

Econ 101 Discussion Section

Worksheet 14: Chapter 21

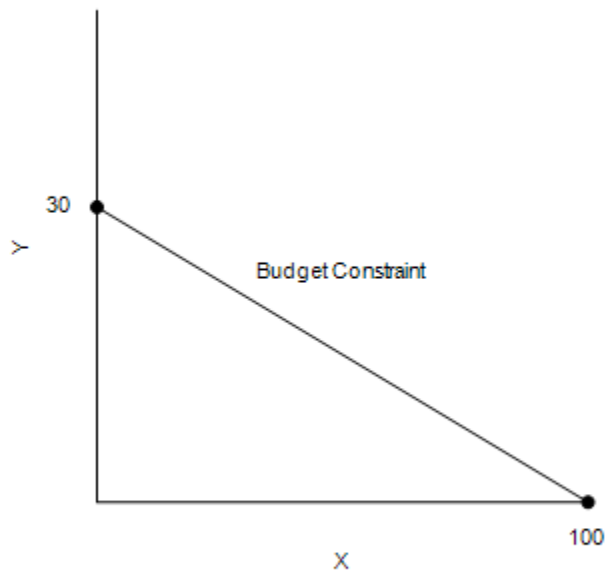
Review of Concepts:

- Budget Constraint
- Indifference Curve
- Income Effect
- Substitution Effect
- Consumer's Optimal Choice

Practice Exercises: Multiple Choice

Indicate the answer choice that best completes the statement or answers the question.

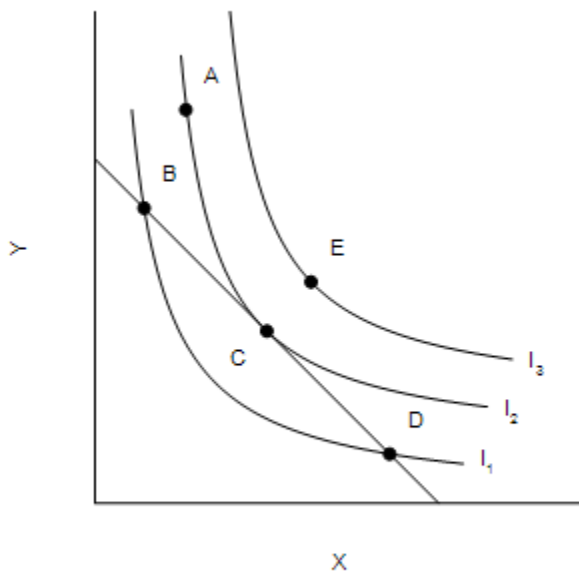
Figure 1



1. **Refer to Figure 1.** If the consumer has \$600 in income, what is the price of good X?
 - a. \$20
 - b. \$6
 - c. \$3
 - d. \$0.33

2. **Refer to Figure 1.** If the consumer has \$600 in income, what is the price of good Y?
- \$20
 - \$6
 - \$3
 - \$0.33
3. **Refer to Figure 1.** If the price of good Y is \$5, what is the price of good X?
- \$500
 - \$150
 - \$16.67
 - \$1.50
4. **Refer to Figure 1.** If the price of good X is \$15, what is the price of good Y?
- \$1,500
 - \$50
 - \$5
 - \$0.50

Figure 2



5. **Refer to Figure 2.** Given the budget constraint depicted in the graph, the consumer's optimal choice will be point

- a. A.
- b. B.
- c. C.
- d. D.

6. **Refer to Figure 2.** It would be possible for the consumer to reach I_3 if

- a. the price of Y increases.
- b. the price of X increases.
- c. income decreases.
- d. the price of Y decreases.

7. **Refer to Figure 2.** Bundle B represents a point where

- a. $MRS_{xy} > P_y/P_x$.
- b. $MRS_{xy} = P_x/P_y$.
- c. $MRS_{xy} < P_x/P_y$.
- d. $MRS_{xy} > P_x/P_y$.

8. Assume that a college student purchases only Ramen noodles and textbooks. If Ramen noodles are an inferior good and textbooks are a normal good, then the income effect associated with an increase in the price of a textbook will result in

- a. a decrease in the consumption of textbooks and a decrease in the consumption of Ramen noodles.
- b. a decrease in the consumption of textbooks and an increase in the consumption of Ramen noodles.
- c. an increase in the consumption of textbooks and an increase in the consumption of Ramen noodles.
- d. an increase in the consumption of textbooks and a decrease in the consumption of Ramen noodles.

9. When Joshua's income increases, he purchases more prime-rib dinners than he did before his income increased. For Joshua, prime-rib dinners are

- a. a normal good.
- b. an inferior good.
- c. an optimal good.
- d. a Giffen good.

Indicate whether the statement is true or false.

10. For a typical consumer, most indifference curves are bowed inward.

- a. True
- b. False

11. If goods A and B are perfect substitutes, then the marginal rate of substitution of good A for good B is constant.

- a. True
- b. False

12. At a consumer's optimal choice, the consumer chooses the combination of goods that equates the marginal rate of substitution and the price ratio.

- a. True
- b. False