**Lebanese American University**

**School of Business**

Course title: Micro Economics

**Exam Two**

**Fall 2012-2013**

**Economics 201 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1. If the price elasticity of demand for a good is .75, the demand for the good can be described as:   
   A. Normal  
   B. Elastic  
   C. Inferior  
   D. Inelastic
2. Block's sells 500 bottles of perfume a month when the price is $7. A huge increase in resource costs causes price to rise to $9 and Block's only manages to sell 460 bottles of perfume. The price elasticity of demand is:   
   A. 0.33 and elastic  
   B. 3.0 and elastic  
   C. 0.33 and inelastic  
   D. 3.0 and inelastic



1. Refer to the above graphs. A price increase from $20 to $40 causes quantity demanded to decrease from 100 units to 50 units. Which graph best illustrates the price elasticity of demand for this good?   
   A. Graph A  
   B. Graph B  
   C. Graph C  
   D. Graph D
2. Refer to the above graphs. Which shows a perfectly elastic demand curve?   
   A. Graph A  
   B. Graph B  
   C. Graph C  
   D. Graph D
3. Refer to the above graphs. Which shows a perfectly inelastic demand curve?   
   A. Graph A  
   B. Graph B  
   C. Graph C  
   D. Graph D

 Answer the next question(s) based on the following data.  
  
 

1. Refer to the above data. Over which price range is the price elasticity of demand *inelastic*?   
   A. $20-$18  
   B. $18-$16  
   C. $12-$10  
   D. $10-$8
2. Refer to the above data. Over which price range is the price elasticity of demand *unitary*?   
   A. $18-$16  
   B. $16-$14  
   C. $14-$12  
   D. $12-$10

1. Refer to the above data. What is the price elasticity of demand over the range of $8 to $10?   
   A. 0.11  
   B. 0.47  
   C. 1.93  
   D. 1.43
2. Following a decrease in price from $1.90 to $1.50, the weekly demand for a magazine increases from 100,000 to 120,000 copies. The price elasticity of demand for magazines in this range is:   
   A. .43  
   B. .77  
   C. .98  
   D. 1.23
3. Along a linear downward-sloping demand curve, the price elasticity of demand will be:   
   A. Greater than one across each price range  
   B. Less than one across each price range  
   C. Equal to zero across each price range  
   D. Different across each price range



1. Refer to the above graph. When the quantity of product X increases from 14,000 to 16,000, the price elasticity of demand for product X is:   
   A. Elastic  
   B. Inelastic  
   C. Unit-elastic  
   D. Perfectly inelastic

1. Refer to the above graph. Demand is price-elastic between points:   
   A. *A* and *B*  
   B. *D* and *E*  
   C. *F* and *G*  
   D. *G* and *H*
2. Total revenue falls as the price of a good increase if price elasticity of demand is:   
   A. Elastic  
   B. Inelastic  
   C. Unitary elastic  
   D. Perfectly elastic
3. Assuming pizza and hamburgers are substitutes, when the price of pizza increases, what must always happen?   
   A. Total revenue received by pizza sellers increases  
   B. Total revenue received by pizza sellers decreases  
   C. Total revenue received by hamburger sellers increases  
   D. Total revenue received by hamburger sellers decreases

1. A price increase from $43 to $49 results in an increase in quantity supplied from 220 units to 240 units. The price elasticity of supply in this price range is:   
   A. 0.3  
   B. 0.67  
   C. 1.50  
   D. 3.33



1. Refer to the above graph. Which statement is correct?   
   A. The demand curve is perfectly elastic  
   B. The demand curve is perfectly inelastic  
   C. The supply curve is perfectly elastic  
   D. The supply curve is perfectly inelastic
2. Refer to the above graph. If the demand increased:   
   A. Price and quantity would increase  
   B. Price and quantity would decrease  
   C. Price would stay the same and quantity would decrease  
   D. Price would stay the same and quantity would increase
3. Refer to the above graph. If the demand decreased:   
   A. Quantity would stay the same and price would increase  
   B. Quantity would stay the same and price would decrease  
   C. Price would stay the same and quantity would decrease  
   D. Price would stay the same and quantity would increase
4. The main reason for the high price of antiques is that:   
   A. Supply is relatively elastic and demand increases over time  
   B. Supply is relatively inelastic and demand increases over time  
   C. Demand is relatively elastic and supply increases over time  
   D. Demand is relatively inelastic and supply increases over time
5. The income elasticity of demand for a food is unity. A consumer's monthly income is $2,000, of which 20 percent is spent on food. If income doubles, the amount spent on food will be:   
   A. $400 per month  
   B. $500 per month  
   C. $800 per month  
   D. $1000 per month



1. Refer to the graph above. The area of producer surplus would be represented by triangular area:   
   A. A  
   B. B  
   C. C  
   D. D
2. Given the demand curve, the consumer surplus is:   
   A. Decreased by lower prices, but not affected by higher prices  
   B. Increased by higher prices, but not affected by lower prices  
   C. Decreased by higher prices and increased by lower prices  
   D. Increased by higher prices and decreased by lower prices



1. Refer to the above diagrams. The case of complementary goods is represented by figure:   
   A. A.  
   B. B.  
   C. C.  
   D. D.
2. Refer to the above diagrams. In which case would the coefficient of cross elasticity of demand be positive?   
   A. A  
   B. B  
   C. C  
   D. D



1. Refer to the above table. What is the consumer surplus for person D?   
   A. $3  
   B. $5  
   C. $10  
   D. $13
2. Suppose that a 20 percent increase in the price of normal good Y causes a 10 percent decline in the quantity demanded of normal good X. The coefficient of cross elasticity of demand is:   
   A. negative and therefore these goods are substitutes.  
   B. negative and therefore these goods are complements.  
   C. positive and therefore these goods are substitutes.  
   D. positive and therefore these goods are complements.
3. Allocative efficiency occurs only at that output where:  
   A. marginal benefit exceeds marginal cost the by the greatest amount.  
   B. consumer surplus exceeds producer surplus by the greatest amount.  
   C. the combined amounts of consumer surplus and producer surplus are maximized.  
   D. the areas of consumer and producer surplus are equal.
4. Which best expresses the law of diminishing marginal utility?   
   A. The more consumption of a product, the smaller is the total and marginal utility from the consumption  
   B. The less consumption of a product, the greater is the total and marginal utility of the consumption  
   C. The more consumption of a product, the smaller is the marginal utility from consuming an additional unit  
   D. The more consumption of a product, the smaller is the total and marginal utility from the consumption
5. Which statement is valid based on utility theory?   
   A. Marginal utility is positive when total utility is increasing  
   B. Marginal utility is positive when total utility is decreasing  
   C. Marginal utility is negative when total utility is increasing  
   D. Marginal utility is zero when total utility is decreasing
6. If total utility is increasing, then marginal utility:   
   A. Must be declining  
   B. Must be increasing  
   C. Must be increasing at an increasing rate  
   D. May either be increasing or decreasing, but it must be greater than zero

 The table below shows the marginal-utility schedules for goods A and B for a hypothetical consumer. The price of good A is $1 and the price of good B is $2. The income of the consumer is $11.  
  
 

1. Refer to the above table. To maximize utility, the consumer will buy:   
   A. 3 A and 5 B  
   B. 5 A and 6 B  
   C. 5 A and 3 B  
   D. 6 A and 4 B
2. Refer to the above table. When the consumer purchases the utility-maximizing combination of goods A and B, total utility will be:   
   A. 63  
   B. 71  
   C. 82  
   D. 87
3. Refer to the above table. Suppose that the consumer's income increased from $11 to $14, what would be the utility-maximizing combination of goods A and B?   
   A. 5 A and 3 B  
   B. 6 A and 4 B  
   C. 7 A and 4 B  
   D. 7 A and 7 B
4. Which is a dimension or assumption of the marginal-utility theory of consumer behavior?   
   A. Goods and services are free  
   B. The consumer has a small income  
   C. Each consumer has clear-cut preferences for goods and services  
   D. Goods and services yield continually increasing amounts of marginal utility as the consumer buys more of them
5. Assume that a consumer purchases a combination of product A and product B such that the MUa/Pa = 8 and MUb/Pb = 6. To maximize utility without spending more money, the consumer should:   
   A. Purchase less of product A and more of product B  
   B. Purchase more of product A and less of product B  
   C. Purchase more of both product A and product B  
   D. Make no change in purchases of products A and B
6. In spending all his income on beer and pizza, Fred finds that the marginal utility of the last pizza is currently 8, the marginal utility of the last bottle of beer is 4, and the price of a bottle of beer is $1.50. If Fred has maximized his utility, the price of a pizza is:   
   A. $.75  
   B. $1.00  
   C. $3.00  
   D. $4.50
7. Assume that A and B are both priced at $1 per unit and that Mary has $10 to spend on A and B. She buys 6 units of A and 4 units of B. The marginal utility of A is 12 and the marginal utility of B is 8. This indicates that:   
   A. Mary is in equilibrium  
   B. Given another dollar, Mary should buy an additional unit of B  
   C. In order to maximize utility, Mary should buy more of B and less of A  
   D. In order to maximize utility, Mary should buy more of A and less of B



1. The consumer can immediately gain the most extra total utility by switching spending from:   
   A. X to Y  
   B. Y to X  
   C. Z to Y  
   D. Y to Z