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## Question: 1

Assume the demand for a company's product is perfectly inelastic. Which of the following is true?

- A. An increase in price will lead to a decrease in revenue
- B. A decrease in price will lead to an increase in revenue
- C. A decrease in price will increase demand
- D. An increase in price will decrease demand
- E. The demand curve would be vertical

**Answer: E**

Explanation:

If demand for a firm's product is perfectly inelastic, consumers will buy the same amount no matter the price. Therefore, the demand curve will be a straight line traveling up and down on the graph. A price increase would lead to an increase in revenue, a price decrease would lead to a decrease in revenue, and no price change would affect demand.

## Question: 2

Good A and Service B are complements. Which of the following is true?

- A. An increase in price for Good A will lead to an increase in demand for Service B
- B. A decrease in price for Good A will lead to decreased demand for Service B
- C. An increase in demand for Good A will lead to increased revenues for providers of Service B
- D. Demand for Good A will not affect demand for Service B
- E. An increase in demand for Service B will lead to a surplus of Good A

**Answer: C**

Explanation:

Complementary goods or services are goods for which demand is linked. If demand for a good increases, the demand for the good's complement will also increase. It follows, then, that increased demand for Good A will lead to increased demand for Service B, which in turn will lead to increased revenue for the producers of Service B.

## Question: 3

The demand curve for I Phones slopes downward. That means that an increase in the price of I Phones will lead to:

- I. More consumers buying other phones

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- II. More consumers going without phones at all
  - III. Fewer I Phones available to buy

- A. I only
- B. II only
- C. III only
- D. I and/or II only
- E. All of the above

**Answer: D**

Explanation:

If the price of I Phones goes up, more consumers will either buy other phones or go without a phone. This is reflected in the downward slope of the demand curve.

### Question: 4

Ivy got a raise at work and her income has increased. As a result, she buys less Johnson's mascara and more Jackson's mascara

- a. Which statement below best describes this situation?
  - A. Johnson's mascara and Jackson's mascara are complementary goods
  - B. Johnson's mascara and Jackson's mascara are normal goods
  - C. The demand curve for Jackson's mascara is upward sloping
  - D. The demand curve for Johnson's mascara is upward sloping
  - E. Johnson's mascara is an inferior good, and Jackson's mascara is a normal good

**Answer: E**

Explanation:

Demand for an inferior good decreases when income goes up, while demand for a normal good increases as income rises.

### Question: 5

The following table shows the marginal utility, measured in utility, that Kenny receives from purchasing good X and purchasing good Y. Good X costs \$5, and good Y costs \$10. Kenny has a total of \$50 to spend on the two goods each week. If Kenny wants to maximize his total utility, which combination of goods should he buy?

Quantity of X	Marginal Utility of X	Quantity of Y	Marginal Utility of Y
1	8	1	20
2	6	2	12
3	5	3	8
4	4	4	6
5	3	5	4
6	2	6	3
7	2	7	3
8	2	8	2
9	1	9	2
10	1	10	1

- A. 0 good X, 5 good Y
- B. 2 good X, 4 good Y
- C. 4 good X, 3 good Y
- D. 6 good X, 2 good Y
- E. 10 good X, 0 good Y

**Answer: C**

Explanation:

Choice a. yields 50 utils, Choice b. yields 60 utils, Choice c. yields 63 utils, Choice d. yields 60 utils and Choice e. yields 34 utils. Since Kenny is maximizing utility, he should buy 4 of good X and 3 of good Y.

### Question: 6

Jasmine uses her income to maximize her total utility by buying 10 good A's and 5 good B's. Which of the following statements would be true if Jasmine got a raise, increasing her income by 10%?

- A. Her buying behavior will not change
- B. The marginal utility of good A will increase
- C. The marginal utility of good B will increase
- D. Her total utility, measured in utils, will increase
- E. Her total utility, measured in utils, will decrease

**Answer: D**

Explanation:

Because Jasmine's income will increase, she will be able to buy some increased combination of good A and good B, and her total utility will increase as a result.

### Question: 7

Brittany receives a raise at work. After receiving the raise, her purchases of good A increase and her purchases of good B decrease. Which of the above statements are true?

- I. Good A is an inferior good

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- II. Good B is an inferior good
  - III. Goods A and B are substitute goods
  - W. Brittany's total utility through purchases can increase after the raise

- A. I and II only
- B. II and IV only
- C. I and III only
- D. II and III only
- E. I, II, and III only

**Answer: B**

Explanation:

Because Brittany's demand for good B decreases when her income increases, it is an inferior good. Her demand for good A increases, meaning it is a normal good. And with the increased income, she can purchase more goods, leading to greater total utility from her purchases. We do not know if goods A and B are substitutes or not based on the given information.

### Question: 8

Randy buys 10 good A's and 10 good B's each week, spending all of his income and maximizing his total utility. His income stays the same, but the price of good B increases.

Which of the following is not true?

- A. Randy may begin buying good C, a substitute good for good B
- B. Randy's total utility will decrease
- C. Randy's purchases of good A or good B will decrease
- D. Randy's buying behavior will stay the same
- E. All of the above

**Answer: D**

Explanation:

With the increase in the price of good B, and no increase in income, Randy will have to alter his purchasing habits to stay within his budget constraint.

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