

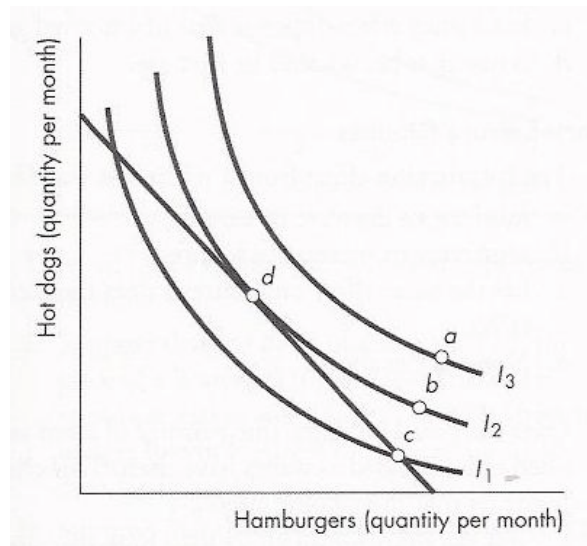
Sample Test Questions: Consumer Tastes and Preferences
Textbook Chapter 8

1. Which of the following statements best describes a consumer's budget line?
 - a. It shows all combinations of goods among which the consumer is indifferent
 - b. It shows the limits to a consumer's set of affordable consumption choices.
 - c. It shows the desired level of consumption for the consumer.
 - d. It shows the consumption choices made by a consumer.

2. As a consumer moves rightward along an indifference curve, the
 - a. Consumer remains indifferent among the different combinations of goods
 - b. Consumer generally prefers the combinations of goods further rightward along the indifference curve
 - c. Income required to buy the combinations of the goods always increases
 - d. Relative price of both goods fall

3. Diminishing marginal rate of substitution means that
 - a. The budget line has a negative slope
 - b. The budget line does not shift when people's preferences change
 - c. Indifference curves might have a positive slope
 - d. Indifference curves will be convex

Interpret the following graph:

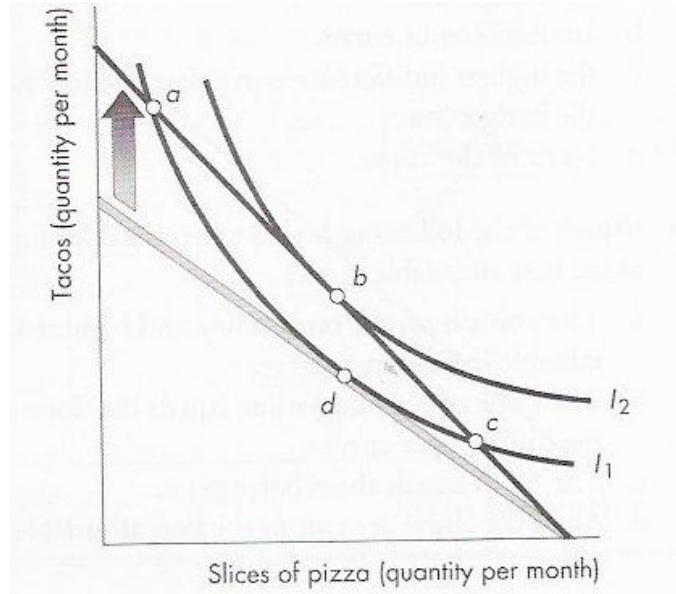


4. Which of the following statements about the graph above is correct?
 - a. Point A is preferred to point D, but A is not affordable
 - b. The consumer is indifferent between points D and C, but C is more affordable
 - c. Point B is preferred to Point D, but B is not affordable
 - d. Both points A and D cost the same, but A is preferred to D.

5. What is the best affordable point of consumption?
 - a. A
 - b. B
 - c. C
 - d. D

6. When oranges fall in price, the substitution effect
 - a. Increases the consumption of oranges if oranges are a normal good
 - b. Increases the consumption of oranges if oranges are an inferior good
 - c. Always increase the consumption of oranges
 - d. Always decreases the consumption of oranges

Interpret the following graph:



7. The change in the budget line is the result of a(n)
 - a. Fall in the price of a slice of pizza
 - b. Fall in the price of a taco
 - c. Increase in income
 - d. None of the above
8. The new consumer equilibrium is at point
 - a. A
 - b. B
 - c. C
 - d. D
9. An inferior good
 - a. Has a substitution effect opposite of that of a normal good
 - b. Has an income effect opposite of that of a normal good
 - c. Has a price effect opposite of that of a normal good
 - d. Is one that breaks after its first use
10. When the price of a normal good falls, the income effect _____ the quantity demanded and the substitution effect _____ the quantity demanded.
 - a. Increases; increases
 - b. Increases; decreases
 - c. Decreases; increases
 - d. Decreases; decreases