## TEST BANK



## TRUE/FALSE

1. A consumption possibility set is the set of bundles feasible for a society's agents to consume.

	ANS: LOC:	T Utility and cor	PTS:	1 choice	DIF: TOP:	Easy A Primitive St	NAT: Analytic ate of Nature: People and Goods
2.	The pro third by	operty of consu y consuming fr	imption actions	sets that impli of them is call	es that ed conv	it is possible to vexity.	combine two bundles to produce a
	ANS: LOC: TOP:	T Utility and cor The Convexity	PTS: nsumer ( Proper	1 choice ty of Consump	DIF: otion Po	Easy ossibility Sets	NAT: Analytic
3.	Transit itself.	ivity is an assu	mption	on consumer p	oreferer	ices that states t	hat any bundle is at least as good as
	ANS: LOC:	F Utility and cor	PTS:	1 choice	DIF: TOP:	Easy Binary Relatio	NAT: Analytic nships among Goods
4.	Rationa	ality is the assu	imption	that economic	agents	know what the	y like and behave accordingly.
	ANS: LOC:	T Utility and cor	PTS:	1 choice	DIF: TOP:	Easy Binary Relatio	NAT: Analytic nships among Goods
5.	The received econom	duced set of co nically feasible	nsumpt consur	ion bundles, ea nption set.	ch of w	hich satisfies th	ne budget constraint, is called the
	ANS: LOC:	T Utility and cor	PTS:	1 choice	DIF: TOP:	Easy Income or Buc	NAT: Analytic lget Constraints
6.	A utilit by assi	ty function is a gning a utility	represe number	ntation of an a	gent's p	preferences that	tells the agent how good a bundle is
	ANS: LOC:	T Utility and cor	PTS:	1 choice	DIF: TOP:	Easy The Need for	NAT: Analytic Utility Functions
7.	An add consun	litive utility fun ned is independ	nction h lent of t	as the property he amount of c	that th other go	e marginal utili oods consumed.	ty of one extra unit of any good
	ANS: LOC:	T Utility and cor	PTS:	1 choice	DIF: TOP:	Easy Additive and M	NAT: Analytic Aultiplicative Utility Functions

8. In a multiplicative utility function, utility is a function of the products of the various units of goods consumed.

ANS:	T PTS:	1	DIF:	Easy	NAT: A	Analytic	
LOC:	Utility and consumer	choice	TOP:	Additive and I	Multiplica	ative Utility	<b>Functions</b>

9. A psychological assumption about agents that states that they are interested only in their own utility is called selfishness.

ANS:	T PTS:	1	DIF:	Easy	NAT: Analytic
LOC:	Utility and consumer	choice	TOP:	Psychological	Assumption 1: Selfishness

10. A pychological assumption about consumer preferences that states that more of anything is always better is called satiation.

ANS:	F PTS:	1	DIF:	Easy	NAT: Analytic
LOC:	Utility and consumer	choice	TOP:	Psychological	Assumption 2: Nonsatiation

## **MULTIPLE CHOICE**

- 1. In Experimental Teaser 1, what action can the divider choose?
  - a. Keep all the \$10
  - b. Give some to the receiver
  - c. Both options are available

ANS:	C P'	TS: 1	DIF:	Easy	NAT:	Analytic
LOC:	Utility and consu	umer choice	TOP:	Experimental	Teaser	1

- 2. Which of the following institutions exists in a primitive state of nature?
  - a. the state
  - b. banks
  - c. corporations

ANS:	A PTS:	1 DIF:	Easy	NAT: Analytic	
LOC:	Utility and consumer	choice TOP	: A Primit	tive State of Nature: People and Good	ls

- 3. Which of the following is not a choice facing agents in the primitive state of nature?
  - a. how much money to earn
  - b. how much time to spend at leisure and how much to spend picking fruit
  - c. what mix of fruit they want to consume at any given point in time

ANS:	A PTS: 1	DIF:	Moderate NAT: Analytic
LOC:	Utility and consumer choice	TOP:	A Primitive State of Nature: People and Goods

4. The divisibility assumption is the assumption on consumption sets that states that

- a. goods are infinitely divisible b. it is possible to add consumption bundles c. it is possible to combine two bundles to produce a third by consuming fractions of them ANS: A PTS: 1 DIF: Easy NAT: Analytic LOC: Utility and consumer choice TOP: The Convexity Property of Consumption Possibility Sets 5. The assumption on consumption sets that states that it is possible to add consumption bundles is called a. the divisibility assumption b. the additivity assumption c. convexity NAT: Analytic ANS: B PTS: 1 DIF: Easy LOC: Utility and consumer choice TOP: The Convexity Property of Consumption Possibility Sets 6. An assumption on consumer preferences that implies that, if any two bundles in the consumption possibility set are chosen, then agents will be able to rank them is called a. complete binary ordering b. incomplete binary ordering c. ordinal utility ANS: A PTS: 1 DIF: Moderate NAT: Analytic LOC: Utility and consumer choice **TOP:** Rationality 7. The assumption of complete binary ordering does not apply to a. comparing a bag of two pounds of apples and one pound of raspberries to a bag of one pound of apples and three pounds of raspberries b. asking if your economics or your marketing professor is your favorite c. choosing between two slices of pizza plus one energy drink and three slices of pizza and two energy drinks PTS: 1 NAT: Reflective Thinking ANS: B DIF: Moderate LOC: Utility and consumer choice **TOP:** Rationality 8. An assumption on consumer preferences that states that any bundle is at least as good as itself is called a. relexivity b. transitivity
  - ANS: APTS: 1DIF: EasyNAT: AnalyticLOC: Utility and consumer choiceTOP: Binary Relationships among Goods

c. multiplicativity

	<ul><li>a. agents know what they like</li><li>b. economists evaluate or judge the prefer</li><li>c. agents behave based on their knowledge</li></ul>	ences o e of wh	f agents at they like		
	ANS: B PTS: 1 LOC: Utility and consumer choice	DIF: TOP:	Moderate Binary Relatio	NAT: nships	Analytic among Goods
10.	One reason that agents cannot consume infi a. consumption takes time and time is fini b. the agents' eyes are bigger than their sta c. factories cannot produce that many goo	nite am te in an omachs ds over	ounts of goods y given day the long run	is that	
	ANS: A PTS: 1 LOC: Utility and consumer choice	DIF: TOP:	Moderate Time Constrai	NAT: nts	Analytic
11.	Because it takes a fixed amount of time to c good is more than the other a. expensive b. delicious c. nutritious	consum	e each of two go	oods an	d the amounts differ, one
	ANS: A PTS: 1 LOC: Utility and consumer choice	DIF: TOP:	Easy Time Constrain	NAT: nts	Analytic
12.	<ul><li>A place where agents can go and exchange</li><li>a. market</li><li>b. trading pit</li><li>c. fair</li></ul>	one go	od for another a	t a fixe	d price is called a
	ANS: APTS: 1LOC: Markets, market failure, and externaTOP: Income or Budget Constraints	DIF: lities	Easy	NAT:	Analytic
13.	<ul><li>Reflexivity is an example of a</li><li>a. psychological assumption</li><li>b. rationality assumption</li><li>c. psychiatric assumption</li></ul>				
	ANS: B PTS: 1 LOC: Utility and consumer choice	DIF: TOP:	Moderate Rationality and	NAT: d Choic	Analytic ce
14.	The bundle to choose from a set utility number by the agent's ut a. best, biggest b. best, smallest c. worst, biggest	of avail ility fur	able bundles is netion.	be the o	one that is assigned the
	ANS: A PTS: 1	DIF:	Easy	NAT:	Analytic

TOP: The Need for Utility Functions

LOC: Utility and consumer choice

9. Not included in the economic definition of rationality is the concept that

- 15. The assumption on utility functions that states that, if two bundles are close to each other in the feasible set, then they will be assigned utility numbers that are close to each other as well is called convexity a. b. continuity c. ordinality ANS: B PTS: 1 DIF: NAT: Analytic Moderate LOC: Utility and consumer choice TOP: The Continuity Assumption 16. Which assumption or assumptions permits the derivation of the existence of a continuous utility function? a. both rationality and continuity assumptions b. only rationality assumptions c. only continuity assumptions NAT: Analytic ANS: A PTS: 1 DIF: Moderate LOC: Utility and consumer choice TOP: The Existence of Continuous Utility Functions 17. The function U = xy is an example of a(n)a. multiplicative utility function b. additive utility function c. cardinal utility function ANS: A PTS: 1 DIF: Moderate NAT: Analytic TOP: Additive and Multiplicative Utility Functions LOC: Utility and consumer choice 18. If the utility numbers we assign to objects have no meaning other than to represent the ranking of these goods in terms of a person's preferences, then utility is measurable in the ordinal sense a. b. cardinal sense c. rational sense ANS: A PTS: 1 NAT: Analytic DIF: Easy LOC: Utility and consumer choice TOP: Cardinal and Ordinal Utility 19. Which of the following is not a psychological assumption made about economic agents? a. continuity b. selfishness c. nonsatiation PTS: 1 ANS: A DIF: Easy NAT: Analytic **TOP:** Psychological Assumptions LOC: Utility and consumer choice 20. Imagine that you are a member of a team working on an economics group project. You have to choose between doing your share of the work to increase the group grade or sliding by on the work of the other team members. This example could be a case study for a. nonsatiation b. convexity of preferences ambiguous selfishness c. ANS: C PTS: 1 DIF: Moderate
  - ANS: CPTS: 1DIF: ModerateNAT: Reflective ThinkingLOC: Utility and consumer choiceTOP: Psychological Assumption 1: Selfishness

21.	<ul><li>The results of the Dictator game seem to vie</li><li>a. both selfishness and nonsatiation</li><li>b. only selfishness</li><li>c. only nonsatiation</li></ul>	plate which of the following assumptions?
	ANS: A PTS: 1	DIF: Easy NAT: Analytic
	LOC: Utility and consumer choice	TOP: Resolving Teaser 1
22.	According to Fehr and Schmidt, if $x_j > x_i$ , the function like a. $U_i(x) = x_i$ b. $U_i(x) = x_i - b(x_i - x_j)$ c. $U_i(x) = x_i - a(x_j - x_i)$	en an inequality-averse person <i>i</i> would have a utility
	ANS: C PTS: 1 LOC: Utility and consumer choice	DIF: Hard NAT: Analytic TOP: Resolving Teaser 1
23.	According to Fehr and Schmidt, if people g if they get, they feel a. less, envious, more, guilty b. less, guilty, more, envious c. more, neutral, less, guilty	et than others, the receivers feel, and
	ANS: A PTS: 1 LOC: Utility and consumer choice	DIF: Moderate NAT: Analytic TOP: Resolving Teaser 1
24.	In the Dictator game, subjects were most set a. the experiment is done using a double-b b. the right to be the divider is allocated ra c. subjects have to compete for the right to	lfish when blind protocol (no one is looking) andomly b be the divider (excuse to justify selfishness)

ANS:	А	PTS:	1	DIF:	Moderate	NAT:	Analytic
LOC:	Utility and con	nsumer	choice	TOP:	Resolving Tea	aser 1	



- 25. Refer to Figure 2-1. Which point is not contained in the economically feasible consumption set? a. a
  - b. b
  - c. c

ANS:	C PTS: 1	DIF:	Moderate
LOC:	Utility and consumer cl	hoice TOP:	Income or Bu

DIF: Moderate NAT: Reflective Thinking TOP: Income or Budget Constraints

## SHORT ANSWER

1. Michelle Wu's favorite 16-ounce drinks are iced tea, lemonade, and an "Arnold Palmer," which is a mixture of iced tea and lemonade. Explain how these three drinks form a convex set.

ANS:

One endpoint of the set is a 16-ounce iced tea. The othe endpoint is a 16-ounce lemonade. By taking a fraction of 16 ounces of iced team and a corresponding fraction of 16 ounces of lemonade, Michelle can make variations of Arnold Palmer drinks. In other words, Michelle can choose any mixture that adds up to 16 ounces and create a drink that she will enjoy. Compare Solved Problem 2.1 on p. 24 of the text.

PTS: 1 DIF: Moderate NAT: Reflective Thinking LOC: Utility and consumer choice

TOP: The Convexity Property of Consumption Possibility Sets

2. Why are economically feasible sets bounded?

ANS:

An unbounded set leads to the assumption that our agents can consume infinite positive amounts of the two goods available to them. This assumption is unreasonable. For example, consumption usually takes time, and in any given day, there is not enough time to consume infinite amounts of the goods. In addition, agents work in markets and earn incomes. These incomes are finite and act as budget constraints.

PTS: 1 DIF: Moderate NAT: Analytic LOC: Utility and consumer choice TOP: The Economically Feasible Set

3. Beyond the three rationality assumptions--completeness, reflexivity, and transitivity--what assumption is required for the use of utility functions?

ANS:

The use of utility functions does not require any additional assumptions beyond those involved in the description of the consumer's preferences. In particular, it is not necessary that utility levels be observable or measurable.

PTS:	1	DIF: I	Hard	NAT:	Reflective Thinking
LOC:	Utility and cor	isumer c	hoice	TOP:	The Need for Utility Functions

4. If you believe that the amount of utility an agent receives from raspberries directly depends on how many units of apples the agent consumes, what type of utility function should you use?

ANS:

In a multiplicative utility function, the marginal utility of consumption for any good depends on the amount of other goods consumed.

PTS: 1 DIF: Moderate NAT: Analytic LOC: Utility and consumer choice TOP: Additive and Multiplicative Utility Functions

5. Robert Rubate's utility function assigns the number 100 to a piece of cheesecake and the number 250 to a book about Thomas Jefferson. These numbers imply that the Jefferson book is two-and-a-half times as good as a piece of cheesecake. What type of utility is Robert using?

ANS:

Robert's utility is said to be cardinal in a strong sense. Utility is said to be measurable in the cardinal sense if not only the utility numbers assigned to bundles, but also their differences are meaningful.

PTS:	1	DIF:	Easy	NAT:	Reflective Thinking
LOC:	Utility and cor	nsumer	choice	TOP:	Cardinal and Ordinal Utility