

1. Which of the following best denotes the reason for the existence of substantial black markets?
 - A) a market-oriented economy
 - B) **a command economy**
 - C) government laws and rules
 - D) the microeconomy

2. Which of the following characteristics relate to exports?
 - A) The payment in addition to the original investment from those who have received financial capital to those who provided it.
 - B) A payment calculated as a percentage of the original amount saved or borrowed, and paid by the borrower to the saver.
 - C) **Goods and services that are produced domestically and sold in another country.**
 - D) When workers or firms focus on particular tasks in the overall production process for which they are well-suited.

3. The basic difference between macroeconomics and microeconomics is that:
 - A) microeconomics looks at the forest (aggregate markets) while macroeconomics looks at the trees (individual markets).
 - B) macroeconomics is concerned with groups of individuals while microeconomics is concerned with single countries.
 - C) **microeconomics is concerned with the trees (individual markets) while macroeconomics is concerned with the forest (aggregate markets).**
 - D) macroeconomics is concerned with generalization while microeconomics is concerned with specialization.

4. Which of the following is most likely a topic of discussion in macroeconomics?
 - A) an increase in the price of a hamburger
 - B) a decrease in the production of DVD players by a consumer electronics company
 - C) an increase in the wage rate paid to automobile workers
 - D) **a decrease in the unemployment rate**

5. Specialization:
 - A) leads to greater self-sufficiency.
 - B) **can lead to an increase in overall production.**
 - C) allows workers to develop skills by working on a large number of tasks
 - D) is always the result of an inefficient use of resources

6. Which of the following characteristics relate to model?
- A) **A simplified representation of an object or situation that includes enough of the key features to be useful.**
 - B) Dividing the work required to produce a good or service into tasks performed by different workers.
 - C) A market in which firms are sellers of what they produce and households are buyers.
 - D) The market in which those who save money provide financial capital and receive a rate of return from those who wish to raise money and pay a rate of return.
7. The two main tools of macroeconomic policy include monetary policy, and fiscal policy, which involves _____ spending.
- A) business
 - B) **government**
 - C) household
 - D) capital market
8. Macroeconomics primarily examines:
- A) the behaviour of individual households and firms.
 - B) how prices are determined within individual markets.
 - C) **broad issues such as national output, employment and inflation.**
 - D) the output levels that maximize the profits of business firms
9. Which of the following statements most likely lies within the realm of microeconomics?
- A) **Unemployment rises during a recession and falls during an expansion.**
 - B) An increase in government spending will increase the aggregate demand for goods and services in the economy.
 - C) A rapid acceleration of the supply of money may create inflation.
 - D) An increase in labor costs will increase the additional cost of producing another bus.
10. What is meant by goods and services market?
- A) The market in which households sell their labor as workers to businesses or other employers.
 - B) **A market in which firms are sellers of what they produce and households are buyers.**
 - C) When workers or firms focus on particular tasks in the overall production process for which they are well-suited.
 - D) Goods and services that are produced domestically and sold in another country.

11. The law of _____ explains why people and societies rarely make all-or-nothing choices.
- A) consumption
 - B) marginal analysis
 - C) **diminishing marginal utility**
 - D) utility
12. What term is used to describe when interest payments accumulate, so that in later time periods, the interest rate is paid on the interest that has been earned and reinvested in previous years?
- A) Production possibilities frontier
 - B) Risk premium
 - C) **Compound interest**
 - D) Opportunity cost

Use the following to answer question 3:

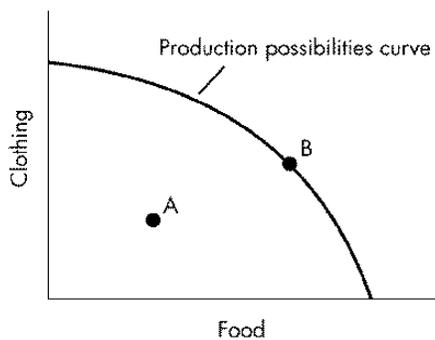


Figure 2-2

13. Refer to Figure 2-2. When the economy moves from Point A to Point B in the diagram above:
- A) **the economy begins using its resources efficiently to produce both food and clothing.**
 - B) the economy operates at its productive capacity once it reaches Point B.
 - C) the economy increases production of both clothing and food.
 - D) All of the above occur.
14. The slope of the _____ is determined by the relative price of the two goods, which is calculated by taking the price of one good and dividing it by the price of the other good.
- A) Opportunity cost

- B) productive efficiency
- C) budget constraint
- D) production possibilities frontier

15. Most choices involve _____, which involves comparing the benefits and costs of choosing a little more or a little less of a good.

- A) utility
- B) marginal analysis
- C) the budget constraint
- D) consumption

16. Which of the following characteristics relate to allocative efficiency?

- A) When the mix of goods being produced represents the allocation that society most desires.
- B) When it is impossible to produce more of one good without decreasing the quantity produced of another good.
- C) A diagram that shows the combinations of output that are possible for an economy to produce.
- D) When it is impossible to get more of something without experiencing a tradeoff of less of something else.

17. Which of the following refers to a payment to make up for the risk of not being repaid in full?

- A) Productive efficiency
- B) Opportunity set
- C) Risk premium
- D) Intertemporal choice

18. The model that economists use for illustrating the process of individual choice in a situation of scarcity is the budget constraint, sometimes also called the _____, a diagram which shows what choices are possible.

- A) opportunity set
- B) consumption choice
- C) time value of money
- D) risk premium

19. What is meant by law of diminishing returns?

- A) When the mix of goods being produced represents the allocation that society most desires.
- B) When interest payments accumulate, so that in later time periods, the interest rate is

- paid on the interest that has been earned and reinvested in previous years.
- C) When it is impossible to get more of something without experiencing a tradeoff of less of something else.
- D) **As additional increments of resources are added to producing a good or service, the marginal benefit from those additional increments will decline.**
20. The choice on a production possibilities set that is socially preferred, or the choice on an individual's budget constraint that is personally preferred, will display _____.
- A) **allocative efficiency**
- B) the production possibilities frontier
- C) trade-offs
- D) scarcity
21. Say that Alland can produce 32 units of food per person per year or 16 units of clothing per person per year, but Georgeland can produce 24 units of food per year or 12 units of clothing. Which of the following is true?
- A) **Alland has an absolute advantage in producing food but will not trade with Georgeland.**
- B) Alland has a comparative advantage, but not an absolute advantage, in producing food.
- C) Georgeland has both a comparative and absolute advantage in producing clothing.
- D) Georgeland has a comparative advantage, but not an absolute advantage, in producing clothing.
22. Alpha can produce either 18 oranges or 9 apples an hour, while Beta can produce either 16 oranges or 4 apples an hour. Which of the following terms of trade between apples and oranges would allow both Alpha and Beta to gain by specialization and exchange?
- A) 1 orange for 0.2 apples
- B) 2 apples for 3 oranges
- C) **3 apples for 3 oranges**
- D) 1 apple for 3 oranges
23. Some nations that seek to produce all of their own needs face the problem that:
- A) **some industries are too small to be efficient if restricted to their domestic markets alone.**
- B) they can deplete their natural resources as a result.
- C) the opportunity cost of producing some of their own goods is lower than that of trading with others for them.
- D) they will not be able to satisfy the wants of all of their citizens.

24. Colombia produces coffee with less labor and land than any other country; it therefore necessarily has:
- A) a comparative advantage in coffee production.
 - B) both a comparative and absolute advantage in coffee production.
 - C) an absolute advantage and comparative disadvantage in coffee production.
 - D) **an absolute advantage in coffee production**
25. If the USA could produce 1 ton of potatoes or 0.5 tons of wheat per worker per year, while Ireland could produce 3 tons of potatoes or 2 tons of wheat per worker per year, there can be mutual gains from trade if:
- A) **The USA specializes in potatoes because of its comparative advantage in producing potatoes.**
 - B) The USA specializes in wheat because of its absolute advantage in producing wheat.
 - C) The USA specializes in wheat because of its comparative advantage in producing wheat.
 - D) There can be no mutual gains from trade.
26. The opportunity cost of producing a pair of pants in the USA is 5 bushels of wheat, while in China, it is 2 bushels of wheat. As a result:
- A) **there can be mutual gains from trade to the two countries if the USA exports wheat to China in exchange for pants.**
 - B) The USA has a comparative advantage over China in the production of pants.
 - C) China has a comparative advantage over the USA in the production of wheat.
 - D) there can be mutual gains from trade to the two countries if the USA exports pants to China in exchange for wheat.
27. Say that Alland can produce 32 units of food per person per year or 16 units of clothing per person per year, but Georgeland can produce 36 units of food per year or 18 units of clothing. Which of the following is true?
- A) **Georgeland has an absolute but not a comparative advantage in producing clothing.**
 - B) Georgeland has both an absolute and a comparative advantage in producing clothing.
 - C) Alland has an absolute but not a comparative advantage in producing food.
 - D) Alland has both an absolute and a comparative advantage in producing food.
28. _____ identifies the area where a producer's absolute advantage is relatively greatest, or where the producer's absolute disadvantage in productivity is relatively least.
- A) Relative advantage

- B) Opportunity cost
- C) Productivity advantage
- D) **Comparative advantage**

29. Assume that one day's labor in Argentina can produce either 20 units of cloth or 2 units of wine, while in Chile one day's labor can produce either 24 units of cloth or 12 units of wine. If Argentina transfers 2 units of labor from wine to cloth and Chile transfers 1 unit of labor from cloth to wine, the increase in combined output by those two workers will be:
- A) 16 wine; 8 cloths
 - B) 16 wine; 16 cloths
 - C) 12 wine; 12 cloths
 - D) **8 wine; 16 cloths**

30. What term is used to describe when one nation can produce a product at lower cost relative to another nation?
- A) Splitting up the value chain
 - B) Intra-industry trade
 - C) Comparative advantage
 - D) **Absolute advantage**

31. What is meant by surplus?
- A) The total number of units of a good or service purchased at a certain price.
 - B) When a change in some economic factor related to demand causes a different quantity to be demanded at every price.
 - C) **When at the existing price, quantity supplied exceeds the quantity demanded.**
 - D) At the existing price, the quantity demanded exceeds the quantity supplied.

32. If a firm faces _____, while the prices for the output the firm produces remain unchanged, a firm's profits will increase.
- A) higher demand
 - B) **lower costs of production**
 - C) equilibrium
 - D) a shift in demand

33. What term is used to describe goods that can replace each other to some extent, so that a rise in the price of one good leads to a lower quantity consumed of another good, and vice versa?
- A) Surplus
 - B) Normal goods

- C) Inferior goods
- D) **Substitutes**

34. Which of the following refers to the benefit consumers receive from buying a good or service, measured by what the individuals would have been willing to pay minus the amount that they actually paid?
- A) Excess supply
 - B) Supply curve
 - C) Demand schedule
 - D) **Consumer surplus**

Use the following to answer question 5:

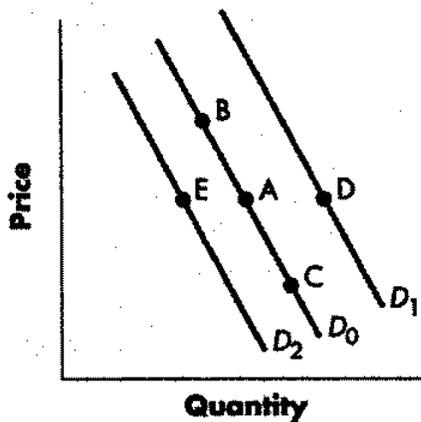


Figure 4-2

35. Refer to Figure 4-2. A change from Point A to Point B represents a(n):
- A) increase in demand.
 - B) decrease in demand.
 - C) decrease in quantity demanded.
 - D) **increase in quantity demanded.**
36. What is meant by law of supply?
- A) The benefit consumers receive from buying a good or service, measured by what the individuals would have been willing to pay minus the amount that they actually paid.
 - B) **The common relationship that a higher price is associated with a greater quantity supplied.**
 - C) A table that shows a range of prices for a certain good or service and the quantity demanded at each price.

D) Government laws to regulate prices.

37. Which of the following characteristics relate to price ceiling?
- A) Goods that are often used together, so that a rise in the price of one good tends to decrease the quantity consumed of the other good, and vice versa.
 - B) **A law that prevents a price from rising above a certain level.**
 - C) The benefit producers receive from selling a good or service, measured by the price the producer actually received minus the price the producer would have been willing to accept.
 - D) A relationship between price and the quantity supplied of a certain good or service.

38. When quantity demanded decreases in response to a change in price:
- A) the demand curve shifts to the right.
 - B) the demand curve shifts to the left.
 - C) there is a movement down along the demand curve.
 - D) **there is a movement up along the demand curve.**

Use the following to answer question 9:

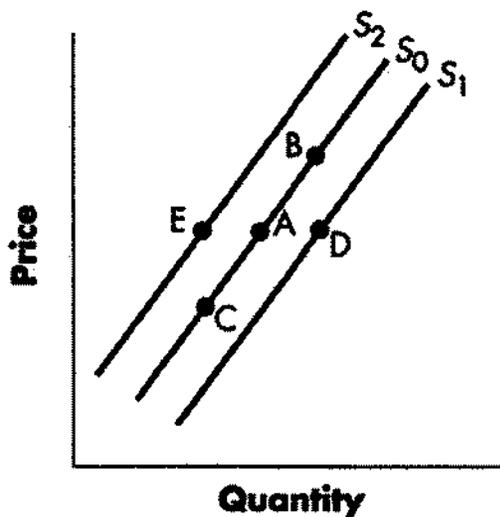


Figure 4-3

39. Refer to Figure 4-3. A change from Point A to Point B represents a(n):
- A) increase in supply.
 - B) **decrease in supply.**
 - C) increase in quantity supplied.
 - D) decrease in quantity supplied.

40. Which of the following refers to when a change in some economic factor related to demand causes a different quantity to be demanded at every price?
- A) Supply curve
 - B) **Shift in demand**
 - C) Shift in supply
 - D) Supply
41. Many cooks view butter and margarine to be substitutes. If the price of butter rises, then in the market for margarine:
- A) the equilibrium price will fall and the equilibrium quantity will fall.
 - B) **both the equilibrium price and quantity will rise.**
 - C) the equilibrium price will rise and the equilibrium quantity will decrease.
 - D) the equilibrium price will rise, while the change to equilibrium quantity is indeterminate.
42. Which of the following will not result in a leftward shift of the market demand curve for labor?
- A) a decrease in labor productivity
 - B) a decrease in demand for the firm's product
 - C) **an increase in the wage rate**
 - D) a decrease in the firm's product price
43. In 2012, Americans had about _____ outstanding in credit card debts not paid on time.
- A) \$900 million
 - B) \$9 billion
 - C) **\$900 billion**
 - D) \$9 trillion
44. When the price of labor is not at the _____, economic incentives tend to move salaries toward the equilibrium.
- A) **equilibrium**
 - B) minimum wage
 - C) price floor
 - D) price ceiling

Use the following to answer question 5:

Price	D_1	D_2	S_1	S_2
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\$12	5	9	19	14
\$10	8	12	17	12
\$8	11	15	15	10
\$6	13	18	13	8
\$4	16	21	11	6
\$2	18	24	9	4

Table 5-1

45. Refer to Table 5-1. If D_1 and S_1 represent the demand and supply schedules in a particular market, the equilibrium price and quantity are _____ and _____, respectively.
- A) \$4; 11
 B) **\$4; 16**
 C) \$6; 13
 D) \$8; 15
46. The supply curve of textbooks (which are produced using paper made from trees) will shift to the left in response to:
- A) a decline in college tuition.
 B) **a sharp increase in the demand for and construction of wood-frame homes.**
 C) an increase in the supply of lumberjacks.
 D) an end to government regulations that limit timber harvesting in national forests.
47. In 2010, Americans had about _____ outstanding in credit card debts not paid on time.
- A) **\$900 billion**
 B) \$90 billion
 C) \$900 million
 D) \$90 million
48. In contrast to goods and services markets, _____ are rare in labor markets, because rules that prevent people from earning income are not politically popular.
- A) minimum wages
 B) price floors
 C) **price ceilings**
 D) living wage laws
49. Improvements in the productivity of labor will tend to:
- A) decrease wages.
 B) decrease the supply of labor.
 C) **increase wages.**

D) increase the supply of labor.

50. Laws that impose an upper limit on the interest rate that lenders can charge are known as:
- A) financial investment laws
 - B) living wage laws
 - C) **usury laws**
 - D) price floors

51. Tariffs are taxes imposed on _____.
- A) **imported products**
 - B) exported products
 - C) hazardous goods
 - D) surplus goods

52. What term is used to describes the stipulation that a nation should not depend too heavily on other countries for supplies of certain key products?
- A) Race to the bottom
 - B) Dumping
 - C) Protectionism
 - D) **The national interest argument**

53. Why would foreign firms export a product at less than its cost of production—which presumably means making a loss?
- A) Many nations participate in poor planning and as a result produce a surplus of product which they sell at a loss.
 - B) **This may be part of a long-term strategy in which foreign firms would sell at below the cost of production in the short-term for a time, and when they have driven out the domestic U.S. competition, they would then raise prices.**
 - C) Many nations simply wish to keep their workers employed, no matter what the cost.
 - D) Many nations simply produce and sell inferior goods at prices that reflect this fact.

54. A rule that every imported product must be opened by hand and inspected with a magnifying glass, by one of just three government inspectors available at any given time might be referred to as _____.
- A) **a non-tariff barrier**
 - B) a quota
 - C) a government bureaucracy
 - D) an import quota

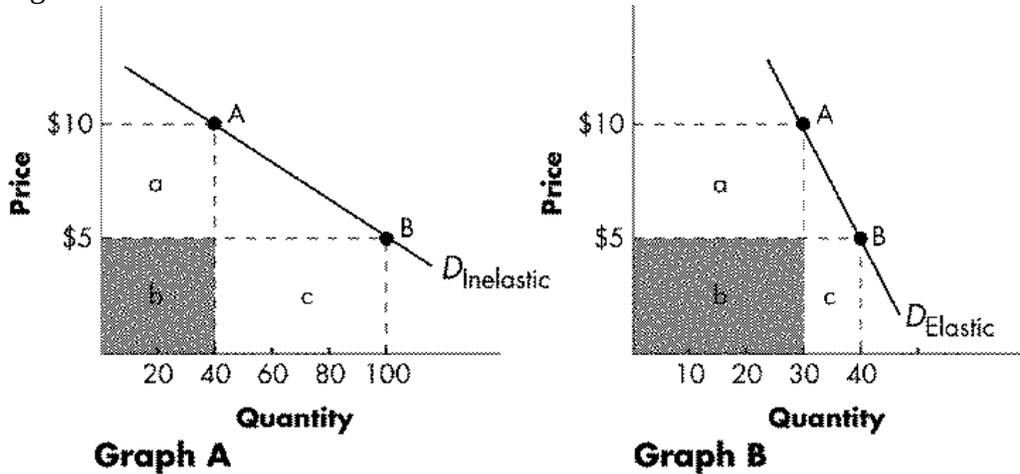
55. Which of the following refers to government policies to reduce or block imports?
- A) The national interest argument
 - B) Race to the bottom
 - C) **Protectionism**
 - D) Dumping
56. Low-wage U.S. workers suffer from protectionism in all the industries that they don't work in, because:
- A) protectionism provides a barrier to entry to the job markets that the low-wage earners want entry to.
 - B) **protectionism forces them to pay higher prices for basic necessities like clothing and food.**
 - C) protectionism will encourage foreign workers to apply for American jobs.
 - D) protectionism will prevent them from applying for those jobs in other industries.
57. The acronym GATT stands for:
- A) General Association for Trade and Tariffs
 - B) **General Agreement on Tariffs and Trade**
 - C) General Accounting for Tariff and Trade
 - D) General Association on Technology and Trade
58. A study published in 2011 compiled evidence that using _____ to save an average job in the tire industry would cost \$900,000 per job saved.
- A) imports
 - B) technology
 - C) **protectionism**
 - D) low-income countries
59. There are nontariff barriers in the form of _____ regulations, in which certain textiles are made in the United States, shipped to other countries, combined in making apparel with textiles made in those other countries—and then re-exported back to the United States at a lower tariff rate.
- A) import quota
 - B) export quota
 - C) **"rules of origin"**
 - D) dumping
60. During the second half of the twentieth century, trade barriers have in general:

- A) declined quite substantially both in the U.S. economy and in the global economy.
 - B) declined quite substantially in the U.S. economy but not in the global economy.
 - C) increased quite substantially in the U.S. economy and in the global economy.
 - D) increased quite substantially in the U.S. economy but not in the global economy.
61. What term is used to describe the highly inelastic case in which a percentage change in price, no matter how large, results in zero change in the quantity demanded or supplied?
- A) Inelasticity of supply
 - B) Elasticity of demand
 - C) Zero elasticity
 - D) Elasticity of supply
62. Suppose that Mimi plays golf 5 times per month when the price is \$40 and 4 times per month when the price is \$50. What is the price elasticity of Mimi's demand curve?
- A) 0.1
 - B) 0.8
 - C) 1.0
 - D) 10.0
63. Demand is said to be _____ when the quantity demanded changes the same proportion as the price.
- A) elastic
 - B) unit elastic
 - C) inelastic
 - D) independent
64. If the supply curve for a product is vertical, then the elasticity of supply is:
- A) equal to zero.
 - B) equal to 1.
 - C) greater than 1 but less than infinity.
 - D) equal to infinity.
65. The longer the time period considered, the elasticity of supply tends to:
- A) decrease
 - B) remain constant
 - C) increase
 - D) converge to zero
66. When economists are sketching examples of a demand or supply curve that is close to horizontal, they refer to that demand or supply curve as _____.

- A) elastic
- B) inelastic
- C) having zero elasticity
- D) price inelasticity

Use the following to answer question 7:

Figure 7-1



67. Refer to Figure 7-1. With reference to Graph A, at a price of \$5, total revenue equals:
- A) \$200.
 - B) \$400.
 - C) **\$500.**
 - D) \$1,000.

68. Which of the following refers to the elasticity calculated from the appropriate formula has an absolute value greater than 1?

- A) **Elastic**
- B) Cross-price elasticity of demand
- C) Inelastic
- D) Zero elasticity

69. What is meant by infinite elasticity?

- A) The percentage change in hours worked divided by the percentage change in wages.
- B) The highly inelastic case in which a percentage change in price, no matter how large, results in zero change in the quantity demanded or supplied.
- C) **The percentage change in the quantity of good A that is demanded as a result of a percentage change in the price of good B.**

- D) The extremely elastic situation where quantity changes by an infinite amount in response to even a tiny change in price.
70. Which of the following refers to the elasticity calculated from the appropriate formula has an absolute value less than 1?
- A) Elasticity of demand
 - B) **Inelastic**
 - C) Cross-price elasticity of demand
 - D) Infinite elasticity
71. The elasticity of demand is defined as the percentage change in quantity demanded divided by the percentage change in _____.
- A) quantity supplied
 - B) the slope of the demand curve
 - C) **price**
 - D) the slope in the supply curve
72. A 10 percent increase in income leads to a 15% decrease in the quantity of macaroni and cheese demanded but no change in the price of macaroni and cheese. From this information, we can assume:
- A) macaroni is a normal good and price elasticity of demand is greater than 1.
 - B) macaroni is an inferior good and price elasticity of supply is equal to zero.
 - C) **macaroni is an inferior good and price elasticity of supply is infinite.**
 - D) macaroni is an inferior good and price elasticity of demand is less than 1.
73. If the supply curve for housing is perfectly inelastic, a reduction in demand will cause the equilibrium price to:
- A) rise and the equilibrium quantity to fall.
 - B) rise and the equilibrium quantity to stay the same.
 - C) fall and the equilibrium quantity to fall.
 - D) **fall and the equilibrium quantity to stay the same.**
74. A price cut will increase the total revenue a firm receives if the demand for its product is:
- A) unit inelastic.
 - B) unit elastic.
 - C) inelastic.
 - D) **elastic.**

75. A 10 percent decrease in the price of potato chips leads to a 30 percent increase in the quantity of soda demanded. It appears that:
- A) elasticity of demand for potato chips is 3.
 - B) **cross-price elasticity of demand for soda is -3.**
 - C) elasticity of demand for potato chips is -3.
 - D) cross-price elasticity of demand for soda is 3.

76. Louisa works for a hedge fund company. Her wage increased from \$30 per hour to \$40 per hour. She can work up to 50 hours each week. The table below shows her utility from different levels of leisure and income. Louisa decided to increase her hours of work from 10 to 20 hours per week after receiving her raise. As a result, her marginal utility gain from having more income will now be

Hours of Leisure	Total Utility from Leisure	Income	Total Utility from Income
0	0	0	0
10	27	300	42
20	52	400	74
30	71	600	98
40	84	800	110
50	90	900	118
		1200	122
		1500	124
		1600	126
		2000	127

- A) 74
 - B) **36**
 - C) 13
 - D) 12
77. Marginal utility can
- A) be positive or negative, but not zero
 - B) decrease, but not become negative
 - C) **be positive, negative, or zero**
 - D) increase positively, but not negatively

78. Troy has a part-time job in a book store to help pay for his college. He can work up to 30 hours each week at his job, which pays \$9 per hour. The table below shows his utility from different levels of leisure and income. Troy currently works 20 hours per week. If he decides to work 30 hours instead, his marginal utility gain from the additional income is _____.

Hours of Leisure	Total Utility from Leisure	Income	Total Utility from Income
0	0	0	0
5	18	45	30
10	34	90	54
15	48	135	72
20	56	180	81
25	60	225	87
30	62	270	90
		315	92

- A) 12
- B) 6
- C) 3
- D) 9

79. The term Giffen good refers to a theoretical possibility that a higher price for a good could lead to a _____, or that a lower price leads to a _____.

- A) higher quantity demanded; lesser quantity demanded
- B) lesser quantity demanded; higher quantity demanded
- C) backward sloping supply curve; flattening of the supply curve
- D) substitution effect; income effect

80. Janie works for an accounting firm. Her wage increased from \$30 per hour to \$40 per hour. She can work up to 50 hours each week. The table below shows her utility from different levels of leisure and income. Before her raise, if Janie decreases her hours of work from 30 to 20 hours per week, the marginal utility gain from having more leisure is

Hours of Leisure	Total Utility from Leisure	Income	Total Utility from Income
0	0	0	0
10	29	300	40
20	54	400	72
30	75	600	96
40	86	800	108
50	92	900	116
		1200	120
		1500	122
		1600	124
		2000	125

- A) 29

- B) 21
- C) 13
- D) 7

81. The marginal utility of two goods changes _____.

- A) with the quantities consumed
- B) for the better, if taxes are imposed
- C) if they are intertemporal choices
- D) if the mother controls the household budget

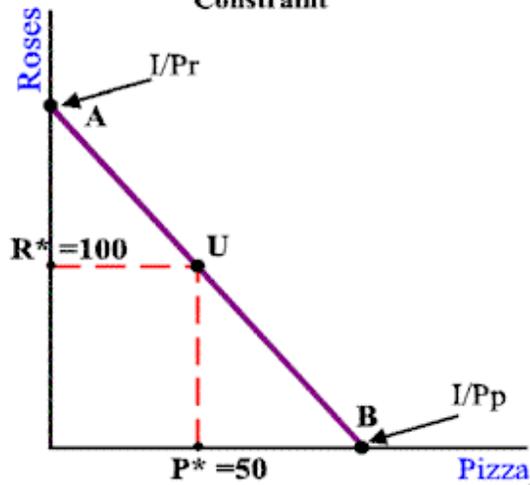
82. Garth inherited \$25,000. He needs to decide now much to spend now and how much to save for later. If he saves the money, he can earn 15% interest on the total before he spends it. Using the information about his marginal utility in the table below, Garth should

Present Consumption	Marginal Utility from Present Consumption	Future Consumption	Marginal Utility from Future Consumption
0	-	0	-
\$5,000	500	\$5,750	900
\$10,000	400	\$11,500	800
\$15,000	300	\$17,250	700
\$20,000	200	\$23,000	600

- A) spend \$5,000 now and \$22,250 in the future
- B) spend nothing now and \$28,750 in the future
- C) spend \$15,000 now and \$13,500 in the future
- D) spend \$10,000 now and \$16,750 in the future

83.

Figure 6-1 The Individual's Budget Constraint



Refer to the budget line shown in the diagram above. At point U,

- A) $P1/P2 = MU1/MU2$
- B) pizza is an inferior product
- C) $P2/P1 = MU2/MU1$
- D) roses are an inferior product

84. The term _____ is used to describe the common pattern whereby each marginal unit of a consumed good provides less of an addition to utility than the previous unit.

- A) **diminishing marginal utility**
- B) marginal utility pattern
- C) marginal income utility
- D) decreasing marginal utility

85. For lunch, Maria eats only salads or vegetarian burgers. Her weekly food budget is \$36. Each salad costs \$6 and each vegetarian burger costs \$3. When deciding how much of each good to buy, Maria knows that 2 salads and 4 vegetarian burgers will give her a utility of 8. Maria's utility-maximizing point is

- A) 6 salads, 1 vegetarian burger
- B) 4 salads, 6 vegetarian burgers
- C) **3 salads, 6 vegetarian burgers**
- D) 2 salads, 8 vegetarian burgers

86. What is meant by life-cycle theory of savings?

- A) **The common pattern that many people save little or borrow heavily early in life, save more in the middle of life, and then draw upon their accumulated savings later**

in life.

- B) The level of satisfaction or pleasure that people receive from their choices.
- C) The common pattern that each marginal unit of a good consumed provides less of an addition to utility than the previous unit.
- D) The situation when high-wage people can earn so much that they respond to a still-higher wage by working fewer hours.

87. The key assumption that accompanies the use of numbers for measuring utility is that
- A) utility cannot be measured by an outside party.
 - B) utility can be perfectly measured.
 - C) **individuals choose based on their preferences.**
 - D) people make consumption decisions.

88. What term is used to describe the situation when high-wage people can earn so much that they respond to a still-higher wage by working fewer hours?
- A) Giffen good
 - B) Life-cycle theory of savings
 - C) **Backward-bending supply curve for labor**
 - D) Income effect

89. What is meant by income effect?
- A) The common pattern that many people save little or borrow heavily early in life, save more in the middle of life, and then draw upon their accumulated savings later in life.
 - B) The additional utility provided by one additional unit of consumption.
 - C) **A change in price affects the buying power of income, with a higher price meaning that the buying power of income has been reduced, so that there is usually an incentive to buy less, and a lower price meaning that the buying power of income has been increased, so that there is usually an incentive to buy more.**
 - D) The common pattern that each marginal unit of a good consumed provides less of an addition to utility than the previous unit.

90. What term is used to describe the construct of utility maximization which describes all of the combinations of goods and services that the consumer can afford?
- A) Marginal utility
 - B) Income effect
 - C) **Budget constraint framework**
 - D) Diminishing marginal utility