Part I: Multiple Choice. 15 questions, 30 total points. Answer each question by circling your answer.
(Suggested time for this section: 15 minutes.)

1. The substitution effect
   a. always pushes consumption higher.
   b. is always more than the income effect.
   c. always pushes consumption in the opposite direction to the price change.
   d. [none of the above]

2. If food (f) is on the vertical axis and shelter (s) is on the horizontal axis, the slope of the budget line is given by
   a. P_f / P_s
   b. P_f / M
   c. [none of the above]
   d. –P_f / P_s
   e. –P_f / P_s

3. An indifference curve is a collection of points
   a. that a person can afford with a given budget.
   b. that are the different consumption choices possible given the prices of the goods in the market.
   c. that illustrates different combinations of the goods among which a person has no preference.
   d. that shows that as a person consumes more of the good on the x axis, he is better-off.

4. As one moves southeast on a linear demand curve
   a. demand becomes more elastic.
   b. demand becomes more inelastic.
   c. elasticity stays the same.
   d. on cannot tell what happens to elasticity.

5. If the marginal utility of an extra hamburger is 8 utils, the marginal utility of another soft drink is 5 utils, and the price of a hamburger is $1 and the price of a soft drink is 50¢, then the consumer can maximize utility (achieve equilibrium) by
   a. paying more for soft drinks.
   b. paying more for hamburgers.
   c. buying more soft drinks and fewer hamburgers.
   d. buying more hamburgers and fewer soft drinks.
   e. consuming the current basket of goods.

6. If the income-consumption-curve (ICC) has a negative slope, then it implies that the good in question
   a. is a luxury good.
   b. is an inferior good.
   c. is a normal good.
   d. has a flat PPC.

7. In the context of a basic market model (i.e., a supply and demand graph), which of the following combinations of changes would result in a higher equilibrium price and an uncertain change in equilibrium quantity?
   a. an increase in supply and demand.
   b. an increase in supply and a decrease in demand.
   c. a decrease in supply and demand.
   d. a decrease in supply and an increase in demand.

8. If the consumer's budget constraint is given by 10F + 5S = 100, where F is food and S is shelter, how much food can he buy if he purchases 2 units of shelter?
   a. 10   b. 5   c. 20   d. 9   e. [none of previous answers] 10F = 90
   \[ F = 9 \]
9. If a good is inferior, then the Engel curve for that good
   a. slopes up to the right.
   b. slopes down to the right.
   c. is vertical.
   d. is horizontal.
   e. [none of the above]

10. An increase in the price of one good will cause
    a. an inward rotation of the budget curve.
    b. an outward rotation of the budget curve.
    c. a parallel shift of the budget curve.
    d. no change in the budget curve.
    e. [none of the above]

11. When someone optimally chooses a consumption bundle, the MRS equals
    a. the ratio of the prices of the goods.
    b. the opportunity cost of one good in terms of the other.
    c. the slope of the indifference curve.
    d. [all of the above]
    e. [none of the above]

12. At any point on an indifference curve, the slope indicates
    a. how the total satisfaction of the consumer changes with different market baskets.
    b. the marginal rate of substitution between the two goods.
    c. the way the consumer’s budget is allocated between goods.
    d. the relative price ratio of the two goods.

13. Suppose the price of good x falls, and we wish to isolate the substitution effect of the price change. We must
    a. place the consumer on the original indifference curve with the new relative prices.
    b. place the consumer at a new indifference curve with new relative prices.
    c. place the consumer on the original indifference curve with the original relative prices.
    d. [none of the above will allow us to isolate the substitution effect]

14. Suppose a consumer has a budget of $M, and must pay $P per visit to the local museum for each of the first 10 visits but only $P/2 per visit from the 11th visit on. With a composite consumption good on the y-axis, and “visits to the museum” on the x-axis, the budget line
    a. becomes steeper after 10 museum visits.
    b. cannot be drawn because price is not constant.
    c. has a constant slope.
    d. [none of the above]  

15. The “composite good” convention in consumer behavior analysis
    a. treats many goods as a group.
    b. cannot be employed in a two-dimensional graph.
    c. incorporates goods that have dual uses into consumer theory.
    d. [all of the above]