Chapter 8

POSSIBILITIES, PREFERENCES, AND CHOICES

Consumption Possibilities

Topic: Consumption Possibilities, Budget Line
Skill: Recognition
1) Budget lines are drawn on a diagram with the
A) price of the good on the vertical axis and its quantity on the horizontal axis.
B) price of one good on the vertical axis and the price of another good on the horizontal axis.
C) quantity of the good on the vertical axis and its price on the horizontal axis.
D) quantity of one good on the vertical axis and the quantity of another good on the horizontal axis.
Answer: D

Topic: Consumption Possibilities, Budget Line
Skill: Recognition
2) Consumption choices are limited by
A) the person’s preferences for goods and services.
B) the person’s income and the prices of goods.
C) the marginal utility of the next unit.
D) only prices and the person’s preferences.
Answer: B

Topic: Consumption Possibilities, Budget Line
Skill: Recognition
3) A household’s consumption choices are limited by
A) prices and preferences.
B) income and preferences.
C) prices and income.
D) prices, preferences, and income.
Answer: C

Topic: Consumption Possibilities, Budget Line
Skill: Conceptual
4) The variables that determine a household’s budget line are
A) its preferences and income.
B) its preferences and prices.
C) prices and income.
D) None of the above are correct.
Answer: C

Topic: Consumption Possibilities, Budget Line
Skill: Recognition
5) A budget line shows the
A) consumption possibilities of a consumer at a given level of income and prices.
B) complete set of preferences for a household at various incomes.
C) consumption possibilities for several sets of relative prices at a level of income.
D) rate at which consumers wish to substitute one good for another.
Answer: A

Topic: Consumption Possibilities, Budget Line
Skill: Analytical
6) All points below the budget line are
A) inferior to every point on the budget line.
B) preferred to every point on the budget line.
C) affordable.
D) unaffordable.
Answer: C

Topic: Consumption Possibilities, Budget Line
Skill: Analytical
7) All points above the budget line are
A) inferior to every point on the budget line.
B) preferred to every point on the budget line.
C) attainable.
D) unattainable.
Answer: D

Topic: Consumption Possibilities, Budget Line
Skill: Conceptual
8) As you move along a given budget line,
A) prices and real income both decrease.
B) prices fall and real income is constant.
C) real income decreases and prices are constant.
D) prices and real income are constant.
Answer: D
9) Matt’s allowance is $20 per month. In order to determine his budget line, you also need to know
A) his indifference curve.
B) his preference map.
C) the prices of available goods.
D) both the prices of available goods and his preference map.
**Answer:** C

10) Consider the budget line in the above figure. If the consumer’s income is $120, then the price of a book is
A) $10 per book.
B) $12 per book.
C) $6 per book.
D) More information is needed to determine the price of a book.
**Answer:** B

11) Consider the budget line in the above figure. If the consumer’s income is $120, then the price of a movie is
A) $24 per movie.
B) $12 per movie.
C) $5 per movie.
D) More information is needed to determine the price of a movie.
**Answer:** C

12) Suppose that Dave has $200 to spend per week and he buys only magazines and pizza. The price of a pizza is $10 and the price of a magazine is $5. What is Dave’s real income in terms of magazines?
A) 20.
B) 40.
C) 200.
D) 10.
**Answer:** B

13) The above figure gives your budget line between CDs and magazines. Which combination of CDs and magazines are not affordable?
A) Combination a.
B) Combination b.
C) Combination c.
D) Both combinations b and d.
**Answer:** A
Topic: Consumption Possibilities
Skill: Analytical
14) The figure above gives your budget line for magazine and CDs per month. Given that your income equals $60 per month, what is the price of a magazine and the price of a CD?
A) The price of a magazine is $12 per magazine and the price of a CD is $6 per CD.
B) The price of a magazine is $5 per magazine and the price of a CD is $10 per CD.
C) The price of a magazine is $4 per magazine and the price of a CD is $12 per CD.
D) It is impossible to tell from the information given.
Answer: B

Topic: Consumption Possibilities, Real Income
Skill: Recognition
15) The figure above gives your budget line for magazine and CDs per month. Given that your income equals $60 per month, what is your real income in terms of CDs?
A) 3 CDs.
B) 5 CDs.
C) 6 CDs.
D) $60/month.
Answer: C

Topic: Consumption Possibilities, Real Income
Skill: Recognition
16) The figure above gives your budget line for magazine and CDs per month. Given that your income equals $60 per month, what is your real income in terms of magazines?
A) 12 magazines.
B) 6 magazines.
C) 2 magazines.
D) $60/month.
Answer: A

Topic: Consumption Possibilities
Skill: Conceptual
17) The above figure gives your budget line between CDs and magazines. What would allow you to buy more CDs?
A) A decrease in the relative price of CDs.
B) An increase in income.
C) A decrease in the price of magazines with no change in the price of CDs.
D) All of the above changes would allow you to buy more CDs.
Answer: D

Topic: Consumption Possibilities, Change in Price
Skill: Conceptual
18) The above figure gives your budget line between CDs and magazines. If the price of a magazine increased, then the budget line would
A) shift outward and the slope would not change, thus showing that magazines are more expensive.
B) rotate inward with no change in the horizontal intercept showing that magazines are more expensive.
C) rotate inward with no change in the vertical intercept.
D) rotate outward with no change in the vertical axis.
Answer: C

Topic: The Budget Equation
Skill: Analytical
19) The figure above gives your budget line for magazine and CDs per month. Your income equals $60 per month. CDs are $12 each and magazines are $5 each. What is the equation for this budget line?
A) $60 = Q_m + Q_{CD}
B) $60 = 12Q_m + 5Q_{CD}
C) 12 = –2Q_m + 6
D) $60 = 12Q_{CD} + 5Q_m
Answer: D
20) The above figure gives your budget line between CDs and magazines. The slope of the budget line is ____ CD per magazine.

A) 1/2  
B) –1/2  
C) –1  
D) –2  
Answer: B

21) Given the budget line in the above figure, which of the following combinations of pizza and milk are affordable?

A) 0 pizzas, 10 gallons of milk  
B) 2 pizzas, 6 gallons of milk  
C) 4 pizzas, 1 gallon of milk  
D) All of the above combinations are affordable.  
Answer: D

22) Given the budget line in the above figure, what is the household’s real income in terms of pizzas per month?

A) 5 pizzas per month  
B) 4 pizzas per month  
C) 3 pizzas per month  
D) All of above represent the household’s real income.  
Answer: A

23) Given the budget line in the above figure, what is the relative price of pizza?

A) 10 gallons of milk per pizza  
B) 6 gallons of milk per pizza  
C) 4 gallons of milk per pizza  
D) 2 gallons of milk per pizza  
Answer: D

24) Which of the following factors is NOT part of the budget equation?

A) Relative prices.  
B) Real income.  
C) Quantities of goods.  
D) Preferences.  
Answer: D

25) A household’s real income can be expressed as

A) the ratio of two prices.  
B) the ratio of two quantities.  
C) a price of a good.  
D) a quantity of a good.  
Answer: D

26) Real income can be measured by

A) the slope of the budget line.  
B) the area under the budget line.  
C) the length of the budget line.  
D) an intercept of the budget line.  
Answer: D

27) Real income measures the

A) slope of the budget line.  
B) purchasing power of a given income.  
C) slope of the preference map.  
D) area under the indifference curve.  
Answer: B
28) Real income equals a household’s income
A) in terms of the quantity of goods the household can buy.
B) times the prices of the goods it buys.
C) divided by the prices of the goods it buys.
D) times the relative prices of the goods it buys.
Answer: A

29) Suppose you are graphing the quantity of bagels on the vertical axis and the quantity of coffee on the horizontal axis. A household’s real income in terms of bagels is the
A) relative price of coffee.
B) relative price of bagels.
C) point at which the budget line intersects the x-axis.
D) point at which the budget line intersects the y-axis.
Answer: D

<table>
<thead>
<tr>
<th>Case</th>
<th>Money income (dollars)</th>
<th>Price of a pizza (dollars)</th>
<th>Price of a hamburger (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>C</td>
<td>25</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

30) In the table above, in terms of units of pizza, real income is
A) lower in case A than in cases B and C.
B) lower in case B than in cases A and C.
C) lower in case C than in cases A and B.
D) equal in all three cases.
Answer: D

31) In the table above, in terms of units of hamburgers, real income is
A) lower in case A than in cases B and C.
B) lower in case B than in cases A and C.
C) lower in case C than in cases A and B.
D) equal in all three cases.
Answer: C

32) In the table above, which case has the lowest relative price for a hamburger?
A) Case A.
B) Case B.
C) Case C.
D) All three cases have an equal relative price for a hamburger.
Answer: A

33) Consider the budget line in the above figure. If the consumer’s income is $120, then the price of a book is
A) $10 per book.
B) $12 per book.
C) $6 per book.
D) More information is needed to determine the price of a book.
Answer: B

34) Consider the budget line in the above figure. If the consumer’s income is $120, then the price of a movie is
A) $24 per movie.
B) $12 per movie.
C) $5 per movie.
D) More information is needed to determine the price of a movie.
Answer: C
35) Suppose that Dave has $200 to spend per week and he buys only magazines and pizza. The price of a pizza is $10 and the price of a magazine is $5. What is Dave’s real income in terms of magazines?
A) 20.
B) 40.
C) 200.
D) 10.
Answer: B

36) The above figure gives your budget line between CDs and magazines. Which combination of CDs and magazines are not affordable?
A) Combination a.
B) Combination b.
C) Combination c.
D) Both combinations b and d.
Answer: A

37) The figure above gives your budget line for magazine and CDs per month. Given that your income equals $60 per month, what is the price of a magazine and the price of a CD?
A) The price of a magazine is $12 per magazine and the price of a CD is $6 per CD.
B) The price of a magazine is $5 per magazine and the price of a CD is $10 per CD.
C) The price of a magazine is $4 per magazine and the price of a CD is $12 per CD.
D) It is impossible to tell from the information given.
Answer: B

38) The figure above gives your budget line for magazine and CDs per month. Given that your income equals $60 per month, what is your real income in terms of CDs?
A) 3 CDs.
B) 5 CDs.
C) 6 CDs.
D) $60/month.
Answer: C

39) The figure above gives your budget line for magazine and CDs per month. Given that your income equals $60 per month, what is your real income in terms of magazines?
A) 12 magazines.
B) 6 magazines.
C) 2 magazines.
D) $60/month.
Answer: A
POSSIBILITIES, PREFERENCES, AND CHOICES

40) The above figure gives your budget line between CDs and magazines. What would allow you to buy more CDs?
   A) A decrease in the relative price of CDs.
   B) An increase in income.
   C) A decrease in the price of magazines with no change in the price of CDs.
   D) All of the above changes would allow you to buy more CDs.

Answer: D

41) The above figure gives your budget line between CDs and magazines. If the price of a magazine increased, then the budget line would
   A) shift outward and the slope would not change, thus showing that magazines are more expensive.
   B) rotate inward with no change in the horizontal intercept showing that magazines are more expensive.
   C) rotate inward with no change in the vertical intercept.
   D) rotate outward with no change in the vertical axis.

Answer: C

42) The figure above gives your budget line for magazine and CDs per month. Your income equals $60 per month. CDs are $12 each and magazines are $5 each. What is the equation for this budget line?
   A) $60 = Q_m + Q_{CD}
   B) $60 = $12Q_m + $5Q_{CD}
   C) 12 = –2Q_m + 6
   D) $60 = 12Q_{CD} + 5Q_m

Answer: D

43) The above figure gives your budget line between CDs and magazines. The slope of the budget line is ____ CD per magazine.
   A) 1/2
   B) –1/2
   C) –1
   D) –2

Answer: B

44) Given the budget line in the above figure, which of the following combinations of pizza and milk are affordable?
   A) 0 pizzas, 10 gallons of milk
   B) 2 pizzas, 6 gallons of milk
   C) 4 pizzas, 1 gallon of milk
   D) All of the above combinations are affordable.

Answer: D

45) Given the budget line in the above figure, what is the household’s real income in terms of pizzas per month?
   A) 5 pizzas per month
   B) 4 pizzas per month
   C) 3 pizzas per month
   D) All of above represent the household’s real income.

Answer: A
46) Given the budget line in the above figure, what is the relative price of pizza?
   A) 10 gallons of milk per pizza
   B) 6 gallons of milk per pizza
   C) 4 gallons of milk per pizza
   D) 2 gallons of milk per pizza
   Answer: D

47) The magnitude of the slope of the budget line is determined by
   A) the marginal rate of substitution.
   B) the level of income.
   C) the consumer’s preferences for the goods.
   D) relative prices.
   Answer: D

48) The magnitude of the slope of the budget line is the ratio of
   A) a price to its quantity.
   B) a quantity to its price.
   C) two prices.
   D) two marginal rates of substitution.
   Answer: C

49) The magnitude of the slope of the budget line measures
   A) the opportunity cost of the good on the horizontal axis in terms of the good on the vertical axis.
   B) the opportunity cost of the good on the vertical axis in terms of the good on the horizontal axis.
   C) the price elasticity of demand.
   D) the price elasticity of supply.
   Answer: A

50) Movies are $10 a ticket, and videotape rentals are $5 a tape per day. With movies on the vertical axis, the magnitude of the slope of the budget line is
   A) 1/2.
   B) 2.
   C) 5.
   D) 10.
   Answer: A

51) If all prices rise by 5 percent and money income remains constant, the new budget line will have
   A) a steeper slope.
   B) a flatter slope.
   C) a positive slope.
   D) the same slope.
   Answer: D

52) If all prices fall by 5 percent and money income remains constant, the new budget line will have
   A) a positive slope.
   B) the same slope.
   C) a steeper slope.
   D) a flatter slope.
   Answer: B
53) Given the budget line in the figure above, the combination of chips that is NOT affordable is
A) a.
B) b.
C) c.
D) d.
Answer: C

54) In the figure above, real income in terms of bags of corn chips is shown by point
A) a.
B) b.
C) c.
D) d.
Answer: D

55) In the figure above, a decrease in the price of a bag of potato chips would result in the budget line
A) making a parallel shift toward point a.
B) making a parallel shift toward point c.
C) becoming flatter.
D) becoming steeper.
Answer: C

56) In the figure above, an increase in the price of a bag of potato chips would result in the budget line
A) making a parallel shift toward point a.
B) making a parallel shift toward point c.
C) becoming flatter.
D) becoming steeper.
Answer: D

57) In the figure above, an increase in income would result in the budget line
A) making a parallel shift toward point a.
B) making a parallel shift toward point c.
C) becoming flatter.
D) becoming steeper.
Answer: B

58) Sharmila has a budget line for CDs and books. CDs are on the vertical axis and books on the horizontal. Her budget line becomes steeper as
A) the price of a CD falls.
B) the price of a CD rises.
C) her income decreases.
D) her income increases.
Answer: A

59) Inga’s graph of her budget line has apples per week on the vertical axis and loaves of bread per week on the horizontal. A fall in the price of an apple shifts the
A) horizontal intercept leftward.
B) horizontal intercept rightward.
C) vertical intercept downward.
D) vertical intercept upward.
Answer: D
60) A budget line is drawn with automobiles on the vertical axis and boats on the horizontal. Imposing a tax on boats that boosts the price of a boat makes
A) the indifference curves flatter.
B) the indifference curves steeper.
C) the budget line flatter.
D) the budget line steeper.
Answer: D

61) In the above figure, the budget line would rotate in the direction indicated as a result of a
A) rise in the price of a book.
B) fall in the price of a book.
C) rise in the price of a movie.
D) decrease in income.
Answer: B

62) When your income increases,
A) your budget line shifts rightward and its slope does not change.
B) your budget line shifts leftward and its slope does not change.
C) the slope of your budget line increases.
D) the slope of your budget line decreases.
Answer: A
66) In the above figure, a shift in the budget line in the direction indicated would occur as a result of a
A) decrease in money income  
B) increase in money income  
C) fall in the price of a movie.  
D) rise in the price of movie.  
Answer: B

67) In the above figure, if the price of milk rises, the budget line
A) rotates outward and the slope becomes steeper.  
B) shifts inward and its slope does not change.  
C) rotates inward and the slope becomes steeper.  
D) rotates inward and the slope becomes more shallow.  
Answer: C

68) In the above figure, if the price of pizza falls, the budget line
A) rotates outward and becomes steeper.  
B) shifts leftward and its slope does not change.  
C) shifts rightward and its slope does not change.  
D) rotates inward and becomes flatter.  
Answer: A

69) In the above figure if money income increases, the budget line
A) shifts outward and its slope does not change.  
B) shifts inward and its slope does not change.  
C) rotates outward and becomes steeper.  
D) rotates outward and becomes more shallow.  
Answer: A
70) In the figure above, which budget line results in the most real income in terms of compact discs?

A) AD  
B) BD  
C) CD  
D) Real income is equal for all three budget lines.

**Answer:** C

71) In the figure above, which budget line results in the most real income in terms of carrots?

A) AD  
B) BD  
C) CD  
D) Real income is equal for all three budget lines.

**Answer:** D

72) In the figure above, which budget line has the lowest relative price of compact discs?

A) AD  
B) BD  
C) CD  
D) The relative price is equal for all three budget lines.

**Answer:** C

73) In the figure above, which budget line has the lowest relative price of carrots?

A) AD  
B) BD  
C) CD  
D) The relative price is equal for all three budget lines.

**Answer:** A

74) In the figure above, suppose the original budget line is BD. A rise in the price of a compact disc will

A) rotate the budget line to AD  
B) rotate the budget line to CD  
C) not move the budget line  
D) result in a parallel leftward shift of the budget line.

**Answer:** A

75) In the figure above, suppose the original budget line is BD. A fall in the price of a compact disc will

A) rotate the budget line to AD  
B) rotate the budget line to CD  
C) not move the budget line  
D) result in a parallel leftward shift of the budget line.

**Answer:** B
76) The figure above shows Ilene’s budget line. The price of a can of cat food is $2. Ilene’s income per week is
A) $10.
B) $40.
C) $56.
D) $160.
Answer: B

77) The figure above shows Ilene’s budget line. The price of a can of cat food is $2. The price of a can of dog food
A) is $1.60.
B) is $4.00.
C) is $5.00.
D) cannot be determined without more information.
Answer: C

78) The figure above shows Ilene’s budget line. If her dog, Muffin, runs away and she adopts another cat, named Snowball, the budget line shown in the figure will
A) become flatter.
B) become steeper.
C) shift outward (because cats eat less).
D) not move.
Answer: D

79) The figure above shows Ilene’s budget line, which implies that the price of cat food is less than the price of dog food. If her dog, Muffin, runs away and she adopts another cat, named Butterscotch, the budget line shown in the figure will
A) become flatter.
B) become steeper.
C) shift outward (because cats eat less).
D) not move.
Answer: D

80) The figure above shows Ilene’s budget line. The price of a can of cat food is $2. If the price of a can of cat food rises, her budget line will
A) rotate inward toward the origin.
B) rotate outward away from the origin.
C) shift leftward in a parallel manner.
D) shift rightward in a parallel manner.
Answer: A

81) The figure above shows Ilene’s budget line. If Ilene’s income rises, her budget line will rotate so that the vertical intercept is
A) unchanged, but the horizontal intercept is closer to the origin.
B) unchanged, but the horizontal intercept is farther away from the origin.
C) farther away from the origin, but the horizontal intercept is closer to the origin.
D) closer to the origin, but the horizontal intercept is farther away from the origin.
Answer: A

82) The figure above shows Ilene’s budget line. If Ilene’s income rises, her budget line will rotate and become flatter.
A) rotate and become flatter.
B) rotate and become steeper.
C) shift rightward and its slope will not change.
D) shift leftward and its slope will not change.
Answer: C
Topic: Consumption Possibilities, Change in Income
Skill: Conceptual
83) A decrease in a household’s real income is shown by
A) a leftward shift of the budget line.
B) a rightward shift of the budget line.
C) movement up along the budget line.
D) movement down along the budget line.
Answer: A

Topic: Consumption Possibilities, Change in Income
Skill: Recognition
84) An increase in real income always
A) makes a household’s budget line flatter.
B) makes a household’s budget line steeper.
C) shifts a household’s budget line leftward.
D) shifts a household’s budget line rightward.
Answer: D

Topic: Consumption Possibilities, Change in Income
Skill: Analytical
85) In the above figure, Sheryl’s monthly budget line for movies and plays shifted, as shown. Because the shift in the budget line is parallel, the shift might be because
A) the price of a movie fell and nothing else changed.
B) the price of a play fell and nothing else changed.
C) Sheryl’s income decreased and nothing else changed.
D) Sheryl’s income increased and nothing else changed.
Answer: D

Preferences and Indifference Curves

Topic: Preferences and Indifference Curves
Skill: Recognition
86) Preferences depend on
A) income but not relative prices.
B) relative prices but not income.
C) neither relative prices nor income.
D) both relative prices and income.
Answer: C
87) Preferences can be described as
A) what a person likes and dislikes.
B) the income opportunities of several activities.
C) feasible consumption combinations.
D) the relative prices of goods and services.
Answer: A

88) Consumers’ preferences are described by
A) budget lines.
B) indifference curves.
C) relative prices.
D) household income.
Answer: B

89) A preference map is a set of
A) indifference curves.
B) budget lines.
C) demand curves.
D) substitution curves.
Answer: A

90) An indifference curve shows
A) different combinations of two goods among which the consumer is indifferent.
B) consumption possibilities that a consumer faces at different prices and income.
C) affordable combinations of goods.
D) the opportunity cost of one good relative to another.
Answer: A

92) An indifference curve shows all combinations of two goods
A) that can be purchased with a given income.
B) that can be purchased if relative prices are constant.
C) among which the consumer is indifferent.
D) that have the same marginal rate of substitution.
Answer: C

93) An indifference curve has a
A) negative slope and becomes flatter to the right.
B) negative slope and becomes steeper to the right.
C) positive slope and becomes flatter to the right.
D) positive slope and becomes steeper to the right.
Answer: A

94) Indifference curves
A) are straight lines with a positive slope.
B) slope upward to the right.
C) are bowed in toward the origin.
D) are bowed out away from the origin.
Answer: C

95) Any point above a given indifference curve is
A) inferior to any point on the indifference curve.
B) preferred to any point on the indifference curve.
C) definitely affordable.
D) definitely not affordable.
Answer: B

96) Any point below a given indifference curve is
A) inferior to any point on the indifference curve.
B) preferred to any point on the indifference curve.
C) definitely affordable.
D) definitely unaffordable.
Answer: A
**Topic: Indifference Curves**  
**Skill: Recognition**

97) Given the indifference curve in the above figure, which point is preferred to point \( a \)?
A) point \( b \)
B) point \( c \)
C) point \( d \)
D) point \( e \)

**Answer: B**

**Topic: Indifference Curves**  
**Skill: Recognition**

98) The figure above shows a consumer is indifferent between points
A) \( d \) and \( c \).
B) \( a, b, c, d, \) and \( e \).
C) \( e \) and \( d \).
D) \( b \) and \( a \).

**Answer: D**

**Topic: Indifference Curves**  
**Skill: Recognition**

99) On a diagram showing indifference curves, the marginal rate of substitution is represented by the magnitude of
A) a point on the horizontal axis.
B) a point on the vertical axis.
C) a slope.
D) an area.

**Answer: C**

**Topic: Marginal Rate of Substitution**  
**Skill: Recognition**

100) The magnitude of the slope of an indifference curve is the marginal
A) rate of substitution.
B) rate of relative prices.
C) utility of substitution.
D) rate of utility of income.

**Answer: A**

**Topic: Marginal Rate of Substitution**  
**Skill: Analytical**

101) An indifference diagram has movies on the vertical axis and sodas on the horizontal. As the consumption of sodas increases, the marginal rate of substitution
A) falls. The indifference curves become flatter.
B) falls. The indifference curves become steeper.
C) rises. The indifference curves become flatter.
D) rises. The indifference curves become steeper.

**Answer: A**

**Topic: Marginal Rate of Substitution**  
**Skill: Analytical**

102) Jodie has indifference curves for CDs and colas, with CDs on the vertical axis. The flatter her indifference curves are, the
A) smaller her average rate of substitution.
B) larger her average rate of substitution.
C) smaller her marginal rate of substitution.
D) larger her marginal rate of substitution.

**Answer: C**

**Topic: Marginal Rate of Substitution**  
**Skill: Recognition**

103) The assumption that the magnitude of the slope of an indifference curve decreases moving to the right along an indifference curve is known as the assumption of
A) the price effect.
B) a diminishing marginal rate of substitution.
C) an increasing marginal rate of substitution.
D) an indifference curve effect.

**Answer: B**
104) Indifference curves are
   A) bowed in toward the origin if there is diminishing marginal rate of substitution.
   B) straight lines if the goods are perfect complements.
   C) right angles if the goods are perfect substitutes.
   D) always bowed out and away from the origin.
   **Answer: A**

105) If an indifference curve is a straight line it will not show which of the following?
   A) Any marginal rate of substitution.
   B) Diminishing marginal rate of substitution.
   C) Combinations of goods among which a consumer is indifferent.
   D) None of the above answers is correct.
   **Answer: B**

106) A constant marginal rate of substitution between two goods implies that they are
   A) perfect complements.
   B) perfect substitutes.
   C) independent goods.
   D) unattainable.
   **Answer: B**
108) In the above figure, what is the marginal rate of substitution (MRS) at point \( a \)?

A) \(-1/2\)
B) The rate at which the consumer will give up magazines to purchase more CDs while preferring the new combination to the old.
C) 2
D) The question cannot be answered without more information.

Answer: A

109) If two goods are perfect complements, the shapes of the indifference curves are

A) bowed toward the origin.
B) bowed away from the origin.
C) straight lines.
D) right-angled lines.

Answer: D

110) If an indifference map for a consumer is made up of straight, negatively sloped lines, the goods are

A) perfect complements.
B) unrelated.
C) perfect substitutes.
D) not desirable.

Answer: C

111) If Bill thinks tacos and turkey sandwiches are perfect substitutes, then his indifference curves for these two goods

A) are L-shaped.
B) are negatively sloped and linear.
C) are positively sloped and linear.
D) have slopes equal to 1.

Answer: B

112) Which two goods will have indifference curves that are straight lines?

A) Blue and red balloons.
B) Left and right shoes.
C) Pizza and hair spray.
D) Beef and chicken.

Answer: A

113) The indifference curve in the above figure illustrates two goods that are

A) perfect substitutes.
B) perfect complements.
C) violates assumptions about preferences.
D) None of the above answers is correct.

Answer: B
### Topic: Degree of Substitutability
#### Skill: Conceptual

114) The indifference curve in the above figure
   A) could illustrate a person’s preferences for identical computer disks made by two different companies.
   B) could illustrate a person’s preferences for right-handed and left-handed gloves.
   C) has a constant marginal rate of substitution.
   D) None of the above answers is correct.

**Answer: B**

### Topic: Degree of Substitutability
#### Skill: Conceptual

115) If two goods are perfect substitutes, the shapes of the indifference curves are
   A) bowed toward the origin.
   B) bowed away from the origin.
   C) straight lines.
   D) right-angled lines.

**Answer: C**

### Topic: Degree of Substitutability
#### Skill: Conceptual

116) The indifference curve in the above figure
   A) illustrates two goods that are perfect substitutes.
   B) illustrates two goods that are perfect complements.
   C) violates assumptions about preferences.
   D) None of the above answers is correct.

**Answer: A**

### Topic: Degree of Substitutability
#### Skill: Conceptual

117) The indifference curve in the above figure
   A) could illustrate a person’s preferences for identical computer disks made by two different companies.
   B) could illustrate a person’s preferences for right-handed and left-handed gloves.
   C) has a marginal rate of substitution that at first decreases and then increases.
   D) None of the above answers is correct.

**Answer: A**

### Topic: Marginal Rate of Substitution
#### Skill: Conceptual

118) In the figure above, as more six-packs of soda are consumed, moving along any of the illustrated indifference curves, the MRS between twelve-packs and six-packs
   A) increases.
   B) decreases.
   C) stays constant.
   D) first increases, then decreases.

**Answer: C**
**Topic: Marginal Rate of Substitution**  
**Skill: Conceptual**  
119) The magnitude of the MRS of the indifference curves in the above figure  
A) equals 1/2.  
B) equals 2.  
C) changes when moving along the curve.  
D) is constant along a particular indifference curve, but changes from one indifference curve to the next.  
**Answer: A**  

**Topic: Degree of Substitutability**  
**Skill: Recognition**  
120) In the above figure, the indifference curves indicate that the two goods are  
A) perfect complements.  
B) perfect substitutes.  
C) ordinary goods.  
D) normal goods.  
**Answer: B**  

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**Predicting Consumer Behavior**  

**Topic: Predicting Consumer Behavior, Best Affordable Point**  
**Skill: Recognition**  
121) In an indifference curve/budget line diagram, a consumer’s equilibrium consumption combination will occur  
A) inside the budget line.  
B) outside the budget line.  
C) on the budget line.  
D) at the origin.  
**Answer: C**  

**Topic: Predicting Consumer Behavior, Best Affordable Point**  
**Skill: Conceptual**  
122) At the best affordable point,  
A) the marginal rate of substitution reaches its minimum value.  
B) relative prices reach their minimum value.  
C) the marginal rate of substitution equals the relative price ratio.  
D) the marginal rate of substitution equals real income.  
**Answer: C**  

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**Topic: Predicting Consumer Behavior, Best Affordable Point**  
**Skill: Conceptual**  
123) At the best affordable point, the budget line  
A) is flatter than the highest attainable indifference curve.  
B) is tangent to the highest attainable indifference curve.  
C) is steeper than the highest attainable indifference curve.  
D) does not touch the highest attainable indifference curve.  
**Answer: B**  

**Topic: Predicting Consumer Behavior, Best Affordable Point**  
**Skill: Conceptual**  
124) Tunitra consumes at a point on her budget line where her marginal rate of substitution exceeds the magnitude of the slope of her budget line. As Tunitra moves toward her optimum point, she will move to a  
A) lower budget line.  
B) higher budget line.  
C) lower indifference curve.  
D) higher indifference curve.  
**Answer: D**  

**Topic: Predicting Consumer Behavior, Best Affordable Point**  
**Skill: Analytical**  
125) Larry consumes at a point on his budget line where his marginal rate of substitution is less than the magnitude of the slope of his budget line. As Larry moves toward his optimum point, he will move to a  
A) lower budget line.  
B) higher budget line.  
C) lower indifference curve.  
D) higher indifference curve.  
**Answer: D**  

**Topic: Predicting Consumer Behavior, Best Affordable Point**  
**Skill: Analytical**  
126) At the best affordable point, consumers equate their marginal rates of substitution to  
A) their money income.  
B) their real income.  
C) relative prices.  
D) relative quantities.  
**Answer: C**
### Topic: Consumption Possibilities, Budget Line
**Skill: Analytical**

127) Consider the budget line in the above figure. If the price of a magazine is $4, then the price of a hamburger is

A) $1.75.
B) $3.00.
C) $4.00.
D) $5.33.

**Answer:** B

### Topic: Consumption Possibilities, Relative Price
**Skill: Analytical**

128) The relative price of a magazine in the above figure is

A) 0.5 of a hamburger per magazine.
B) 1 hamburger per magazine.
C) 1.33 hamburgers per magazine.
D) 8 hamburgers per magazine.

**Answer:** C

### Topic: Predicting Consumer Behavior, Best Affordable Point
**Skill: Analytical**

129) In the above figure, point B

A) is superior to point A.
B) is inferior to point A.
C) is as good as point A.
D) could be superior to, inferior to, or as good as point A but there is no way of telling which.

**Answer:** B

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### Topic: Predicting Consumer Behavior, Best Affordable Point
**Skill: Conceptual**

130) In the above figure, which of the following statements is TRUE?

I. The consumer maximizes utility by consuming at point A.
II. The marginal rate of substitution at point B and point A are equal because they are on the same budget line.

A) only I.
B) only II.
C) both I and II.
D) neither I nor II.

**Answer:** A

### Topic: Predicting Consumer Behavior, Best Affordable Point
**Skill: Conceptual**

131) In the above figure, at the best affordable point, the marginal rate of substitution is

A) 0.5 of a hamburger per magazine.
B) 1 hamburger per magazine.
C) 1.33 hamburgers per magazine.
D) 8 hamburgers per magazine.

**Answer:** C

### Topic: Predicting Consumer Behavior, Best Affordable Point
**Skill: Conceptual**

132) In the above figure, the best affordable point is

A) 8 hamburgers and 0 magazines.
B) 0 hamburgers and 6 magazines.
C) 4 hamburgers and 3 magazines.
D) some combination that is not given above.

**Answer:** C
133) In the above figure, Reggie’s budget line rotates outward from $BL_1$ to $BL_2$. He initially consumes at point $A$. If his new consumption bundle is at point $C$, this implies that his demand curve for kiwi fruit
A) has shifted.
B) is a vertical line.
C) slopes downward.
D) is a horizontal line.
Answer: C

134) In the above figure, Reggie’s budget line rotates outward from $BL_1$ to $BL_2$. He initially consumes at point $A$. If his new consumption bundle is at point $B$, this implies that kiwi fruit and mangoes are
A) substitutes.
B) complements.
C) neither substitutes nor complements.
D) normal goods.
Answer: B

135) In the above figure, Brendan originally consumes at point $A$. If his income rises and both compact discs and haircuts are normal goods then he will begin consuming at a point such as
A) $F$.
B) $B$.
C) $C$.
D) $D$.
Answer: C

136) In the above figure, Brendan originally consumes at point $A$. If his income rises and compact discs are a normal good but haircuts are an inferior good then he will begin consuming at a point such as
A) $E$.
B) $B$.
C) $C$.
D) $D$.
Answer: B
137) In the above figure, Brendan originally consumes at point A. If his income falls and compact discs are a normal good but haircuts are an inferior good then he will begin consuming at a point such as
A) B.  
B) E.  
C) F.  
D) G.
Answer: D

138) In the above figure, Brendan originally consumes at point A. If his income rises and both compact discs and haircuts are normal goods then he could begin consuming at point
A) B, C, or D.  
B) B.  
C) C.  
D) D.
Answer: C

139) In the above figure, as Brendan’s income rises his consumption bundle moves from point A to point B. This implies that for Brendan, compact discs are
A) a normal good, and haircuts are an inferior good.  
B) a normal good, and haircuts are also a normal good.  
C) an inferior good, and haircuts are also an inferior good.  
D) an inferior good, and haircuts are a normal good.
Answer: A

140) In the above figure, as Brendan’s income rises his consumption bundle moves from point A to point C. This implies that for Brendan, compact discs are
A) a normal good, and haircuts are an inferior good.  
B) a normal good, and haircuts are also a normal good.  
C) an inferior good, and haircuts are also an inferior good.  
D) an inferior good, and haircuts are a normal good.
Answer: B

141) In the above figure, as Brendan’s income falls his consumption bundle moves from point A to point E. This implies that for Brendan, compact discs are
A) a normal good, and haircuts are an inferior good.  
B) a normal good, and haircuts are also a normal good.  
C) an inferior good, and haircuts are also an inferior good.  
D) an inferior good, and haircuts are a normal good.
Answer: D

142) The effect of a change in price on the quantity of a good consumed is called the
A) income effect.  
B) substitution effect.  
C) price effect.  
D) utility effect.
Answer: C
CHAPTER 8

**Topic: Predicting Consumer Behavior, Change in Price**

**Skill: Recognition**

143) The price effect refers to how

A) price changes affect real income.

B) price changes affect the quantity of a good consumed.

C) changes in income affect prices.

D) changes in preference affect prices.

**Answer: B**

**Topic: Predicting Consumer Behavior, Substitution Effect**

**Skill: Analytical**

144) The substitution effect

A) is always larger than the price effect.

B) always decreases purchases of a good as the price of a good rises.

C) increases purchases of the good as the price rises if the product is a normal good.

D) is always smaller than the income effect.

**Answer: B**

**Topic: Predicting Consumer Behavior, Substitution Effect**

**Skill: Conceptual**

145) The substitution effect reflects a movement along a given

A) horizontal line.

B) vertical line.

C) indifference curve.

D) budget line.

**Answer: C**

**Topic: Predicting Consumer Behavior, Price Effect**

**Skill: Conceptual**

146) The price effect is equal to the

A) substitution effect.

B) substitution effect plus the income effect.

C) marginal rate of substitution minus relative prices.

D) change in real income minus the change in money income.

**Answer: B**

**Topic: Predicting Consumer Behavior, Marginal Rate of Substitution**

**Skill: Conceptual**

147) In the figure above, the marginal rate of substitution (MRS) at point A is

A) greater than the MRS at any other point on the indifference curve.

B) equals the MRS at all other points on the indifference curve.

C) less than the MRS at any other point on the indifference curve.

D) equal to the slope of the budget line.

**Answer: D**

**Topic: Predicting Consumer Behavior, Marginal Rate of Substitution**

**Skill: Analytical**

148) In the figure above, the marginal rate of substitution (MRS) at point A is equal to ____ pounds pickles per pound of olive.

A) 8

B) 6

C) 1 1/3

D) 2

**Answer: C**
149) In the figure above, at point A the consumer is willing to give up ____ pounds of pickles to get one additional pound of olives.
A) 8  
B) 6  
C) 1 1/3  
D) 2  
Answer: C

150) In the figure above, Sam originally selects his consumption bundle at point A with 3 pounds of olives and 4 pounds of pickles a year. Then the price of pickles rises and the price of olives falls so that his budget line rotates but it still goes through point A. Sam’s consumption of olives
A) definitely will rise.  
B) definitely will fall.  
C) definitely will stay the same.  
D) could rise, fall, or stay the same.  
Answer: A

151) In the figure above, Sam originally selects his consumption bundle at point A with 3 pounds of olives and 4 pounds of pickles a year. Then the price of pickles rises and the price of olives falls so that his budget line rotates but it still goes through point A. Sam’s consumption of pickles
A) definitely will rise.  
B) definitely will fall.  
C) definitely will stay the same.  
D) could rise, fall, or stay the same.  
Answer: B

152) In the figure above, Sam originally selects his consumption bundle at point A with 3 pounds of olives and 4 pounds of pickles a year. Then the price of pickles rises and the price of olives falls so that his budget line rotates but it still goes through point A. At point A, the slope of the indifference curve $$I_1$$ ____ the slope of the new budget line.
A) is steeper than  
B) is flatter than  
C) has the same slope as  
D) could be steeper than, flatter than, or have the same slope as  
Answer: A

153) The substitution effect from a price rise
A) leads to a movement along the fixed budget line, due to a change in relative prices.  
B) increases the quantity demanded of the good.  
C) decreases the quantity demanded of the good.  
D) Both answers A and B are correct.  
Answer: C

154) The change in consumption that results from a change in the relative price of goods while staying on the same indifference curve is the
A) income effect.  
B) substitution effect.  
C) indifference effect.  
D) price effect.  
Answer: B
155) The effect of a change in price on the quantity bought when the consumer remains indifferent between the original and the new situation is called the
A) income effect.
B) indifference effect.
C) substitution effect.
D) demand effect.
Answer: C

156) Bart consumes food and clothing, which are both normal goods. Suppose that the price of food falls. The substitution effect of this price decrease is ____ and the income effect of this price decrease is ____.
A) that Bart buys more clothing and less food; that Bart buys more of both food and clothing
B) reflected by a change in the relative prices of food and clothing; is represented by a movement along the original indifference curve
C) reflected by a parallel shift outward of the budget line; that Bart earns more money each month
D) reflected by the change in the slope of the budget line; that Bart has greater purchasing power
Answer: D

157) Nick considers macaroni and cheese to be an inferior good. As a result of macaroni and cheese being an inferior good,
A) the substitution effect must be larger in magnitude than the income effect so that less is purchased as the price falls.
B) the substitution effect must be smaller in magnitude than the income effect so that less is purchased as the price falls.
C) the income effect is positive, so that more is purchased as income increases.
D) the income effect is negative, so that less is purchased as income increases.
Answer: D

158) For an inferior good,
A) the income effect is negative, so that an increase in income decreases the demand.
B) a lower price may not always lead to an increase in the quantity demanded.
C) a lower price has a substitution effect that increases the quantity demanded.
D) All of the above answers are correct.
Answer: D

159) Suppose the price of a good rises. The income effect
A) shows the change in consumption that results from a change in relative prices while staying on the same indifference curve.
B) shows the change in consumption that results from a change in relative prices while keeping income constant.
C) is shown by decreasing income at the new prices in order to move from the old indifference curve to the new indifference curve after the price change.
D) is shown by increasing income at the new prices in order to move from the old indifference curve to the new indifference curve after the price change.
Answer: C

160) The income effect for an inferior good
A) is negative.
B) is zero.
C) is positive.
D) could be negative, zero, or positive.
Answer: A
**Topic: Predicting Consumer Behavior, Income Effect**

**Skill: Conceptual**

161) Which of the following statements about the substitution effect and the income effect is **FALSE**?

A) When the relative price of a good falls, the substitution effect always leads the consumer to substitute more of that good for the other good.
B) For a normal good, the income effect reinforces the substitution effect.
C) For an inferior good, the income effect offsets the substitution effect.
D) For an inferior good, the income effect is positive.

**Answer: D**

**Topic: Predicting Consumer Behavior, Income Effect**

**Skill: Conceptual**

162) For normal goods, an increase in income

A) increases purchases.
B) decreases purchases.
C) does not affect purchases.
D) changes the slope of the budget line.

**Answer: A**

**Topic: Predicting Consumer Behavior, Income Effect**

**Skill: Analytical**

163) If the price of an inferior good rises, the income effect on purchases is

A) negative.
B) zero.
C) positive.
D) equal to the price effect.

**Answer: C**

**Topic: Predicting Consumer Behavior, Income Effect**

**Skill: Conceptual**

164) The concept of inferior goods can be used to show that

A) lower prices signal poorer quality.
B) indifference curves can have positive slopes.
C) being able to consume more of all goods does not mean that a person will consume more of every good.
D) consumers will always buy more of all products if their incomes increase.

**Answer: C**
168) In the above figure, if income is $8, the initial price of a soft drink is $1, and the initial price of a milkshake is $2, a decrease in the price of a milkshake to $1 will move the consumer from point ____ to point ____.
A) a; b
B) b; c
C) a; d
D) a; c
Answer: D

169) In the above figure, income is $8, the price of a soft drink is $1, and the initial price of a milkshake is $2. If the price of a milkshake decreases to $1, the income effect is the movement from point ____ to point ____.
A) a; b
B) b; d
C) b; c
D) a; c
Answer: C

170) In the above figure, income is $8, the price of a soft drink is $1, and the initial price of a milkshake is $2. If the price of a milkshake decreases to $1, the substitution effect is the movement from point ____ to point ____.
A) a; b
B) b; d
C) b; c
D) a; c
Answer: A

171) In the above figure, income is $8, the price of a soft drink is $1, and the initial price of a milkshake is $2. If the price of a milkshake decreases to $1, milkshakes are revealed to be
A) an inferior good.
B) a normal good.
C) less preferred than soft drinks.
D) None of the above answers is correct.
Answer: B

Topic: Labor Supply, Income Effect
Skill: Analytical
172) When studying households’ choice of how much labor to supply, it is assumed that
A) leisure is an inferior good.
B) leisure is a normal good.
C) households face the special case of unconstrained choice.
D) consumption goods and leisure are complements.
Answer: B

Topic: Labor Supply, Substitution and Income Effect
Skill: Analytical
173) A change in the wage rate has
A) a substitution effect and an income effect.
B) a substitution effect but no income effect.
C) an income effect but no substitution effect.
D) neither an income nor a substitution effect.
Answer: A
**Topic: Labor Supply, Substitution and Income Effect**

**Skill: Conceptual**

174) As the wage rate rises, the income effect

A) eventually dominates the substitution effect.

B) is always less than the substitution effect.

C) encourages less leisure and more hours of work.

D) is greater than the price effect.

Answer: A

**Topic: Labor Supply, Substitution and Income Effect**

**Skill: Conceptual**

175) For the choice between labor and leisure, the substitution effect

A) encourages less labor and more leisure as wages rise.

B) encourages less leisure and more labor as wages rise.

C) generally exceeds the income effect at high wages.

D) generally equals the price effect at high wage rates.

Answer: B

**Topic: Labor Supply, Substitution and Income Effect**

**Skill: Conceptual**

176) Over the past 100 years, the quantity of labor supplied per person has decreased as wages have risen. This change indicates that the income effect

A) and the substitution effect have both discouraged leisure.

B) and the substitution effect have both encouraged leisure.

C) encouraging leisure has dominated the substitution effect discouraging leisure.

D) discouraging leisure has been dominated by the substitution effect encouraging leisure.

Answer: C

**Topic: Labor Supply**

**Skill: Analytical**

177) In the above figure, along the income-time budget line $BL_1$ the hourly wage rate must be

A) greater than along budget line $BL_2$.

B) less than along budget line $BL_2$.

C) decreasing as daily hours increase.

D) increasing as daily hours increase.

Answer: B

**Topic: Labor Supply**

**Skill: Analytical**

178) In the above figure, along the income-time budget line $BL_1$ the hourly wage rate

A) remains constant as more hours are worked.

B) increases as more hours are worked.

C) decreases as more hours are worked.

D) is the same as the hourly wage rate for budget line $BL_2$.

Answer: A
179) Ricky’s work-leisure choices are given in the above figure. As the wage rate increases from $5 to $10 per hour so that Ricky’s income-time budget line shifts from $BL_0$ to $BL_1$, Ricky’s labor supply curve has a ____ slope. As the wage rate increases from $10 to $15 per hour, so that the budget line shifts from $BL_1$ to $BL_2$, Ricky’s labor supply curve has a ____ slope.

A) positive; negative
B) positive; positive
C) negative; negative
D) negative; positive

Answer: A

180) Ricky’s work-leisure choices are given in the above figure. As the wage rate increases from $5 to $10 per hour so that Ricky’s income-time budget line shifts from $BL_0$ to $BL_1$, Ricky’s ____ effect is stronger. As the wage rate increases from $10 to $15 per hour, so that his budget line shifts from $BL_1$ to $BL_2$, Ricky’s ____ effect is stronger.

A) income; substitution
B) income; income
C) substitution; income
D) substitution; substitution

Answer: C

181) A rising wage causes both an income and a substitution effect. In the above figure, the income effect equals the substitution effect between points

A) $a$ and $b$
B) $b$ and $c$
C) $c$ and $d$
D) $d$ and $e$

Answer: C

182) A rising wage causes both an income and a substitution effect. In the above figure, the substitution effect is stronger than the income effect

A) along the entire labor supply curve.
B) between points $b$ and $c$.
C) between points $e$ and $d$.
D) between points $d$ and $e$.

Answer: B
A rising wage causes both an income and a substitution effect. In the above figure, the income effect is stronger than the substitution effect between points:

A) $a$ and $b$.
B) $b$ and $c$.
C) $c$ and $d$.
D) $d$ and $e$.

Answer: D

### Study Guide Questions

**Topic: Study Guide Question, Consumption Possibilities, Budget Line**

184) Sue consumes apples and bananas. Suppose Sue's income doubles and the prices of apples and bananas do not change. Sue's budget line will:

A) shift leftward but its slope will not change.
B) remain unchanged.
C) shift rightward but its slope will not change.
D) shift rightward and become steeper.

Answer: C

**Topic: Study Guide Question, Preferences and Indifference Curves**

185) An indifference diagram has good $X$ measured on the horizontal axis and good $Y$ on the vertical axis. As a consumer moves up an indifference curve, thus increasing consumption of good $Y$:

A) more of $X$ is given up for each additional unit of $Y$.
B) a constant amount of $X$ is given up for each additional unit of $Y$.
C) less of $X$ is given up for each additional unit of $Y$.
D) the relative price of $X$ decreases.

Answer: C

**Topic: Study Guide Question, Marginal Rate of Substitution**

186) The magnitude of the slope of an indifference curve:

A) is defined as the marginal rate of substitution.
B) always equals the relative price of the product measured along the horizontal axis.
C) increases as income increases.
D) decreases when income increases.

Answer: A

**Topic: Study Guide Question, Degree of Substitutability**

187) If two goods are complements, then their:

A) indifference curves are positively sloped straight lines.
B) indifference curves are negatively sloped straight lines.
C) indifference curves are L-shaped.
D) marginal rate of substitution is infinity.

Answer: C

**Topic: Study Guide Question, Predicting Consumer Behavior**

188) When oranges increase in price, the income effect:

A) decreases the consumption of oranges only if oranges are a normal good.
B) decreases the consumption of oranges only if oranges are an inferior good.
C) always increases the consumption of oranges.
D) always decreases the consumption of oranges.

Answer: A

189) When the price of a normal good rises, the income effect results in a ____ in the quantity demanded and the substitution effect results in a ____ in the quantity demanded:

A) increase; increase
B) increase; decrease
C) decrease; increase
D) decrease; decrease

Answer: D
CHAPTER 8

Skill: Conceptual
190) The substitution effect from a rise in the wage rate
A) results in a decrease in the quantity of labor supplied.
B) results in an increase in the quantity of labor supplied.
C) has no effect on the quantity of labor supplied.
D) has the same effect on the quantity of labor supplied as does the income effect.
Answer: B

MyEconLab Questions

Topic: Consumption Possibilities, Budget Line
Level 1: Definitions and Concepts
191) The budget line ____.
A) describes the limits to a household’s consumption choices
B) illustrates a household’s preferences
C) defines a household’s consumption when prices change
D) shows the income a household needs to be able to buy goods and services
Answer: A

Topic: Consumption Possibilities, Real Income
Level 1: Definitions and Concepts
192) Real income is ____.
A) equal to money income minus taxes
B) equal to the income earned legally
C) equal to money income plus benefits minus taxes
D) the maximum amount of goods and services that a household can afford
Answer: D

Topic: Consumption Possibilities, Relative Price
Level 1: Definitions and Concepts
193) The magnitude of the slope of the budget line is equal to the ____ or ____ of the good plotted on the ____ in terms of the other good.
A) relative price; marginal cost; y-axis
B) relative price; total cost; y-axis
C) relative price; opportunity cost; x-axis
D) price; opportunity cost; x-axis
Answer: C

Topic: Preferences and Indifference Curves
Level 1: Definitions and Concepts
194) An indifference curve shows combinations of goods ____.
A) which the consumer prefers equally
B) that are affordable
C) that are inside or on the budget line
D) that have the same relative price
Answer: A

Topic: Marginal Rate of Substitution
Level 1: Definitions and Concepts
195) The marginal rate of substitution is defined as the ____.
A) marginal cost of each good
B) magnitude of the slope of the indifference curve
C) inverse of the slope of the budget line
D) relative price of the two goods
Answer: B

Topic: Degree of Substitutability
Level 1: Definitions and Concepts
197) For goods and services that are perfect substitutes, the consumer’s indifference curves are ____ lines.
A) straight, negatively sloped
B) L-shaped
C) negatively sloped, bowed-outward
D) negatively sloped, bowed-inward
Answer: A

Topic: Predicting Consumer Behavior, Price Effect
Level 1: Definitions and Concepts
198) The price effect is the effect of ____ on the quantity of the good ____.
A) a decrease in the price; demanded
B) a change in the price; supplied
C) an increase in the price; consumed
D) a change in the price; consumed
Answer: D
**Topic: Predicting Consumer Behavior, Income Effect**

**Level 1: Definitions and Concepts**

199) The effect of a change in income on the quantity of the good consumed is called the ____.

A) marginal rate of substitution effect  
B) income effect  
C) price/income effect  
D) real income effect  

**Answer:** B

**Topic: Labor Supply, Substitution and Income Effects**

**Level 1: Definitions and Concepts**

200) A higher wage rate has a ____.

A) substitution effect and an income effect  
B) substitution effect but no income effect  
C) neither a substitution effect nor an income effect  
D) an income effect but no substitution effect  

**Answer:** A

**Topic: Consumption Possibilities, Budget Line**

**Level 2: Using Definitions and Concepts**

201) As Judy moves down along her budget line, ____.

A) the opportunity cost of the good measured along the x-axis increases  
B) the opportunity cost of the good measured along the y-axis increases  
C) her income decreases  
D) her income does not change and neither does the relative prices of goods and services  

**Answer:** D

**Topic: Consumption Possibilities, Relative Price**

**Level 2: Using Definitions and Concepts**

203) If the price of peanuts increases by 10 percent and the price of potato chips does not change, then the relative price of peanuts with respect to potato chips will ____ and the relative price of potato chips with respect to peanuts will ____.

A) rise; rise  
B) rise; fall  
C) fall; rise  
D) fall; fall  

**Answer:** B

**Topic: Preferences and Indifference Curves**

**Level 2: Using Definitions and Concepts**

204) ____ along an indifference curve that is farther from the origin ____ along an indifference curve that is closer to the origin.

A) Some combinations; are preferred to some combinations  
B) Any combination; is preferred to any combination  
C) Most combinations; are preferred to all combinations  
D) Combinations; are not as affordable as combinations  

**Answer:** B

**Topic: Indifference Curves**

**Level 2: Using Definitions and Concepts**

205) Indifference curves ____.

A) shift rightward when income increases  
B) are bowed toward the origin  
C) are defined by having a constant marginal rate of substitution  
D) are positive sloped indicating that the consumer likes both goods  

**Answer:** B

**Topic: Marginal Rate of Substitution**

**Level 2: Using Definitions and Concepts**

206) The marginal rate of substitution is ____ , the ____ is the ____.

A) greater; flatter; indifference curve  
B) greater; steeper; budget line  
C) smaller; steeper; indifference curve  
D) smaller; flatter; indifference curve  

**Answer:** D
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Topic: Marginal Rate of Substitution
Level 2: Using Definitions and Concepts
207) As a consumer moves along an indifference curve and decreases consumption of the good on the x-axis, the consumer needs ____ of the good on the y-axis to give up an additional unit of the good on the x-axis.
A) less and less
B) more and more
C) none
D) a constant amount
Answer: B

Topic: Predicting Consumer Behavior, Best Affordable Point
Level 2: Using Definitions and Concepts
208) If Rachel is at her best affordable point, then ____.
A) her marginal rate of substitution equals 1
B) her marginal rate of substitution is maximized
C) the relative price of the goods she buys equals the marginal rate of substitution
D) she is indifferent among other points on her budget line
Answer: C

Topic: Predicting Consumer Behavior, Price Effect
Level 2: Using Definitions and Concepts
209) The ____ effect can be divided into the ____ effect and the ____ effect.
A) marginal; substitution; price
B) income; substitution; price
C) substitution; price; income
D) price; substitution; income
Answer: D

Topic: Predicting Consumer Behavior, Best Affordable Point
Level 2: Using Definitions and Concepts
210) Julie’s demand curve for videos is downward sloping because as the price of a video decreases, ____ and she watches ____ videos.
A) the slope of her budget line changes; fewer
B) her budget line shifts inward; fewer
C) the slope of her budget line changes; more
D) her budget line shifts outward; more
Answer: C

Topic: Consumption Possibilities, Budget Equation
Level 3: Calculations and Predictions
211) Mary has $10 to spend each week on coffee, $c$ and magazines, $m$. The price of a coffee is $1, and the price of a magazine is $2. Mary’s budget equation is ____.
A) $m = 10 - c$
B) $m + c = 20$
C) $1 \times c + 2 \times m = 10$
D) $m = 10 - 2 \times c$
Answer: C

Topic: Consumption Possibilities, Relative Price
Level 3: Calculations and Predictions
212) The figure above shows Ronald’s budget line. He has a weekly income of $20 and he spends it on hot dogs and hamburgers. The relative price of a hamburger is ____.
A) 1/2 hotdog
B) 5 hotdogs
C) $20
D) 2 hotdogs
Answer: A
Topic: Consumption Possibilities, Real Income
Level 3: Calculations and Predictions
213) The figure above shows Ronald’s budget line. He has a weekly income of $20, which he spends on hotdogs and hamburgers. Ronald’s real income in terms of hamburgers ____.
A) depends on the quantity of hamburgers consumed
B) depends on the quantity of hotdogs consumed
C) is $20
D) is 10 hamburgers
Answer: D

Topic: Budget Line
Level 3: Calculations and Predictions
214) The figure above shows Ronald’s budget line. He has a weekly income of $20, which he spends on hotdogs and hamburgers. Now Ronald’s income decreases to $10 per week and the price of a hotdog doubles. Ronald’s budget line becomes ____ and ____.
A) flatter; shifts rightward
B) flatter; does not shift
C) steeper; shifts rightward
D) steeper; shifts leftward
Answer: D

Topic: Preferences and Indifference Curves
Level 3: Calculations and Predictions
215) If two consumption points are not on the same indifference curve, then one point is ____.
A) a substitute for the other point
B) unaffordable and the other is affordable
C) preferred to the other
D) more expensive than the other
Answer: C

Topic: Predicting Consumer Behavior, Best Affordable Point
Level 3: Calculations and Predictions
216) The figure above shows one of Sally’s indifference curves and her budget line. At point a, Sally’s marginal rate of substitution is ____.
A) 1/4
B) 4
C) 10
D) 40
Answer: A

Topic: Marginal Rate of Substitution
Level 3: Calculations and Predictions
217) The figure above shows Sally’s budget line and one of her indifference curves. As Sally moves down along her indifference curve from point a, her marginal rate of substitution ____.
A) depends on her income
B) decreases
C) increases
D) remains the same
Answer: B
218) The figure illustrates Sally’s budget line and her preferences. Point ____ is Sally’s best affordable point, and Sally prefers point ____ to point ____.
A) A; B; A  
B) E; C; B  
C) B; A; B  
D) B; B; D  
Answer: C

219) The figure illustrates Sally’s budget line and her preferences. At point ____, the marginal rate of substitution is equal to the relative price.
A) B  
B) E  
C) D  
D) C  
Answer: A

220) When the price of a normal good decreases, the ____ can be divided between the ____, which keeps the best affordable point on the same indifference curve and the ____, which moves the best affordable point farther away from the origin.
A) substitution effect; price effect; income effect  
B) price effect; income effect; substitution effect  
C) income effect; substitution effect; price effect  
D) price effect; substitution effect; income effect  
Answer: D
221) Hilda buys only cauliflower, $Q_c$, and geraniums, $Q_g$. The equation for Hilda’s initial budget line is $40 = 2Q_c + 4Q_g$. If Hilda’s income increases by $20, the price of cauliflower decreases by $1, and the price of geraniums increases by $1, the equation of her new budget line is ____.

A) $60 = 1Q_c + 5Q_g$
B) $60 + 1Q_c = 5Q_g$
C) $0 = 60 + 1Q_c + 5Q_g$
D) $60 = 5Q_c - 1Q_g$

Answer: A

222) The price of one good changes and Sue is now at a point on her indifference curve where the marginal rate of substitution exceeds the relative price. Sue will now choose to buy ____ of the good that is measured on the ____.

A) more; x-axis
B) more; y-axis
C) the same quantity; x-axis
D) less; x-axis

Answer: A

223) The figure illustrates Elijah’s preferences. He is currently at point A. The price of pizza decreases. The move from point A to point ____ is the substitution effect and the move from point ____ to point ____ is the income effect.

A) B; B; C
B) E; E; C
C) D; D; B
D) C; C; B

Answer: B

224) Dan’s grandfather earned a lower wage rate than Dan does and worked more hours a week than Dan does. Dan works fewer hours because the ____ of the higher wage rate is less than the ____.

A) marginal effect; income effect
B) substitution effect; income effect
C) income effect; substitution effect
D) price effect; income effect

Answer: C
225) Peter likes bagels and soda. The price of a bagel is $2 and the price of soda is $1 a can. Peter spends all his income and buys 3 bagels and 4 cans of soda. Now the price of soda rises to $2 a can. If Peter’s indifference curves have the regular shape, he will most likely buy ____.
A) more bagels and more soda
B) less soda and fewer bagels
C) more bagels and less soda
D) fewer bagels and more soda
Answer: B

226) Tom spends all his income on comics and cola and is at his best affordable point. The price of a comic is $4, and the price of a can of cola is $1. If the quantity of cola is plotted on the y-axis, then ____ 4.
A) the relative price of cola is
B) both Tom’s marginal rate of substitution and the relative price of cola are
C) Tom’s real income in terms of cola is
D) Tom’s marginal rate of substitution is
Answer: D

227) Rosie consumes only coffee and sandwiches and is at her best affordable point. Now, the price of a cup of coffee is cut in half and at the same time Rosie’s income decreases by the amount that allows her to continue buying the same amounts of coffee and sandwiches. Rosie now buys ____ cups of coffee and ____ sandwiches.
A) the same number of; the same number of
B) fewer; more
C) the same number of; more
D) more; fewer
Answer: D

228) Wendy spends $30 a week on movies and magazines. The price of a movie is $8, the price of a magazine is $2, and Wendy sees 3 movies a week and buys 3 magazines. The price of a magazine now increases to $4 and Wendy’s brother gives her $6 a week so that she can still see 3 movies a week and buy 3 magazines. In this situation, Wendy will see ____ movies and buy ____ magazines.
A) 3; 3
B) less than 3; less than 3
C) more than 3; fewer than 3
D) less than 3; more than 3
Answer: C

229) Sue consumes only sandwiches and soda and is at her best affordable point. Suppose that sandwiches are plotted on the x-axis. Now the price of a sandwich halves. The substitution effect is that Sue substitutes ____ for ____. The income effect is that Sue ____.
A) sandwiches; soda; buys less of both goods
B) soda; sandwiches; buys more soda and fewer sandwiches
C) sandwiches; soda; buys more of both goods
D) soda; sandwiches; buys less soda and more sandwiches
Answer: C

230) The labor supply curve ____ at lower wage rates if as the wage rate increases the ____ effect exceeds the ____ effect.
A) bends backwards; income; substitution
B) bends backward; price; income
C) has a negative slope; substitution; price
D) has a positive slope; substitution; income
Answer: D