

True/False – one point each

- T ~~F~~ 1. We will always buy quantities beyond the demand curve.
- T ~~F~~ 2. Demand represents the lowest opportunity cost for a good at various levels of consumption.
- T ~~F~~ 3. Prices are signals about relative scarcity.
- T ~~F~~ 4. The increase in gasoline prices in Columbia has decreased the demand for gasoline.
- T ~~F~~ 5. We make decisions based on utility and constraints in purchasing.
- T ~~F~~ 6. Marginal utility will eventually increase as we consume more of a good.
- T ~~F~~ 7. The income and substitution effect explain why we buy more at lower prices.
- T ~~F~~ 8. Consumer equilibrium will not last long.
- T ~~F~~ 9. If we get less utility from a good today than yesterday, demand has increased.
- T ~~F~~ 10. The relative (percentage) change in quantity demanded is always the same if price changes by a constant fixed amount.
- T ~~F~~ 11. Demand will be upward sloping if marginal utility declines with additional consumption.
- T ~~F~~ 12. Fallacy of composition points out that what is true for the individual is not necessarily true for the group.
- T ~~F~~ 13. As the price falls for microcomputers, the demand for related software decreases.
- T ~~F~~ 14. Total revenue is just the price times the quantity sold.
- T ~~F~~ 15. Economics is the study of resource allocation that results from individual decision making.
- T ~~F~~ 16. Opportunity cost is the net value of the next best alternative to the one you chose.
- T ~~F~~ 17. Elasticity is the same as slope.
- T ~~F~~ 18. Because I “need” something, I will spend more on that good.
- T ~~F~~ 19. Our goal as consumers is to minimize our utility.
- T ~~F~~ 20. The more sensitive quantity demanded is to price the larger is the elasticity.
- T ~~F~~ 21. Increased scarcity of a product is signaled by a rise in the price of the product.
- T ~~F~~ 22. Choosing an alternative with the lowest opportunity cost is equivalent to choosing the alternative where marginal utility exceeds marginal cost by the greatest amount.
- 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. If I own a hotel and learn demand for room rentals is inelastic, I should lower room rates charged.
- T ~~F~~ 26. The quantity of apples people plan to buy this month depends on the quantity produced.
- T ~~F~~ 27. If demand decreases we expect consumer surplus gained by buying that good declines.
- T ~~F~~ 28. Increased scarcity would cause prices to fall.
- T ~~F~~ 29. Demand for charcoal will increase if the price of charcoal using barbecue grills is substantially reduced.
- T ~~F~~ 30. 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~~ 31. ~~When a good is inelastic the quantity demand of that good is the same at all prices.~~

- T F 32. Decisions are made based on marginal benefits and costs, not total benefits and costs.
T F 33. One must have both utility and purchasing power to have demand for a good.
T F 34. A normal good, like cotton shirts, will have an income elasticity that is positive.
T F 35. When the price elasticity of demand is greater than 1 (>1) then demand is inelastic.

Multiple choice – two points each

- _____ 36. If demand is elastic, then:
a.) quantity demanded is not very responsive to changes in price
b.) quantity demanded is very responsive to changes in price
c.) consumer spending does not respond to changes in income
d.) total revenue falls in response to a price decrease
- _____ 37. If quantity demanded rise significantly following a moderate price cut, then demand is:
a.) elastic
b.) inelastic
c.) unitary elastic
d.) normal
- _____ 38. Suppose the local government decides to reduce traffic congestion on a bridge by imposing a toll. The toll will be most effective if the price elasticity of demand for the bridge is:
a.) inelastic
b.) elastic
c.) unitary
d.) either unitary or inelastic
- _____ 39. When the percentage change in quantity demanded is numerically less than the percentage change in price, *ceteris paribus*, demand is:
a.) elastic
b.) inelastic
c.) unitary elastic
d.) perfectly elastic
- _____ 40. If the price elasticity of demand is 1.0 and a firm raises its price by 15 percent, the total revenue will:
a.) rise by 15 percent
b.) fall by 15 percent
c.) possibly rise or fall
d.) not change

- _____ 41. A price cut will increase the total revenue a firm receives, *ceteris paribus*, only if the demand for its product is:
- a.) elastic
 - b.) inelastic
 - c.) unitary elastic
 - d.) perfectly inelastic (i.e., $E=0$)
- _____ 42. The satisfaction a consumer receives from the consumption of a good is:
- a.) elasticity
 - b.) demand
 - c.) quantity demanded
 - d.) utility
- _____ 43. Marginal utility refers to the:
- a.) additional utility from consuming the last unit of a good
 - b.) change in profit from the last unit sold
 - c.) utility derived from consuming all of the good
 - d.) opportunity cost of the good
- _____ 44. Explicit costs are usually:
- a.) opportunity costs
 - b.) cash outlays
 - c.) the key to all economics
 - d.) time spent
- _____ 45. Following the decision rule will lead to:
- a.) utility maximization
 - b.) higher demand
 - c.) low costs
 - d.) higher opportunity costs
- _____ 46. All of the following are factors that will shift the demand curve, EXCEPT:
- a.) the price of related goods
 - b.) the price of the good itself
 - c.) preferences
 - d.) income
- _____ 47. The market demand for a particular good:
- a.) shows that sellers will produce more at lower prices, *ceteris paribus*
 - b.) shows that consumers will purchase more at higher prices, *ceteris paribus*
 - c.) is the sum of individual demands for the good
 - d.) all of the above