

Who Wants to be an Economist?

Notice: questions in the exam will not have this kind of multiple choice format. The type of exercises in the exam will look like the ones in the Practice Exam.

Question #1

An Engel curve:

1. Represents how demand for a good varies with the price of another good.
2. Represents how demand for a good varies with consumer's income.
3. Is a curve introduced by the famous colleague of Karl Marx.
4. Represents the demanded bundles as consumer's income varies.

Question #2

The equivalent variation:

1. Represents the amount the government needs to pay the consumer to compensate him for the price increase.
2. By definition, is always equivalent to the compensating variation.
3. Tells us how many utils the consumer is willing to give up to avoid a price increase.
4. Represents the amount the consumer is willing to pay to avoid a price increase.

Question #3

If two goods are perfect substitutes:

1. The MRS is always constant.
2. The MRS is not well defined.
3. The absolute value of the MRS decreases as we increase the quantity of one good along an indifference curve.
4. The MRS must equal to -1 .

Question #4

If two goods are perfect complements:

1. You always want to consume them in fixed proportions.
2. You always want to consume an equal number of each.
3. As the price of one increases, demand for the other stays constant.
4. The consumer is indifferent between consuming one or the other.

Question #5

The relative price of two goods is:

1. The minimum of the prices of the two goods.
2. A number that is always equal to the absolute value of the MRS.
3. A number that tells us the rate at which the consumer is willing to substitute one good for the other.
4. The ratio of the dollar prices of the goods.

Question #6

The Food Stamp program:

1. Taxes consumption of certain kinds of unhealthy food.
2. Allows collectors of stamps representing food to exchange them at no cost.
3. Subsidizes the purchase of food by low income households.
4. Transfers cash to low income households so that they can buy more food.

Question #7

If preferences over two goods are Cobb-Douglas:

1. The income offer curve is linear.
2. The expenditures shares of the two goods are equal.
3. The two goods are substitutes, but not perfect substitutes.
4. Consumption of both goods increases more than proportionally with income.

Question #8

A transitive but not complete preference relation is such that if $X \succ Y$ and $Y \succ Z$:

1. It must be: $Z \succ X$
2. It might be: $Z \sim X$
3. It must be: $X \succ Z$
4. It can be: we do not know

Question #9

If all consumers are making optimal choices and consume positive amounts of 2 goods:

1. They must consume the same amount of the goods if they all have the same income.
2. They have the same MRS for the two goods.
3. They have the same MRS for the two goods only if they have the same income (but potentially different preferences).
4. They have the same MRS only if they face the same prices.

Question #10

If the price of one good increases:

1. Demand for that good always decreases.
2. Demand for that good can decrease only if the good is normal.
3. Demand for that good can increase only if the good is inferior.
4. Demand for that good always increases.

Comment

- For demand of one good to increase with its own price (Giffen good) it is **necessary** that the good be inferior.
- However, this is not **sufficient**: not all inferior goods are also Giffen goods!
- Therefore, the Answer 2 is wrong because there are inferior goods (opposite of normal goods) for which demand decreases when price increases.

Comment con't

- What we can safely say is the following: if a good is normal (that is, its demand goes up with consumer's income) then, when its price increases, its demand will decrease. Similarly when its price decreases, its demand will increase.
- For an inferior good, we cannot make the same conclusion. It can go either way.

Comment cont'd

- Since Giffen goods are not very common, we did not spend much time on those.
- What I would like you to remember is the following: all our assumptions about preferences do not imply that it is always the case that demand for a good goes down as its price increases.

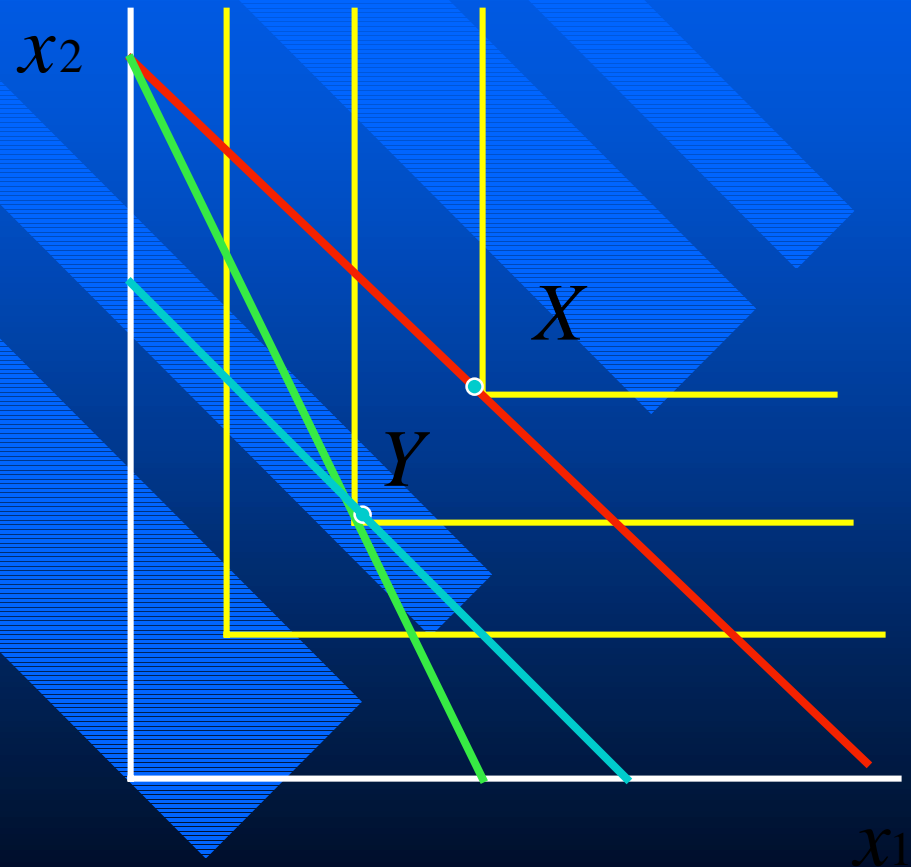
Question #11

For what kind of preferences will the consumer be just as well-off facing a quantity tax as an income tax?

1. Perfect complements.
2. Cobb-Douglas.
3. Quasi-linear.
4. This can never happen.

Graph

- Without any tax: optimal choice is X .
- With quantity tax optimal choice is Y .
- With income tax optimal choice is Y .
- Red line: budget line without tax.
- Green line: budget line with quantity tax
- Light blue line: budget line with income tax.



Question #12

An inverse demand function tells us:

1. For given quantity of the good, the MRS between that good and dollars.
2. For given quantity of the good, what the price of the good would have to be for the consumer to choose that level of consumption.
3. What is the quantity of the good a consumer will demand at a given price.
4. That to consume a higher quantity of the good the consumer will require a price drop.

Question #13

The demand for a Giffen good:

1. Increases with income.
2. Expands more than proportionally as income increases.
3. Decreases with income.
4. Contracts more than proportionally as income increases.

Question #14

If two goods are perfect substitutes:

1. A demand curve for one good has always a negative slope.
2. There exists a price for which the demand curve for one of the goods is horizontal.
3. The demand curve can be either upward or downward sloping.
4. The demand curve coincides with the y-axis.

Question #15

The gross consumer surplus measures:

1. The unit price at which the consumer is willing to purchase a given amount of a good.
2. The total utility that the consumer gets from consuming a good.
3. The area below the demand curve and above the price paid by the consumer.
4. How much a consumer would need to be paid to give up his entire consumption of some good.

Question #16

A lump sum subsidy to a consumer:

1. Reduces the relative price of the good that is subsidized.
2. Is a transfer of cash from the government to the consumer.
3. Does not affect the opportunity cost of buying any of the goods.
4. Does not affect the consumer's behavior.