

**Question 1.** Which one of these functions obeys the law of demand?

- A.  $D(p) = 4 + 2p$
- B.  $D(p) = 20$
- C.  $D(p) = 10 + 3p$
- D.  $D(p) = 9 - p$**
- E. None of the above.

**Question 2.** Which out of the following leads to a shift in demand for apples?

- A. Change in income.**
- B. Change in price of apples.
- C. Change in efficiency of apple production.
- D. Two of the above.
- E. All of the above.

**Question 3.** The demand for apples is initially  $D(p) = 8 - p$ . Demand increases by two units at each price level. At what price will demand be 9 units after the increase?

- A. 0
- B. 1**
- C. 2
- D. 3
- E. 4

**Question 4.** The demand for apples will be more price-sensitive (elastic) the:

- A. Larger income.
- B. Harder it is to find substitutes for apples.
- C. Lower the price of apples.
- D. More complements there are for apples.
- E. Easier it is to find substitutes for apples.**

**Question 5.** If apples and oranges are complements, a value added tax on apples:

- A. Increases the sales of apples and oranges.
- B. Decreases the sales of apples and oranges.**
- C. Increases the sales of apples and decreases the sales of oranges.
- D. Decreases the sales of apples and increases the sales of oranges.
- E. It depends on something else.

**Question 6.** The supply of apples is  $S(p) = 3 + 2p$ . The government imposes an excise tax of \$1.50 per unit. What post-tax price is necessary for supply to be 6 units?

- A. 2.50
- B. 3**
- C. 3.50
- D. 4
- E. 4.50

**Question 7.** Using the supply function in question 6, if the government decided instead to impose a 50% value-added tax, what would be the new supply function?

- A.  $S(p) = \frac{3}{2} + p$
- B.  $S(p) = \frac{9}{2} + 3p$
- C.  $S(p) = 3 + \frac{4}{3}p$**
- D.  $S(p) = 3 + p$
- E.  $S(p) = 2 + \frac{4}{3}p$

**Question 8.** If an excise tax is imposed on apples, the more elastic the demand for apples:

- A. The bigger the effect of a tax on the market price.
- B. The greater the tax burden borne by consumers.
- C. The bigger the shift in the supply curve caused by the tax.
- D. More than one of the above.
- E. None of the above.**

**Question 9.** Can suppliers ever gain from excise taxes?

- A. Yes, if demand is very inelastic (in other words its price sensitivity is really low).
- B. Yes, if the good has lots of substitutes.
- C. Yes, if the good has lots of complements.
- D. More than one of the above.
- E. None of the above.**

**Question 10.** You are offered a bundle that is 10 apples and 10 oranges. Given non-satiation, which of the following is *better* than 10 apples and 10 oranges?

- A. 8 apples and 8 oranges.
- B. 8 apples and 12 oranges.
- C. 12 apples and 8 oranges.
- D. 12 apples and 12 oranges.**
- E. None of the above.

**Question 11.** If my income is \$20, apples (X-axis) cost \$5 each and oranges (Y-axis) cost \$2, then what are the coordinates where the budget constraint cuts each axis?

- A. (5,0) and (0,2).
- B. (4,0) and (0,5).
- C. (4,0) and (0,10).**
- D. (5,0) and (0,10).
- E. (5,0) and (0,4).

**Question 12.** Convexity of indifference curves implies that I prefer mixtures of two bundles to either bundle when:

- A. Both bundles are on the same indifference curve.**
- B. One of the bundles has more of one good and less of the other good than the other bundle.
- C. One of the bundles has less of each good than the other bundle.
- D. One of the bundles is on a better indifference curve than the other.
- E. None of the above.

**Question 13.** If there are only two goods and I offer you a new bundle with more of both goods, you prefer the new bundle for sure by:

- A. The law of demand.
- B. Convexity of the indifference curves.
- C. Non-satiation.**
- D. The fact that indifference curves slope down.
- E. None of the above.

**Question 14.** I only consume two goods: apples and oranges. When my income increases:

- A. The demand for apples increases.
- B. The demand for oranges increases.
- C. The demand for at least one out of apples and oranges must increase.**
- D. The demand for both apples and oranges must increase.
- E. None of the above.

**Question 15.** Giffen goods must be:

- A. Inferior goods.**
- B. Normal goods.
- C. Luxury goods.
- D. More than one of the above.
- E. None of the above.

**Question 16.** According to the law of demand:

- A. Quantity demanded increases when income increases.
- B. Quantity demanded decreases when price decreases.
- C. Quantity demanded increases when income decreases.
- D. Quantity demanded increases when price increases.
- E. Quantity demanded decreases when price increases.**

**Question 17.** Demand for inferior goods:

- A. Is always increasing in income.
- B. Is increasing in income only for Giffen goods.
- C. Is always decreasing in income.**
- D. Is decreasing in income only for Giffen goods.
- E. None of the above.

**Question 18.** If a good obeys the law of demand, then:

- A. It must be normal.
- B. It must be inferior.
- C. It can be inferior or normal.**
- D. It is neither inferior nor normal.
- E. It is both inferior and normal.

**Question 19.** In a normal good, when the price decreases, the income effect means that the quantity demanded:

- A. Decreases.
- B. Increases.**
- C. It depends on the substitution effect.
- D. It depends on whether or not the good is a Giffen good.
- E. It depends on something else.

**Question 20.** Hats and umbrellas are complements. This means that:

- A. When the price of hats increases, the demand for umbrellas increases.
- B. When the price of hats increases, the demand for umbrellas decreases.**
- C. When the price of umbrellas increases, the price of hats increases.
- D. When the price of umbrellas increases, the demand for hats increases.
- E. When the price of hats decreases, the price of umbrellas decreases.

**Question 21.** There are TWO identical consumers, each of whom has a demand schedule for apples  $D = 10 - 2P$ . What happens to market demand when price falls from \$3 to \$1?

- A. It increases by 4 units.
- B. It decreases by 6 units.
- C. It increases by 8 units.**
- D. It increases by 2 units.
- E. It does not change.

**Question 22.** A luxury good has:

- A. An income elasticity of demand greater than zero.
- B. An income elasticity of demand greater than one.**
- C. An income elasticity of demand less than zero.
- D. A price elasticity of demand less than zero.
- E. A price elasticity of demand greater than zero.

**Question 23.** The demand for good A is increasing in the price of good B. This implies that:

- A. Goods A and B are complements.
- B. The cross-elasticity of demand for good A in terms of the price of B is negative.
- C. Good A is Giffen and B is not.
- D. More than one of the above.
- E. None of the above.**

**Question 24.** A positive price-elasticity of demand implies:

- A. A normal good.
- B. A Giffen good.**
- C. An ordinary good.
- D. More than one of the above.
- E. None of the above.

**Question 25.** If my income doubles and my demand for carrots *more* than doubles so that the share of my income that I spend on carrots has increased, then carrots are:

- A. Giffen goods.
- B. Inferior goods.
- C. Luxury goods.**
- D. A good that violates the law of demand.
- E. None of the above.

**Question 26.** The equilibrium price of apples increases. Which of the following *could* have caused it?

- A. Demand does not shift and supply shifts right.
- B. Demand shifts left, supply shifts right.
- C. Demand shifts left, supply does not shift.
- D. Demand shifts right, supply shifts left.**
- E. None of the above.

**Question 27.** The burden of taxation falling on consumers from an excise tax will be higher the:

- A. Flatter the demand curve.
- B. Flatter the supply curve.
- C. Steeper the demand curve.**
- D. Steeper the supply curve.
- E. None of the above.

**Question 28.** When the price of a good increases, the change in quantity demanded from the substitution effect is:

- A. Always negative.**
- B. Always positive.
- C. Positive only for Giffen goods.
- D. Negative only for Giffen goods.
- E. Positive only for inferior goods.

**Question 29.** In a Giffen good:

- A. The substitution effect reinforces the income effect.
- B. The substitution effect and income effect go in opposite directions.
- C. The substitution effect is weaker than the income effect.
- D. More than one of the above.**
- E. None of the above.

**Question 30.** Luxury goods are:

- A. Ordinary goods.
- B. Goods for which the income elasticity of demand is greater than one.
- C. Goods that you buy more of when the price of a substitute falls.
- D. More than one of the above.**
- E. None of the above.