Let MUS be the marginal utility of a sandwich, MUH be the marginal utility of a hot dog, PS be the price of a sandwich, and PH be the price of a hot dog. When the price of the goods is zero, Pat eats a sandwich. When Pat has to pay, she eats a hot dog. When Pat has to pay, which of the following is necessarily true?

(A) MUS = MUH = PS = PH

(B) (MUS / PS) > (MUH / PH)

(C) PS < PH

(D) PS > PH

(E) MUS = 0

Consumer surplus exists because of the

(A)surplus of money that wealthy consumers hold

(B)surplus in marginal product that firms get when they hire an additional worker

(C)willingness of some consumers to pay a price higher than the market price for some units of a good

(D)additional utility that households obtain when the prices of substitutes fall

(E)increase in the availability of goods when income rises

Which of the following is a key assumption of consumer choice theory?

(A)Consumers buy goods as long as implicit costs are greater than explicit costs.

(B)Consumers maximize their utility.

(C)As income rises, consumers buy more of all goods.

(D)Marginal utility is always increasing.

(E)As more inputs are used, consumers get less and less additional output.

Oscar spent his entire income on only two goods: good X and good Y. At his current consumption of the two goods, the marginal utility of X is 8 and the marginal utility of Y is 2. If the price of X is $4.00 and the price of Y is $0.50, then to maximize his total utility, Oscar should have

(A)bought more X and more Y

(B)bought more X and less Y

(C)bought less X and more Y

(D)bought less X and less Y

(E)maintained his current consumption

The difference between what consumers are willing to pay for units of a good and the price consumers actually pay for units of the good is called

(A)marginal utility

(B)producer surplus

(C)consumer surplus

(D)economic rent

(E)a positive externality

Which of the following is true if consuming one unit of a good yields 100 utils and consuming the second unit of the good increases satisfaction by 20 utils?

(A)The marginal utility of the first unit is 20.

(B)The marginal utility of the second unit is 80.

(C)The marginal utility of the second unit is 120.

(D)The total utility of consuming two units is 120.

(E)The total utility of consuming one unit is greater than the total utility of consuming two units.

Garcia is currently spending his entire lunch budget on 3 sodas and 4 hot dogs. At his current level of consumption, Garcia’s marginal utility for sodas is 5 utils and his marginal utility for hot dogs is 10 utils. In order to maximize his total utility, Garcia should

(A)consume more sodas and fewer hot dogs regardless of the prices

(B)consume more hot dogs and fewer sodas regardless of the prices

(C)maintain his current level of consumption of sodas and hot dogs regardless of the prices

(D)maintain his current level of consumption if the price of a soda is $ 1 and the price of a hot dog is $2

(E)maintain his current level of consumption if the price of a soda is $2 and the price of a hot dog is $1

If a good is available free of charge, an individual will consume it until

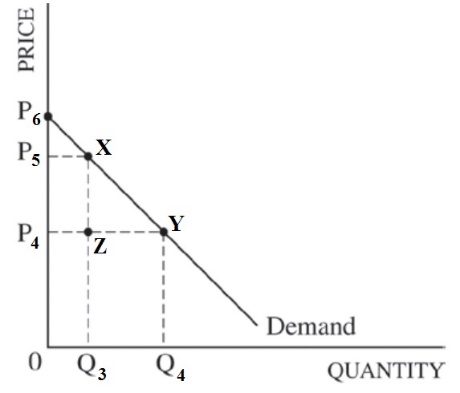
(A)marginal utility is zero

(B)average utility is zero

(C)total utility is zero

(D)marginal utility equals average utility

(E)marginal utility equals total utility



In this graph, if the price goes up from P4 to P5, and quantity consumed goes down from Q4 to Q3 consumer surplus goes down by which area?

(A)XZY

(B)P4P5XZ

(C)P4P5XY

(D)Q3ZYQ4

(E)P5P6X

|  |  |  |  |
| --- | --- | --- | --- |
| **Goods** | **Price** | **Quantity Bought** | **Marginal Utility (Utils)** |
| Juice | $2 | 20 | 20 |
| Oranges | $4 | 10 | 50 |

Molly spends all her weekly allowance to buy only two goods: juice and oranges. According to the table, if her preferences follow the law of diminishing marginal utility, then which of the following statements is correct?

(A)Molly is maximizing her utility.

(B)Molly can buy more juice and fewer oranges to maximize her utility.

(C)Molly can buy more oranges and less juice to maximize her utility.

(D)Molly can buy more oranges and the same amount of juice to maximize her utility.

(E)Molly can buy more juice and the same amount of oranges to maximize her utility.

John spends his entire income on the purchase of two goods, A and B. If his income and the prices of good A and B all triple, John will

(A)buy the same amounts of goods A and B

(B)buy more of good A and less of good B

(C)buy less of good A and more of good B

(D)buy less of both goods A and B

(E)triple the purchase of goods A and B

At his current level of consumption, a boy is willing to pay up to $1.00 for a can of soda and up to $100 for a new bike because the

(A)total utility of bikes > total utility of soda

(B)total utility of soda < marginal utility of a new bike

(C)marginal utility of a can of soda > marginal utility of a new bike

(D)marginal utility of a can of soda < marginal utility of a new bike

(E)boy is stupid and does not realize that soda is more important than a bike

If a person were to eat one more taco, what do we call the additional satisfaction experienced from consuming that taco?

(A)Marginal product

(B)Marginal cost

(C)Marginal utility

(D)Average product

(E)Average utility

When does a consumer with a fixed budget maximize utility?

(A)When the ratios of marginal utility per item and total utility are the largest

(B)When the ratios of marginal utility per item and total utility are the same

(C)When the ratios of marginal utility per item and price are equal

(D)When the ratios of marginal utility per item and price are equal to one

(E)When the ratios of marginal utility per item and price are the greatest

If total utility is maximized, marginal utility is

(A)equal to 0

(B)less than 0

(C)going up

(D)maximized

(E)minimized

What does a person experience if they are willing to pay more for a product, but actually end up paying less?

(A)Producer surplus

(B)Consumer surplus

(C)A terrible deal

(D)A waste of time

(E)Marginal revenue

A consumer spends all of his money buying two goods. If his income triples and the prices of the two goods also triple, what happens to the quantity of the two goods that gets purchased?

(A)The quantity also triples

(B)The quantity does not change

(C)The quantity increases, but it will be less than triple

(D)The quantity more than triples

(E)It depends on the steepness of the demand curve

How is consumer surplus defined?

(A)It’s the opportunity cost - total revenue

(B)It’s the total revenue - opportunity cost

(C)It’s the difference between what the consumer is willing to pay and the actual price they pay

(D)It’s the difference between production costs and the price consumers pay

(E)It’s the total external costs and benefits

|  |  |
| --- | --- |
| Slices of Pizza per Day | Total Utility |
| 0 | 0 |
| 1 | 4 |
| 2 | 7 |
| 3 | 9 |
| 4 | 10 |
| 5 | 8 |

This table shows the total utility that Brandon receives from eating various amounts of pizza each day. Which of the following statements about Brandon's marginal utility is correct?

(A)His greatest marginal utility comes from when he eats the fourth slice of pizza.

(B)His marginal utility from the fourth slice of pizza > his marginal utility from the third slice of pizza.

(C)His marginal utility goes up at a constant rate.

(D)He first experiences diminishing marginal utility when he eats the fifth slice of pizza.

(E)His marginal utility from the first slice of pizza > his marginal utility from the second slice of pizza.

Suppose that a person buys two goods: A and B. The marginal utility of A is MUA, the total utility of A is TUA, the marginal utility of B is MUB, and the total utility of B is TUB. If the price of A is PA and the price of B is PB, which of the following represents consumer equilibrium?

(A) MUA/PA = MUB/PB

(B) MUA = MUB

(C) TUA/PA = TUB/PB

(D) TUA = TUB

(E) (MUA)(PA) + (MUB)(PB) = 1