GRADE TWELVE ECONOMICS FRIDAY MAY 22, 2020

1. Suppose X is a normal good. If the price of X decreases:
   A. the income and substitution effects will both cause the consumer to buy less of X.
   B. the income and substitution effects will both induce the consumer to buy more of X.
   C. the income effect will cause the consumer to buy more of X and the substitution effect will cause the consumer to buy less.
   D. the income effect will cause the consumer to buy less of X and the substitution will cause him to buy more.
2. If a product has a diminishing but positive marginal utility, then:
   A. a reduction in consumption by one unit will increase total utility.
   B. the product cannot be an inferior good.
   C. total utility increases at a diminishing rate.
   D. total utility decreases at a diminishing rate.
3. Other things equal, if the marginal utility from successive units of product Y yields to smaller and smaller amounts of extra satisfaction, we would expect the consumer:
   A. will buy additional units of Y if its price increases.
   B. will buy less units of Y if its price decreases.
   C. will buy additional units of Y if its price falls.
   D. will not change the units of Y purchased.
4. A consumer, faced with a fixed income and constant prices for all goods consumed, can only increase total utility if:
   A. the ratios of marginal utilities to prices are not equal for all goods consumed.
   B. all goods consumed have diminishing marginal utility.
   C. total utility is less than marginal utility.
   D. total utility is greater than marginal utility.
5. Assume that product Alpha and product Beta are both priced at $1 per unit and that Ellie has $20 to spend on Alpha and Beta. The marginal utility of Alpha is 40 and the marginal utility of Beta is 20. This indicates that:
   A. Ellie should make no change in consumption.
   B. given another dollar, Ellie should buy an additional unit of Beta.
   C. in order to maximize utility, Ellie should buy more of Beta and less of Alpha.
   D. in order to maximize utility, Ellie should buy more of Alpha and less of Beta.
6. A consumer is in equilibrium and is spending income in such a way that the marginal utility of product X is 40 units and Y is 16 units. The unit price of X is $5. The price of Y is:
   A. $1 per unit.
   B. $2 per unit.
   C. $3 per unit.
   D. $4 per unit.
7. Sharon Jones purchases two products, mineral water and popcorn. The marginal utility of mineral water is 60 and the marginal utility of popcorn is 30. The price of a bottle of mineral water is $2.00 and the price of a box of popcorn is $1.00. The utility-maximizing rule suggests that Sharon should:
   A. increase consumption of popcorn and decrease consumption of mineral water.

B. increase consumption of popcorn and increase consumption of mineral water.
C. decrease consumption of popcorn and increase consumption of mineral water.
D. make no change in the consumption of mineral water or popcorn.

8. Mrs. Schultz is spending all her money income by buying bottles of soda and bags of pretzels in such amounts that the marginal utility of the last bottle is 60 utils and the marginal utility of the last bag is 30 utils. The prices of soda and pretzels are $.60 per bottle and $.40 per bag respectively. It can be concluded that:
A. the two commodities are substitute goods.
B. Mrs. Schultz should spend more on pretzels and less on soda.
C. Mrs. Schultz should spend more on soda and less on pretzels.
D. Mrs. Schultz is buying soda and pretzels in the utility-maximizing amounts.

9. Consumer surplus is
A. a buyer's willingness to pay minus the price.
B. a buyer's willingness to pay plus the price.
C. the price of the product minus the buyer's willingness to pay.
D. when the buyer's willingness to pay and the price of the product are equal.

10. Suppose Lauren, Leslie and Lydia all purchase bulletin boards for their rooms for $15 each. Lauren's willingness to pay was $35, Leslie's willingness to pay was $25, and Lydia's willingness to pay was $30. Total consumer surplus for these three would be
A. $15. B. $25. C. $35. D. $45.

11. When technology improves in the ice cream industry, consumer surplus will
A. increase.
B. decrease.
C. not change, since technology affects suppliers and not consumers..
D. increase, then decrease

12. A tax on a good
A. raises the price buyers pay and lowers the price sellers receive.
B. raises both the price buyers pay and the price sellers receive.
C. lowers both the price buyers pay and the price sellers receive.
D. lowers the price buyers pay and raises the price sellers receive.

13 According to the graph shown, when the price rises from P1 to P2, consumer surplus
A. increases by an amount equal to A.
B. decreases by an amount equal to B + C.
C. increases by an amount equal to B + C.
D. decreases by an amount equal to C.

14. Total surplus in a market is the total area under
A. the demand curve and above the price.
B. the demand curve and above the supply curve left of equilibrium quantity.
C. price and up to the point of equilibrium.
D. Both a and b are correct.

15. According to the graph shown, when the price falls from P2 to P1, producer surplus
A. decreases by an amount equal to A.
B. decreases by an amount equal to A + C.
C. decreases by an amount equal to A + B.
D. increases by an amount equal to A + B.

16. A tax placed on a product causes the price the buyer pays
A. and the price the seller receives to be higher.

B. and the price the seller receives to be lower.
C. to be lower and the price the seller receives to be higher.
D. to be higher and the price the seller receives to be lower.

17. If a tax is imposed on a market with relatively more elastic demand and inelastic supply over the given price range,
A. buyers will bear most of the burden of the tax.
B. sellers will bear most of the burden of the tax.
C. the burden of the tax will be shared equally between buyers and sellers.
D. it is impossible to determine how the burden of the tax will be shared.

18. Walkman Watch expects a recession to occur. Knowing that a Walkman is a normal good, you predict that the demand for a Walkman
A. will increase B. might increase or decrease C. Will decrease D. will remain unchanged

19. let Qd stand for the quantity demanded Qs stand for the quantity supplied. If Qd = 20-lP and Qs = 5 + 3P, then the equilibrium quantity is
A. 14 B. 5 C. 20 D. 3

20. Which of the following statements regarding utility is not true?
A. It is a satisfying power of a commodity.
B. It is purely a subjective entity.
C. Utility is always measurable.
D. It helps consumers to make choices.

21. Which of the following utility approach is based on the theory of Alfred Marshall?
A. Ordinal utility approach
C. Cardinal utility approach
B. None of these
D. Independent variable approach

22. _____ is the addition to total utility by the consumption of one additional unit of the commodity?
A. Total utility
C. Average utility
B. Ordinal utility
D. Marginal utility

23. Which of the following utility approach suggests that utility is a measurable and quantifiable entity?
A. None of these
C. Cardinal approach
B. Ordinal approach
D. Both cardinal & ordinal

24. _____ shows various combinations of two goods that give same amount of satisfaction to the consumer?
A. Isoquant
C. Isocost curve
B. Indifference curve
D. Marginal utility curve

25. Indifference curve slopes_____?
A. Downward to the right
C. Upward to the left
B. Downward to the left
D. Upward to the right

26. _____ is defined as the difference between what the consumer is willing to pay for a product and what he actually pays?
A. Consumer surplus
C. Optimum price
B. Consumer burden
D. Price gap

27. According to the law of diminishing marginal utility, _____?
A. Additional consumption always yields extra utility
B. Additional consumption leads to lower average total utility
C. Additional consumption always yields negative utility
D. After a point any addition in the consumption causes a reduction in total utility.

28. The want satisfying power of a commodity is known as:
    A. Supply
    B. Consumption
    C. Utility
    D. Demand
29. What is called point of satiety?
    A. The point where marginal utility becomes less than zero
    B. The point where marginal utility becomes greater than zero
    C. The point where marginal utility becomes zero.
    D. None of above
30. The total utility divided by the number of units consumed is known as?
    A. Total utility
    B. Average utility
    C. Marginal utility
    D. None of above
31. Utility is measured in terms of?
    A. Utils
    B. Centimeter
    C. Gram
    D. Seconds
32. The concept of marginal utility was developed by?
    A. Alfred Marshall
    B. Robbins
    C. Hicks & Allen
    D. Paul Samuelson
33. Indifference curve represents?
    A. More than two commodities
    B. Four commodities
    C. Only two commodities
    D. Less than two commodities
34. Consumer's surplus is also known as?
    A. Differential surplus
    B. Elasticity of demand
    C. Buyer's surplus
    D. Indifference surplus
35. A decrease in the price of a game of bowling shifts the
    A) demand curve for bowling balls rightward.
    B) supply curve of bowling balls leftward.
    C) supply curve of bowling balls rightward.
    D) demand curve for bowling balls leftward
36. If a decrease in the price of gasoline increases the demand for large cars, then
    A) gasoline and large cars are complements in consumption.
    B) large cars are an inferior good.
    C) gasoline is an inferior good.
    D) gasoline and large cars are substitutes in consumption.
37. Gruel is an inferior good. Hence, a decrease in people's incomes
    A) shifts the supply curve of gruel leftward.
    B) shifts the demand curve for gruel rightward.
    C) shifts the demand curve for gruel leftward.
    D) decreases the quantity of gruel supplied.
38. An unusually warm winter
    A) shifts the supply curve of gloves leftward.
    B) shifts the demand curve for gloves rightward.
    C) shifts the demand curve for gloves leftward.
    D) shifts the supply curve of gloves rightward.
39. A rise in the price of a good causes producers to supply more of the good. This statement illustrates
    A) the nature of an inferior good.
    B) the law of demand.
    C) the law of supply.
    D) a change in supply.
40. The price of jet fuel falls. This fall shifts the
    A) supply curve of airplane trips rightward.
    B) demand curve for airplane trips leftward.
    C) demand curve for airplane trips rightward.
    D) supply curve of airplane trips leftward.