

**Choose the one alternative that best completes the statement or answers the question.**

- 1) Utility is 1) \_\_\_\_\_
- A) the production of a quasi-public product like electricity or natural gas.
  - B) subjective and cannot be measured.
  - C) the consumption of a quasi-public product like electricity or natural gas.
  - D) easily measured in units called utils.

Possible justification (statement or graph or both)

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- 2) Marginal utility is the 2) \_\_\_\_\_
- A) satisfaction achieved when a consumer has had enough of a product.
  - B) average satisfaction received from consuming a product.
  - C) extra satisfaction received from consuming one more unit of a product.
  - D) total satisfaction received from consuming a given number of units of a product.

Possible justification (statement or graph or both)

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- 3) As a consumer consumes more and more of a product in a particular time period, eventually 3) \_\_\_\_\_  
 marginal utility
- A) fluctuates.
  - B) rises.
  - C) declines.
  - D) is constant.

Possible justification (statement or graph or both)

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- 4) If, as a person consumes more and more of a product, each additional unit adds less satisfaction 4) \_\_\_\_\_  
 than the previous unit consumed, we are seeing the workings of
- A) the law of supply.
  - B) the law of demand.
  - C) the law of increasing marginal opportunity cost.
  - D) the law of diminishing marginal utility.

Possible justification (statement or graph or both)

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- 5) Marginal utility can be 5) \_\_\_\_\_  
A) positive. B) negative.  
C) zero. D) positive, negative or zero.

Possible justification (statement or graph or both)

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- 6) What is an indifference curve? 6) \_\_\_\_\_  
A) It is a curve that ranks a consumer's preference for various consumption bundles.  
B) It is a curve that shows the trade-off a consumer faces among different combinations of consumption bundles.  
C) It is a curve that shows the total utility and the marginal utility derived from consuming a bundle of goods.  
D) It is a curve that shows the combinations of consumption bundles that gives the consumer the same utility.

Possible justification (statement or graph or both)

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- 7) A characteristic of the long run is 7) \_\_\_\_\_  
A) there are both fixed and variable inputs.  
B) plant capacity cannot be increased or decreased.  
C) all inputs can be varied.  
D) there are fixed inputs.

Possible justification (statement or graph or both)

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- 8) The production function shows 8) \_\_\_\_\_  
A) the total cost of producing a given quantity of output.  
B) the maximum output that can be produced from each possible quantity of inputs.  
C) the incremental output gained by improving the production process.  
D) the technology used to produce output.

Possible justification (statement or graph or both)

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- 9) The average total cost of production 9) \_\_\_\_\_  
A) equals total cost of production multiplied by the level of output.  
B) is the extra cost required to produce one more unit.  
C) equals the explicit cost of production.  
D) equals total cost of production divided by the level of output.

Possible justification (statement or graph or both)

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- 10) The marginal product of labor is defined as 10) \_\_\_\_\_  
A) the additional sales revenue that results when one more worker is hired.  
B) the cost of hiring one more worker.  
C) the additional output that results when one more worker is hired, holding all other resources constant.  
D) the additional number of workers required to produce one more unit of output.

Possible justification (statement or graph or both)

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- 11) The formula for total fixed cost is 11) \_\_\_\_\_  
A)  $TFC = TVC - TC$ . B)  $TFC = TC/TVC$ .  
C)  $TFC = TC - TVC$ . D)  $TFC = TC + TVC$ .

Possible justification (statement or graph or both)

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- 12) Consumers maximize total utility within their budget constraint by 12) \_\_\_\_\_  
A) buying whatever they like the best.  
B) buying the cheapest goods they can find.

- C) buying the goods with the largest marginal utility per dollar spent.
- D) spending the same amount for each product.

Possible justification (statement or graph or both)

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- 13) Most people would prefer to drive a luxury car, but more people buy less expensive cars even though they could afford the luxury car because 13) \_\_\_\_\_
- A) luxury cars cost a lot more than non-luxury cars.
  - B) the total utility of less expensive cars is greater than that of luxury cars.
  - C) car buyers are irrational.
  - D) the marginal utility per dollar spent on the less expensive car is higher than that spent on luxury cars.

Possible justification (statement or graph or both)

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- 14) If Farida purchases ankle socks at US\$5 and gets 25 units of marginal utility from the last unit, and bandanas at US\$3 and gets 12 units of marginal utility from the last bandana purchased, she 14) \_\_\_\_\_
- A) is maximizing total utility and would not want to change her consumption of ankle socks or bandanas.
  - B) should consume more bandanas and fewer ankle socks.
  - C) should consume fewer ankle socks and fewer bandanas.
  - D) should consume more ankle socks and fewer bandanas.

Possible justification (statement or graph or both)

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- 15) Which of the following is held constant along an indifference curve? 15) \_\_\_\_\_
- A) the marginal utility derived from consuming any bundle of goods on the indifference curve
  - B) the marginal rate of substitution between the two goods in question
  - C) the total utility derived from consuming any bundle of goods on the indifference curve
  - D) the prices of the goods in question

Possible justification (statement or graph or both)

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- 16) The slope of an indifference curve 16) \_\_\_\_\_
- A) is calculated by dividing the quantity of the product on the vertical axis by the quantity of the product on the horizontal axis.
  - B) is calculated by dividing the price of the product on the vertical axis by the price of the product on the horizontal axis.
  - C) measures the marginal rate of substitution between the two products in question.
  - D) measures total utility.

Possible justification (statement or graph or both)

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- 17) A consumer's utility-maximizing combination of goods is given by the bundle that corresponds to the point on 17) \_\_\_\_\_
- A) the indifference curve that intersects the vertical axis.
  - B) the indifference curve that intersects the horizontal axis.
  - C) the budget constraint where it intersects one of the axes.
  - D) an indifference curve that is tangent to the budget constraint.

Possible justification (statement or graph or both)

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- 18) A firm has successfully adopted a positive technological change when 18) \_\_\_\_\_
- A) it produces less pollution in its production process.
  - B) it can pay its workers less yet increase its output.
  - C) it can produce more output using the same inputs.
  - D) it sees an increase in worker productivity.

Possible justification (statement or graph or both)

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- 19) The law of diminishing marginal returns 19) \_\_\_\_\_
- A) causes the difference between average total cost and average variable cost to get smaller as

output

increases.

- B) causes average total costs to rise at a decreasing rate as output increases.
- C) explains why the average total cost, average fixed cost and the marginal cost curves are U-shaped in the short run.
- D) explains why the average total cost and marginal cost curves are U-shaped in the short run.

Possible justification (statement or graph or both)

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20) Marginal cost is the

20) \_\_\_\_\_

- A) change in average cost when an additional unit of output is produced.
- B) additional output when total cost is increased by one dollar.
- C) change in the price of inputs if a firm buys more inputs to produce an additional unit of output.
- D) additional cost of producing an additional unit of output.

Possible justification (statement or graph or both)

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21) Which of the following cost will not change as output changes?

21) \_\_\_\_\_

- A) total variable cost
- B) total fixed cost
- C) average fixed cost
- D) average variable cost
- E) marginal cost

Possible justification (statement or graph or both)

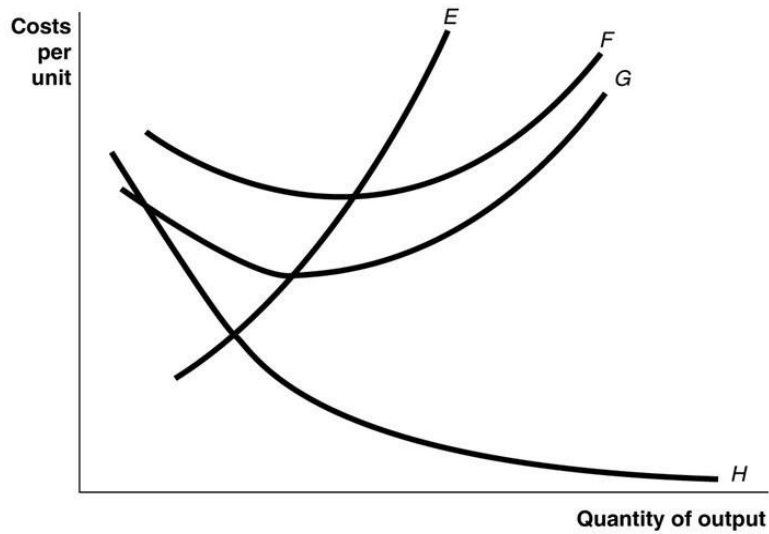
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22) Average fixed costs of production

22) \_\_\_\_\_

- A) appear as a U-shaped curve on graphs.
- B) will rise at a fixed rate as more is produced.
- C) remain constant.
- D) fall as long as output is increased.

Figure 7-4



23) Refer to Figure 7-4. Identify the curves in the diagram.

23) \_\_\_\_\_

- A) E = marginal cost curve; F = average total cost curve; G = average variable cost curve; H = average fixed cost curve.
- B) E = average fixed cost curve; F = variable cost curve; G = total cost curve; H = marginal cost curve.
- C) E = average fixed cost curve; F = average total cost curve; G = average variable cost curve; H = marginal cost curve.
- D) E = marginal cost curve; F = total cost curve; G = variable cost curve; H = average fixed cost curve.

Possible justification (statement or graph or both)

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24) Refer to Figure 7-4. Curve G approaches curve F because

24) \_\_\_\_\_

- A) total costs fall as more and more is produced.
- B) marginal costs are above average variable costs.
- C) fixed costs fall as capacity rises.
- D) average fixed costs fall as output rises.

Table 6-1

Quantity of Pita Wraps	Total utility	Quantity of Bubble Tea	Total utility
1	60	1	40
2	102	2	70
3	132	3	91
4	144	4	106
5	144	5	112
6	138	6	115
7	128	7	115

Kamal has US\$30 to spend on Pita Wraps and Bubble Tea. The price of a Pita Wrap is US\$6 and the price of a glass of Bubble Tea is US\$3. Table 6-1 shows his total utility from different quantities of the two items.

Possible justification (statement or graph or both)

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25) *Refer to Table 6-1.* What is Kamal's optimal consumption bundle? 25) \_\_\_\_\_

- A) 3 Pita Wraps and 3 Bubble Teas
- B) 3 Pita Wraps and 4 Bubble Teas
- C) 5 Pita Wraps and 0 Bubble Teas
- D) 4 Pita Wraps and 2 Bubble Teas

Possible justification (statement or graph or both)

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26) *Refer to Table 6-1.* If Kamal can drink all the Bubble Tea he wants for free, how many glasses will he consume? 26) \_\_\_\_\_

- A) 4 glasses
- B) 7 glasses
- C) 5 glasses
- D) 6 glasses

Possible justification (statement or graph or both)

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