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Microeconomic Theory

Practice Multiple-Choice Questions

Utility and Choice

1. As long as the principle of diminishing marginal utility is operating, any increased consumption of a good
 - a. lowers total utility.
 - b. produces negative total utility.
 - c. lowers marginal utility and, therefore, total utility.
 - d. **lowers marginal utility, but may raise total utility.**
2. Among all the combinations of goods attainable by a consumer, the one that maximizes total utility is the one that
 - a. maximizes the marginal utilities per dollar of each good.
 - b. maximizes the marginal utilities per pound (or other physical unit) of each good.
 - c. **equates the marginal utilities per dollar of each good.**
 - d. equates the marginal utilities per pound (or other physical unit) of each good.
3. A utility contour (or indifference curve) shows all the alternative combinations of two consumption goods that
 - a. can be produced with a given set of resources and technology.
 - b. **yield the same total of utility.**
 - c. can be purchased with a given budget at given prices.
 - d. equate the marginal utilities of these goods and, therefore, make the consumer indifferent between them.

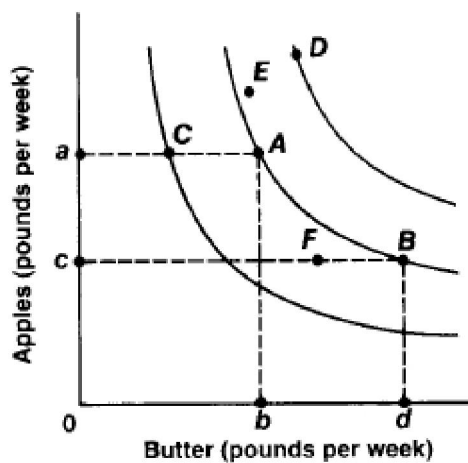
When answering questions 4-6, consider the accompanying graph of a person's consumption-indifference curves:

4. This graph indicates that the consumer
 - a. at A is indifferent between 0a of apples and 0b of butter
 - b. at A is consuming either 0a of apples or 0b of butter.
 - c. **is indifferent between 0a of apples plus 0b of butter on the one hand and 0c of apples plus 0d of butter on**

the other.

d. is correctly described by all of the above.

1



5. This graph also indicates that the consumer prefers combination
 - a. *A to B*.
 - b. *C to B*.
 - c. *B to D*.
 - d. ***E to F***.
6. This graph also shows the consumer's marginal rate of substitution in the *AB* range to be
 - a. *0a* of apples for *0d* of butter.
 - b. *0a* of apples for *0b* of butter.
 - c. *0c* of apples for *0d* of butter.
 - d. ***ac* of apples for *bd* of butter**.
7. At any given point on an indifference curve, the absolute value of the slope equals
 - a. unity--otherwise there would be no indifference.
 - b. **the marginal rate of substitution**.
 - c. the consumer's marginal utility.
 - d. none of the above.
8. If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger,
 - a. the consumer's indifference curve must be positively sloped.
 - b. the consumer's indifference curve must be convex with respect to the origin of the graph.
 - c. **the ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal $\frac{1}{2}$** .
 - d. all of the above are true.
9. In the presence of declining marginal rates of substitution, consumers who again and again sacrifice a unit of one good cannot remain on their original consumption-indifference curves (that is, they cannot maintain their original levels of welfare) unless they receive as compensation
 - a. again and again equal units of another good.
 - b. ever smaller units of another good.
 - c. **ever larger units of another good**.
 - d. either (a), (b), or (c), depending on the tastes of the consumer involved.
10. Which of the following is a correct representation of the budget constraint in a world with only food and shelter, where M = income, P_f = price of food, P_s = shelter price, S = the quantity of shelter, and F = the quantity of food.
 - a. $M = P_f(S) + P_s(F)$
 - b. $F = M/P_s - P_f/P_s(S)$
 - c. $S = M/P_s - P_s/P_f(F)$
 - d. $F = M(P_s) + P_f/P_s(S)$
 - e. **None of the above is correct.**
11. All points on or below a budget constraint
 - a. **are attainable with the given income**.
 - b. are equally desirable.
 - c. represent market basket combinations that exhaust the income available.
 - d. are described, in part, by a, b, and c above.

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Solved by DR ABDUL SABOOR

MS business administration

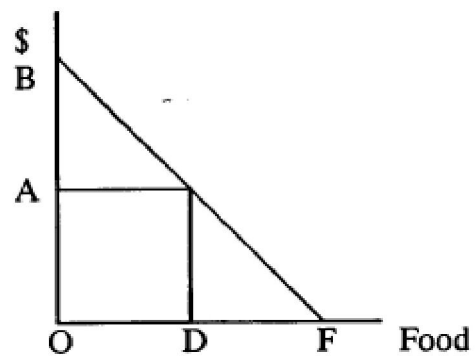
mb120400120@vu.edu.pk

dr7wb@yahoo.com

Cell=0334-7165488

Pakistan

12. For the graph of the budget line shown below, which statement is true?
- The vertical intercept represents all the money available for purchases.
 - The distance AB shows the amount of money spent on OD amount of food.
 - The distance AO shows the amount of money left over after purchasing OD amount of food.
 - All of the above are true.**
 - None of the above is true.
13. In a preference ordering exercise in which two baskets of goods are being considered, it is assumed by indifference theory that the consumer is able to
- measure the amount of pleasure expected from the preferred basket.
 - say how much more one basket is valued over the other.
 - calculate only the absolute value of the less desirable basket.
 - make no absolute measure of the value of any of the market baskets.**
14. Indifference curves that intersect would be illogical constructs because
- more is better than less.
 - of diminishing marginal utility.
 - of the transitivity property of indifference theory.
 - of both a and c above.**
 - of none of the above.
15. The marginal rate of substitution between food and shelter for a given point on an indifference curve
- is equal to the absolute value of the slope of the indifference curve at that point.
 - is equal to the rate at which the consumer is willing to exchange the two goods in the marketplace.
 - reflects the relative values the consumer attaches to the two good.
 - is described, in part, by each of the above statements.**
16. If a man prefers Budweiser to Schlitz and Schlitz to Pabst, and if he is indifferent between Budweiser and Miller, he must
- prefer Miller to Pabst.**
 - prefer Schlitz to Miller.
 - be indifferent between Schlitz and Miller.
 - be indifferent between Budweiser and Pabst.
 - be indifferent between Pabst and Miller.



17. If a market basket is changed by adding more to at least one of the goods, then every consumer will
- rank the market basket more highly after the change.**
 - rank the market basket more highly before the change.
 - rank the market basket just as desirable after the change.
 - be unable to decide whether he prefers the first market basket to the second or the second to the first.
 - recognize this as one of the unsolved problems in economics.
18. An indifference curve is.
- a collection of market baskets that are equally desirable to the consumer.**
 - a collection of market baskets that the consumer can buy.
 - a curve whose elasticity is constant for every price.
 - a curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.
19. If A, B, C, and D are any four market baskets, and if the consumer has ranked them so that D is preferred to C, A is *not* preferred to B, and B is *not* preferred to C, then
- A is preferred to C.
 - A is preferred to D.
 - B is preferred to D.
 - D is preferred to A.**
 - D is *not* preferred to B.
20. Suppose that a market basket of two goods is changed by adding more to one of the goods and subtracting one unit from the other.
- The consumer will rank the market basket more highly after the change.
 - The consumer will rank the market basket less highly after the change.
 - The consumer will be indifferent between the market baskets.
 - Any of the above statements may be true.**
21. Which of the following is not an assumption of ordinal utility analysis?
- Consumers are consistent in their preference.
 - Consumers can measure the total utility received from any given basket of good.**
 - Consumers are non-satiated with respect to the goods they confront.
 - All are necessary.
 - None of the above.
22. As long as all prices remain constant, an increase in money income results in
- an increase in the slope of the budget line.
 - a decrease in the slope of the budget line.
 - an increase in the intercept of the budget line.**
 - a decrease in the intercept of the budget line.
 - both (a) and (c).
23. If the prices of both goods increase by the same percent, the budget line will
- shift parallel to the left.**
 - shift parallel to the right.
 - pivot about the x axis.

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Solved by DR ABDUL SABOOR

MS business administration

mb120400120@vu.edu.pk

dr7wb@yahoo.com

Cell=0334-7165488

Pakistan

- d. pivot about the y axis.
- e. none of the above.

24. Cardinal utility theory assumes that consumers can
- rank baskets of goods as to their preference.
 - determine the number of utils that can be derived from consuming all goods.**
 - determine the marginal rate of substitution between goods.
 - avoid the law of diminishing marginal utility.
 - all of the above.
25. The budget allocation rule states that
- the marginal utility of x equals the marginal utility of y at maximum utility.
 - the marginal utility of x divided by its price be equal to marginal utility of all other goods divided by their prices.**
 - the marginal utility of x equals the marginal rate of substitution of x for y.
 - the ratio of prices of x to y be greater than the ratio of marginal utility of x to the marginal utility of y.
 - none of the above.
26. In spending all his or her income, the consumer chooses the market basket that maximizes his or her utility. Which of the following statements will be correct?
- The marginal utility is the same for each commodity.
 - The marginal utility per dollar spent is the same for each commodity.
 - The marginal utility of each commodity is proportional to its price.
- 1 only.
 - 2 only.
 - 1 and 2 only.
 - 2 and 3 only.**
 - 1, 2, and 3.
27. A consumer buys only jellybeans and wrinkle remover and the more of any one he buys, the lower the marginal utility of that good. In spending all his income, his marginal utility of a pound of jellybeans is 12 and his marginal utility of a jar of wrinkle remover is 15. The price of jellybeans is \$8 per pound and the price of wrinkle remover is \$11 per jar. For maximum satisfaction, this consumer should
- buy more wrinkle remover and fewer jellybeans.
 - by less wrinkle remover and more jellybeans.**
 - buy more wrinkle remover and the same quantity of jellybeans.
 - buy the same quantity of wrinkle remover and more jellybeans.
 - remain where he is, since his present position is the best attainable one.

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