Another Practice Exam for Unit 2

1. A rational consumer who is eating Girl Scout cookies stops eating when
   (A) the total benefit equals the total cost of eating cookies.
   (B) the marginal benefit equals the marginal cost of the next cookie.
   (C) the marginal cost of eating cookies is maximized.
   (D) the marginal benefit of eating cookies is minimized.
   (E) the price of the cookie equals the marginal benefit of the next cookie.

2. A competitive market for coffee, a normal good, is currently in equilibrium. Which of the following would most likely result in an increase in the demand for coffee?
   (A) Consumer income falls.
   (B) The price of tea rises.
   (C) The wage of coffee plantation workers falls.
   (D) Technology in the harvesting of coffee beans improves.
   (E) The price of coffee brewing machines rises.

3. Which of the following certainly lowers the equilibrium price of a good exchanged in a competitive market?
   (A) The demand curve shifts to the right.
   (B) The supply curve shifts to the left.
   (C) The demand curve shifts to the left and the supply curve shifts to the right.
   (D) The demand curve shifts to the right and the supply curve shifts to the left.
   (E) Both the demand and supply curves shift to the left.

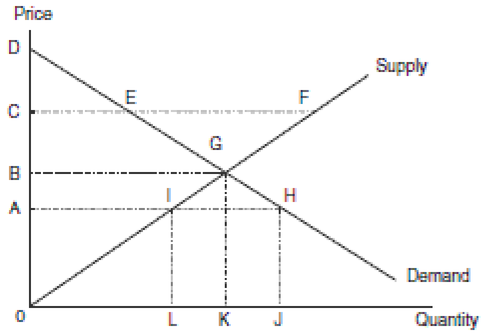
4. An effective price ceiling in the market for good *X* likely results in
   (A) a persistent surplus of good *X*.
   (B) a persistent shortage of good *X*.
   (C) an increase in the demand for good *Y*, a substitute for good *X*.
   (D) a decrease in the demand for good *Z*, a complement with good *X*.
   (E) a rightward shift in the supply curve of good *X*.

5. Which of the following goods is likely to have the most elastic demand curve?
   (A) Demand for white Ford minivans.
   (B) Demand for automobiles.
   (C) Demand for Ford automobiles.
   (D) Demand for American-made automobiles.
   (E) Demand for a Ford minivan.

6. The elasticity of supply is typically greater when
   (A) producers have fewer alternative goods to produce.
   (B) producers have less time to respond to price changes.
   (C) producers are operating near the limits to their production.
   (D) producers have less access to raw materials necessary for production.
   (E) producers have more time to respond to price changes.

7. Good *X* is exchanged in a competitive market. Which of the following is true if an excise tax is now imposed on the production of good *X* ?
   (A) If the demand curve is perfectly elastic, the price rises by the amount of the tax.
   (B) The consumer's burden of the tax rises, as the demand curve is more elastic.
   (C) Consumer surplus rises as a result of the tax.
   (D) The consumer's burden of the tax rises, as the demand curve is less elastic.
   (E) If the demand curve is perfectly inelastic, the price does not rise as a result of the tax.

8. Suppose a price floor is installed in the market for coffee. One result of this policy would be
   (A) a decrease in the demand for coffee-brewing machines.
   (B) a persistent shortage of coffee in the market.
   (C) an increase in consumer surplus due to lower coffee prices.
   (D) an increase in the demand for coffee.
   (E) a decrease in the profits for the owners of coffee plantations.



9. If the current price is 0B, we would expect
   (A) a surplus in the market to be eliminated by rising prices.
   (B) a shortage in the market to be eliminated by falling prices.
   (C) a surplus in the market to be eliminated by falling prices.
   (D) quantity demanded to be equal to quantity supplied as the market is in equilibrium.
   (E) a shortage in the market to be eliminated by rising prices.

10. If the price were to fall from 0C to 0A, which of the following would be true?
   (A) Dollars spent on this good would increase if demand for the good were price inelastic.
   (B) Dollars spent on this good would decrease if demand for the good were price elastic.
   (C) Dollars spent on this good would increase if demand for the good were price elastic.
   (D) Dollars spent on this good would increase if demand for the good were unitary price elastic.
   (E) Dollars spent on this good would decrease if demand for the good were unitary price elastic.

11. If the market is in equilibrium, which of the following areas corresponds to producer surplus?
   (A) BGD
   (B) 0AHJ
   (C) 0DGK
   (D) 0BG
   (E) 0BGK

12. The downward sloping demand curve is partially explained by which of the following?
   (A) Substitution effects and income effects.
   (B) The Law of Increasing Marginal Costs.
   (C) The principle of comparative advantage.
   (D) The Law of Diminishing Marginal Returns to production.
   (E) The least-cost principle.

13. Dorothy has daily income of $20, each cup of coffee costs P_c = $1 and each scone costs P_s = $4. The table below provides us with Dorothy's marginal utility (MU) received in the consumption of each good. As a utility-maximizing consumer, which combination of coffee and scones should Dorothy consume each day?

CUPS OF COFFEE	MU OF COFFEE	# OF SCONES	MU OF SCONES
1	10	1	30
2	8	2	24
3	6	3	20
4	4	4	16
5	2	5	14
6	1	6	8

   (A) 2 coffee and 2 scones
   (B) 5 coffee and 6 scones
   (C) 3 coffee and 2 scones
   (D) 4 coffee and 4 scones
   (E) 4 coffee and 16 scones

14. If it is true that bacon and eggs are complementary goods, then
   (A) the income elasticity of bacon is positive and the income elasticity for eggs is negative.
   (B) the price elasticity for eggs is greater than the price elasticity for bacon.
   (C) the cross-price elasticity between bacon and eggs is negative.
   (D) the income elasticity of bacon is negative and the income elasticity for eggs is positive.
   (E) the cross-price elasticity between bacon and eggs is positive.

15. The market for good *X* is currently in equilibrium. Which of the following choices would NOT cause both a decrease in the equilibrium price of good *X* and a decrease in the equilibrium quantity of good *X*?
   (A) A decrease in consumer income and good *X* is a normal good.
   (B) An increase in consumer income and good *X* is an inferior good.
   (C) An increase in the price of good *Y*, a complement for good *X*.
   (D) A decrease in the price of good *Y*, a substitute for good *X*.
   (E) An increase in the number of consumers in the market for good *X*.

16. Which of the following statements are true of consumer utility-maximizing behavior?
   I. Total utility from consumption of good *X* is maximized when the marginal utility is equal to zero.
   II. Total utility from consumption of good *X* rises at a decreasing rate.
   III. The consumer spends limited income until the quantity of good *X* consumed is equal to the quantity of good *Y*.

(A) I only
(B) II only
(C) III only
(D) I and II only
(E) II and III only

17. Which of the following increases the demand for interstate truck drivers?
   (A) An increase in the wage of truck drivers.
   (B) An increase in the supply of truck drivers.
   (C) An increase in the price of diesel fuel, which is used to power semitrucks.
   (D) A decrease in the demand for interstate shipping.
   (E) A decrease in the price of semitrucks.