

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Envision a graph with meat on the horizontal axis and vegetables on the vertical axis. A strict vegetarian would have indifference curves that are: 1) _____
- A) upward sloping.
 - B) horizontal.
 - C) diagonal straight lines.
 - D) right angles.
 - E) vertical.
- 2) The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the _____ effect. 2) _____
- A) real price
 - B) substitution
 - C) Giffen
 - D) income
- 3) The assumption of transitive preferences implies that indifference curves must: 3) _____
- A) have a positive slope.
 - B) be convex to the origin.
 - C) be L-shaped.
 - D) not cross one another.
 - E) all of the above.
- 4) Price elasticity of demand measures the 4) _____
- A) sensitivity of quantity demanded to changes in the price of substitute goods.
 - B) sensitivity of price to changes in the quantity demanded of substitute goods.
 - C) sensitivity of quantity demanded to changes in price.
 - D) slope of the demand curve.
- 5) Which of the following is NOT a generally accepted measure of the riskiness of an investment? 5) _____
- A) standard deviation.
 - B) expected value.
 - C) variance.
 - D) none of these.

- 6) Marginal utility measures: 6) _____
- A) the marginal rate of substitution.
 - B) the slope of the indifference curve.
 - C) the additional satisfaction from consuming one more unit of a good.
 - D) the slope of the budget line.
 - E) none of the above.
- 7) Which of the following is true about the indifference curve where one commodity (such as pollution) is "bad"? 7) _____
- A) It is vertical.
 - B) It is horizontal.
 - C) It has a negative slope.
 - D) It has a positive slope.
- 8) Consider the demand curve of the form $Q = a - bP$. If a is a positive real number, and $b = 0$, then demand is 8) _____
- A) unit elastic.
 - B) inelastic, but not completely.
 - C) completely inelastic.
 - D) elastic, but not infinitely.
- 9) There are two techniques of egg production: free range (where hens roam around the farm) or factory (where hens are fed and watered in wire cages). The free range technique has a much more elastic supply curve than the factory technique. When the demand for eggs falls: 9) _____
- A) the production using both techniques falls by the same amount
 - B) the factory egg producers supply curve shifts inward.
 - C) the free range egg producers supply curve shifts inward.
 - D) egg production using the factory technique falls more than with the free range technique.
 - E) egg production using the factory technique falls less than with the free range technique.

Scenario 1:

Aline and Sarah decide to go into business together as economic consultants. Aline believes they have a 50-50 chance of earning \$200,000 a year, and that if they don't, they'll earn \$0. Sarah believes they have a 75% chance of earning \$100,000 and a 25% chance of earning \$10,000.

- 10) Refer to Scenario 1. The expected value of the undertaking, 10) _____
- A) according to Aline, is \$200,000.
 - B) according to Sarah, is \$110,000.
 - C) according to Sarah, is \$75,000.
 - D) according to Sarah, is \$100,000.
 - E) according to Aline, is \$100,000.

