Economics 1B

Quiz 3 Mr. Vice April 8, 2008 Name ___________________________

____ 1. In calculating price elasticity of demand, which of the following is assumed to be constant?
a. the price of the product itself
b. the quantity demanded of the product
c. total revenue received from the sale of the product
d. the prices of all other products

____ 2. Price elasticity of demand is typically negative because
a. as price decreases, quantity demanded decreases
b. as price decreases, quantity demanded increases
c. as price decreases, demand decreases
d. as price decreases, demand increases

____ 3. If a 5% increase in price leads to an 8% decrease in quantity demanded, demand is
a. perfectly elastic
b. elastic
c. unit elastic
d. inelastic

____ 4. A perfectly elastic demand curve is
a. a vertical straight line
b. a horizontal straight line
c. a downward-sloping straig ht line
d. an upward-sloping straight line

____ 5. If a firm raises the price of its product, its total revenue will
a. always increase
b. increase only if demand is price inelastic
c. increase only if demand is price elastic
d. remain constant, regardless of price elasticity of demand
e. never increase

____ 6. Which of the following will cause demand to be relatively elastic?
a. There are few substitutes
b. The time interval is relatively long
c. The good is considered a necessity
d. The good involves a relatively small portion of the consumers' budget

____ 7. Along a negatively sloped straight-line demand curve, total revenue is maximized when demand is
a. elastic
b. inelastic
c. unit elastic
d. perfectly elastic

____ 8. A government-imposed price floor above the market price of milk would increase consumers' expenditures on milk
a. only if demand is elastic
b. only if supply is inelastic
c. only if demand falls
d. only if demand is inelastic

____ 9. If Katherine claims that when it comes to buying shoes, "price is no object," her demand curve for shoes is likely to be
a. horizontal
b. nonexistent
c. highly inelastic
d. unit elastic

____ 10. A good that takes up a very large percentage of the consumer's budget will tend to have
a. an elastic demand
b. a perfectly elastic demand
c. an inelastic demand
d. an upward-sloping demand curve

____ 11. If the price of a good doubles and quantity supplied triples, then

a. demand is elastic
b. demand is inelastic
c. supply is inelastic
d. supply is elastic

____ 12. Inferior goods have an income elasticity of demand that is
a. positive
b. negative
c. 0
d. greater than 1 in absolute value

____ 13. An inferior good (as defined in class) is
a. any good of low quality
b. one that consumers buy less of as the price rises
c. one that consumers buy less of as their income rises
d. one that has few substitutes
e. any good made with inexpensive labor

____ 14. The value of cross-price elasticity of demand between orange soda and grape soda (consider them to be substitutes) is
a. negative
b. positive
c. 0
d. between -1 and 0

____ 15. Utility is
a. the sense of pleasure or satisfaction derived from consuming goods and services
b. the cost of acquiring goods and services
c. the monetary value to consumers of goods and services
d. the desire to consume goods and services

____ 16. The law of diminishing marginal utility states that as you consume more and more of a good, other things constant
a. marginal utility can become positive
b. marginal utility approaches, but never becomes, zero
c. total utility can never become negative
d. marginal utility eventually declines

____ 17. Sally is allocating her budget between two goods, A and B. If Sally has used up the budget on a combination of A and B for which MU_A/PA exceeds MU_B/P_B, she can increase total utility by buying
a. more A and less B
b. more B and less A
c. more A without changing her consumption of B
d. less B without changing her consumption of A

____ 18. If medical care is provided free of charge,
a. no one utilizes it
b. beneficiaries consume it up to the point at which the demand curve intersects the vertical axis
c. beneficiaries derive no consumer surplus from medical care
d. beneficiaries consume it up to the point at which the marginal benefit of the final unit is zero

____ 19. Requiring Medicare participants to pay a small fraction of the cost of their medical care
a. reduces the quantity of health care they demand to zero
b. has no effect on the amount of health care they consume, but does generate revenue for the government
c. reduces their utilization of health care without compromising their health
d. actually increases the amount of consumer surplus they receive

____ 20. Consumer surplus is
a. the amount by which quantity supplied exceeds quantity demanded at the current market price
b. the change in total utility derived from a one-unit change in the consumption of a good
c. the difference between the price of the good paid by the consumer and the costs of production to the seller
d. the difference between the maximum amount that a consumer is willing to pay for a given amount of a good and the amount that the consumer actually pays