price leads to lower total revenue
 - b.) total revenue due to a price change means quantity rises
 - c.) total revenue indicates a reduction in price
 - d.) **price leads to greater total revenue**
- _____ 44. If the price elasticity of demand for Baja Fresh tacos is 3.5, then Baja Fresh can:
- a.) reduce the price of tacos by 35 percent and total revenue will remain the same
 - b.) raise the price of tacos and total revenue will increase
 - c.) reduce the price of tacos by less than 35 percent and total sales will remain the same
 - d.) **reduce the price of tacos and total revenue will increase**
- _____ 45. Microeconomics is focused on:
- a.) full employment, price stability, and economic growth
 - b.) **the behavior of individuals, firms and government agencies**
 - c.) money and U.S. policy
 - d.) centrally planned economies
- _____ 46. According to the Latin phrase *ceteris paribus*:
- a.) resources are limited
 - b.) things do not remain equal
 - c.) there is no government intervention
 - d.) **nothing else changes**