

Economics 101
Practice Questions #3
Answer Key

1. D. It is true that total utility is increasing, however their *marginal utility* is decreasing.
2. B. Marginal utility increases and total utility decreases as consumption decreases.
3. C. You want to equate marginal utility per dollar spent across goods. In this case the marginal utility per dollar spent on pizza is greater than that of soda, so we need to eat more pizza to decrease our marginal utility of pizza.
4. C. Marginal utility per dollar spent must be equal across goods for consumer equilibrium.
5. A. The price of cola and the price of popcorn are the same. Hence, so should the marginal utility of each.
6. D. Once you get to point B, dog food is now twice as expensive as cat food. Hence, the slope of the budget line should be price of cat food over price of dog food, or $-1/2$.
7. B. In increase in income is a parallel shift toward the northeast quadrant.
8. A. This is just a definition.
9. B. If you have a constant rate of marginal substitution between two goods, than the indifference curves for these goods are straight lines. Therefore, they are substitute goods.
10. B. These are indifference curves for perfect complements, such as right and left handed gloves.
11. B. Total income is \$24 so if they can buy 8 hamburgers the price must be \$4.
12. A. I is clearly true. However II is false. The slope of the budget line is the same between points A and B, but that is not necessarily the same as the marginal rate of substitution across different indifference curves.
13. B. The price of kiwi went down and Reggie consumed more Mango. Therefore, these two goods are complements.