1. Marginal utility is the
A) total satisfaction received from consuming a given number of units of a product.
B) average satisfaction received from consuming a product.
C) extra satisfaction received from consuming one more unit of a product.
D) satisfaction achieved when a consumer has had enough of a product.

2. As a consumer consumes more and more of a product in a particular time period, eventually marginal utility
A) rises.
B) is constant.
C) declines.
D) fluctuates.

3. If, as a person consumes more and more of a good, each additional unit adds less satisfaction than the previous unit consumed, we are seeing the workings of
A) the law of demand.
B) the law of supply.
C) the law of increasing marginal opportunity cost.
D) the law of diminishing marginal utility.

4. Marginal utility can be
A) negative.
B) zero.
C) positive.
D) positive, negative or zero.

5. If total utility increases at a decreasing rate as a consumer consumes more coffee, then marginal utility must
A) remains constant.
B) increase also.
C) decrease.
D) be negative.
6. Consumers have to make tradeoffs in deciding what to consume because
A) not all goods give them the same amount of satisfaction.
B) the prices of goods vary.
C) they are limited by a budget constraint.
D) there are not enough of all goods produced.

<table>
<thead>
<tr>
<th>Quantity of Pita Wraps</th>
<th>Total Utility</th>
<th>Quantity of Bubble Tea</th>
<th>Total Utility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>1</td>
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</tr>
<tr>
<td>7</td>
<td>128</td>
<td>7</td>
<td>115</td>
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</tbody>
</table>

Keegan has $30 to spend on Pita Wraps and Bubble Tea. The price of a Pita Wrap is $6 and the price of a glass of Bubble Tea is $3. Table 10-1 shows his total utility from different quantities of the two items.

7. **Refer to the above table.** What is Keegan's optimal consumption bundle?
A) 3 pita wraps and 3 bubble teas
B) 3 pita wraps and 4 bubble teas
C) 4 pita wraps and 2 bubble teas
D) 5 pita wraps and 0 bubble teas

8. **Refer to the above table.** If Keegan can drink all the bubble tea he wants for free, how many glasses will he consume?
A) 4 glasses
B) 5 glasses
C) 6 glasses
D) 7 glasses

9. If Valerie purchases ankle socks at $5 and gets 25 units of marginal utility from the last unit, and bandanas at $3 and gets 12 units of marginal utility from the last bandana purchased, she
A) is maximizing total utility and does not want to change their consumption of ankle socks or bandanas.
B) wants to consume more ankle socks and fewer bandanas.
C) wants to consume more of bandanas and fewer ankle socks.
D) wants to consume less of both ankle sock and bandanas.
10. Most people would prefer to drive a luxury car that has all the options, but more people buy less expensive cars even though they could afford the luxury car because
A) car buyers are irrational.
B) the total utility of less expensive cars is greater than that of luxury cars.
C) the marginal utility per dollar spent on the less expensive car is higher than that spent on luxury cars.
D) luxury cars cost a lot more than non-luxury cars.

11. If Marlowe obtains 9 units of utility per dollar spent on apples and 6 units of utility per dollar spent on oranges, then Marlowe
A) is maximizing total utility.
B) should buy more apples and fewer oranges.
C) should buy more oranges and fewer apples.
D) should buy fewer oranges and fewer apples.

12. If Ewan is consuming his utility maximizing bundle and the price of one good falls, what happens to the marginal utility per dollar spent on this good (MU/P), and what should Ewan do?
A) MU/P has increased and Ewan should buy more of this good.
B) MU/P has increased and Ewan should buy less of this good.
C) MU/P has decreased and Ewan should buy more of this good.
D) MU/P has decreased and Ewan should buy less of this good.

13. When the price of audio books, a normal good, falls, causing your purchasing power to rise, you buy more of them due to
A) the substitution effect of a price change.
B) the income effect of a price change.
C) the deadweight loss effect.
D) the elasticity effect.

14. When the price of summer tank tops falls and you buy more of them because they are relatively less expensive, this is called
A) the substitution effect of a price change.
B) the income effect of a price change.
C) the deadweight loss effect.
D) the elasticity effect.
15. The substitution effect of an increase in the price of Raisin Bran refers to
A) the decrease in the demand for Raisin Bran when its price rises.
B) the result that consumers will now switch to a substitute good such as Cheerios, and the demand curve for Raisin Bran shifts to the left.
C) the fact that the higher price of Raisin Bran lowers consumer's purchasing power, holding money income constant.
D) the fact that the higher price of Raisin Bran relative to its substitutes, such as Cheerios, cause consumers to buy less Raisin Bran.

16. If the price of lattes, a normal good you enjoy, falls
A) the income and substitution effects offset each other but the price effect leads you to buy more lattes.
B) both the income and substitution effects lead you to buy more lattes.
C) the income effect which causes you to increase your latte consumption outweighs the substitution effect which causes you to reduce your latte consumption, resulting in more latte purchased.
D) the substitution effect which causes you to increase your latte consumption outweighs the income effect which causes you to reduce your latte consumption, resulting in more latte purchased.

17. Consider a downward-sloping demand curve. When the price of an inferior good increases, the income and substitution effects
A) work in the same direction to increase quantity demanded.
B) work in the same direction to decrease quantity demanded.
C) work in opposite directions and quantity demanded increases.
D) work in opposite directions and quantity demanded decreases.

18. Which of the following is an experiment which tests whether fairness is important in consumer decision making?
A) the fair trade principle
B) the ultimatum game
C) the preferential treatment game
D) the behavioral experiment
19. The quantity demanded of tickets to the Super Bowl is always greater than the quantity supplied. Which of the following in the best explanation why the National Football League does not raise the price of tickets to the level where the quantity demanded equals the quantity supplied?
   A) Raising the price would reduce the demand for tickets; there would then be a surplus and the game would not sell out.
   B) The cost of raising the price and printing new tickets would exceed the revenue the NFL would receive from higher ticket prices.
   C) The demand for Super Bowl tickets is elastic; raising the price would reduce total revenue.
   D) The NFL is concerned that raising ticket prices would be considered unfair.

20. During its run on Broadway, the play *The Producers* regularly sold out all available tickets at the St. James Theater. The theater could have raised ticket prices from $75 to $125 and still sold all available tickets but chose not to do so. The best explanation for this decision is
   A) theater owners are unaware of the elasticity of demand for Broadway shows.
   B) theater owners do not want to raise their tickets on weekends, when demand is high, and then have to lower prices during the week, when demand is lower.
   C) firms sometimes give up profits in the short run to keep their customers happy and increase their profits in the long run.
   D) theater owners are not motivated to maximize their profits.

21. In their surveys of consumers, Daniel Kaheman, Jack Knetsch and Richard Thaler found that
   A) most people considered it unfair for firms to raise their prices because of an increase in their costs, but fair to raise their prices after an increase in demand.
   B) most people considered any increase in price to be unfair as it led to an increase in profits.
   C) most people believed that low income people were hurt most by increases in prices.
   D) most people considered an increase in price by firms following an increase in their costs to be fair but believed it was unfair for firms to raise their prices because of an increase in demand.

22. The observation that people tend to value something more highly when they own it than when they don't is called the
   A) wealth effect.
   B) endowment effect.
   C) path dependent effect.
   D) endorsement effect.

23. If you exhibit the endowment effect as a decision maker, then you are
   A) deciding on the basis of sunk costs.
   B) buying something you can't really afford because you expect to save in the future.
   C) ignoring non-monetary opportunity costs.
   D) consuming based on celebrity endorsements.
24. Alan Krueger conducted a survey of fans at the 2001 Super Bowl who purchased tickets to the game for $325 or $400. Krueger found that (a) 94 percent of those surveyed would not have paid $3,000 for their tickets, and (b) 92 percent of those surveyed would not have sold their tickets for $3,000. These results are evidence of
A) the high value fans place on watching the Super Bowl in person, rather than on television.
B) the failure of consumers to take into account nonmonetary opportunity costs.
C) the failure of consumers to ignore sunk costs.
D) consumers being overly optimistic about their future behavior.

25. Sunk costs
A) are costs associated with repairing something you already own.
B) are important for optimal decision making.
C) are costs that have already been paid and cannot be recaptured in any significant way.
D) are costs that firms sink into marketing.

26. Suppose you pre-ordered a non-refundable movie ticket to X-Men: Days of Future Past. On the day of the movie you decide that you would rather not go to the movie. According to economists, what is the rational thing to do?
A) Since the cost of the movie ticket is a sunk cost, it should not influence your decision. Your decision should be based solely on whether you want to see the movie or not.
B) You should not waste resources. Since you have paid for the ticket you should watch the movie.
C) Your should go to the movie to minimize your losses.
D) You should go to the movie to maximize your utility.

27. Wilbur Rickhiser, a financial advisor, recently told one of his clients: "The biggest mistake you can make is to hold onto a stock for too long in order to avoid a loss. Let's say you bought a stock for $50 per share but that six months later the price fell to $40 after a poor earnings report. Many of my clients in this situation will hold the stock, hoping the price will later rise above $50. In most cases like this the price does not rise and may even fall. You must know when to cut your losses." Which of the following is the best explanation for Rickhiser's advice?
A) People sometimes buy stocks because other people are buying them or they want to appear to be fashionable.
B) People sometimes make mistakes when they buy stocks because of the endowment effect.
C) People sometimes make mistakes when they buy stocks or when they buy goods and services: they ignore the monetary opportunity costs of their choices.
D) People often fail to ignore the sunk costs of their decisions. The cost of the stock bought at $50 per share is a sunk cost.
28. Health Clubs typically experience an increase in one-year memberships in January, but many new customers cancel their memberships before the end of the year. Which of the following is the best explanation for this behavior?
A) Some health club members suffer minor injuries that prevent them from working out.
B) Some people are overly optimistic about their future behavior.
C) Some people fail to treat their membership fees as sunk costs.
D) Some members receive utility from activities they believe are popular.

29. Assume that you had a ticket for a basketball playoff game that you bought for $50, the maximum price you were willing to pay. If someone offers to buy the ticket for $100 but you decide not to sell it, how can your decision be explained?
A) You expect to receive greater utility from attending the playoff game than you received from buying the ticket.
B) by the endowment effect
C) by the law of diminishing marginal utility
D) The income effect from the increase in the price of the ticket from $50 to $100 was greater than the substitution effect.

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