

## Practice Problems 3 – Consumer Choice

Econ 300 G AU08

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Perloff Chapter 4 Problems: 3, 5

- 1) An indifference curve represents bundles of goods that a consumer
  - a. Views as equally desirable.
  - b. Ranks from most preferred to least preferred
  - c. Prefers to any other bundle of goods.
  - d. All of the above
- 2) The principle that “more is better” results in indifference curves
  - a. Sloping down
  - b. Not intersecting
  - c. Reflecting greater preferences the further they are from the origin
  - d. All of the above
- 3) There is an indifference curve through every bundle because of the assumption of
  - a. Transitivity
  - b. Completeness
  - c. Rationality
  - d. Non-satiation
- 4) A consumer’s willingness to trade one good for another can be expressed by the consumer’s
  - a. Indifference curve
  - b. Marginal rate of substitution
  - c. Both A and B above
  - d. None of the above
- 5) Measuring “y” on the vertical axis and “x” on the horizontal axis, convexity of indifference curves implies that the MRS of “y” for “x”
  - a. Is decreasing as “x” increases
  - b. Is increasing as “x” increases
  - c. Is constant as “x” increases
  - d. Cannot be calculated for large levels of “x”
- 6) For which of the following pairs of goods would most people likely have convex indifference curves?
  - a. Nickels and dimes
  - b. Left shoes and right shoes
  - c. Movie tickets and concert tickets
  - d. None of the above
- 7) If two goods are perfect substitutes, then the indifference curves for those two goods would be
  - a. Upward sloping and concave to the origin
  - b. Downward sloping and convex to the origin
  - c. Downward sloping and straight
  - d. L shaped

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- 8) The indifference curves for left shoes and right shoes would most likely be
- Upward sloping and concave to the origin
  - Downward sloping and convex to the origin
  - Downward sloping and straight lines
  - L-shaped
- 9) Utility is the set of numeric values that
- Yields an absolute level of pleasure from a bundle of goods
  - Reflects the relative ranking of various bundles of goods
  - Describes how much more a consumer prefers one bundle to another
  - Yields a cardinal ranking of bundles
- 10) If two bundles are on the same indifference curve, then
- The consumer derives the same level of utility from each
  - The consumer derives the same level of ordinal utility from each but not the same level of cardinal utility
  - No comparison can be made between the two bundles since utility cannot really be measured
  - The MRS between the two bundles equals one
- 11) If the utility function (U) between food (F) and clothing (C) can be represented as  $U = \sqrt{F \cdot C}$ , the marginal utility of food equals
- $\sqrt{F/C}$
  - $\sqrt{C/F}$
  - $\frac{1}{2}\sqrt{C/F}$
  - $\frac{1}{2}\sqrt{F/C}$
- 12) If the utility function (U) between food (F) and clothing (C) can be represented as  $U = \sqrt{F \cdot C}$ , the marginal rate of substitution of food (food is measured on the horizontal axis) equals
- $(C/F)$
  - $(F/C)$
  - $\sqrt{C/F}$
  - $\sqrt{F/C}$
- 13) Joe's income is \$500, the price of food (F) is \$2 per unit and the price of shelter (S) is \$100. Which of the following represents his budget constraint?
- $500 = 2F + 100S$
  - $F = 250 - 50S$
  - $S = 5 - 0.02F$
  - All of the above

A, D, B, C, A, C, C, D, B, A, C, A, D