

Quiz 3

Name:

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1. The ratio of the prices of two goods multiplied by -1 is equal to the slope of the budget line.

(A)

- a. True
- b. False

2. A consumer's budget line shows (B)

- a. the utility that an individual would receive from consuming various combinations of two goods
- b. the combinations of two goods that an individual is able to purchase, given prices and income
- c. how income is influenced by prices of goods
- d. how changes in income affect utility
- e. the relationship between prices and income

3. A family on a trip budgets \$800 for restaurant meals and fast food. The family can buy 16 restaurant meals if they don't buy any fast food. What is the price of a restaurant meal for the family? (E)

- a. \$5
- b. \$16
- c. \$20
- d. \$50
- e. it is impossible to tell from the information given

4. If food is measured on the horizontal axis of a budget line diagram, and clothing is measured on the vertical axis, the slope of the budget line (E)

- a. may be positive if the price of clothing is high enough
- b. may be positive if the price of food is high enough
- c. may be positive if income is large enough
- d. equals minus the maximum consumption of food divided by the maximum consumption of clothing
- e. equals minus the maximum consumption of clothing divided by the maximum consumption of food

5. The slope of the budget line (B)

- a. is always -1
- b. represents the opportunity cost of consuming more units of the good measured on the horizontal axis

- c. increases as more of one good is consumed
- d. decreases as more of one good is consumed
- e. is negative because of the law of demand

6. An increase in the price of the good measured on the vertical axis of a budget line diagram will (D)

- a. cause a parallel outward shift of the budget line
- b. leave the budget line unchanged
- c. cause a parallel inward shift of the budget line
- d. make the budget line flatter
- e. make the budget line steeper

7. An increase in the price of the good measured on the horizontal axis of a budget line diagram will (B)

- a. make the budget line flatter
- b. make the budget line steeper
- c. leave the budget line unchanged
- d. cause a parallel inward shift of the budget line
- e. cause a parallel outward shift of the budget line

8. If income and the prices of both goods all double, the budget line will (C)

- a. become flatter
- b. become steeper
- c. remain unchanged
- d. experience a parallel outward shift
- e. experience a parallel inward shift

9. The term *utility* in economics refers to the (A)

- a. satisfaction received by individuals from consuming goods and services
- b. real income available to consumers for purchasing goods and services
- c. relationship between the demand for a product and the supply of a product
- d. usefulness of a good or service
- e. slope of the budget line

10. The principle of diminishing marginal utility implies that total utility falls as consumption rises above a certain level. (B)

- a. True
- b. False