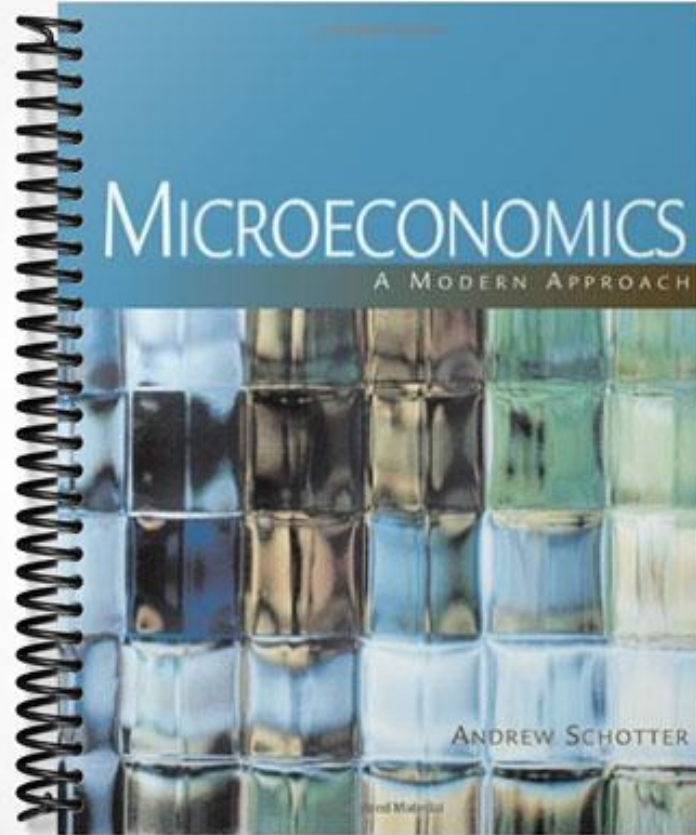


TEST BANK



Chapter 2. Consumers and Their Preferences

TRUE/FALSE

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

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

2. The property of consumption sets that implies that it is possible to combine two bundles to produce a third by consuming fractions of them is called convexity.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice
 TOP: The Convexity Property of Consumption Possibility Sets

3. Transitivity is an assumption on consumer preferences that states that any bundle is at least as good as itself.

ANS: F PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Binary Relationships among Goods

4. Rationality is the assumption that economic agents know what they like and behave accordingly.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Binary Relationships among Goods

5. The reduced set of consumption bundles, each of which satisfies the budget constraint, is called the economically feasible consumption set.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Income or Budget Constraints

6. A utility function is a representation of an agent's preferences that tells the agent how good a bundle is by assigning a utility number.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: The Need for Utility Functions

7. An additive utility function has the property that the marginal utility of one extra unit of any good consumed is independent of the amount of other goods consumed.

ANS: T PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Additive and Multiplicative 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: Analytic
 LOC: Utility and consumer choice TOP: Additive and Multiplicative Utility Functions

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 psychological 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 PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer 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 Primitive State of Nature: People and Goods

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

9. Not included in the economic definition of rationality is the concept that
- agents know what they like
 - economists evaluate or judge the preferences of agents
 - agents behave based on their knowledge of what they like

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Utility and consumer choice TOP: Binary Relationships among Goods

10. One reason that agents cannot consume infinite amounts of goods is that
- consumption takes time and time is finite in any given day
 - the agents' eyes are bigger than their stomachs
 - factories cannot produce that many goods over the long run

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Utility and consumer choice TOP: Time Constraints

11. Because it takes a fixed amount of time to consume each of two goods and the amounts differ, one good is more _____ than the other
- expensive
 - delicious
 - nutritious

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Time Constraints

12. A place where agents can go and exchange one good for another at a fixed price is called a
- market
 - trading pit
 - fair

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: Markets, market failure, and externalities
 TOP: Income or Budget Constraints

13. Reflexivity is an example of a
- psychological assumption
 - rationality assumption
 - psychiatric assumption

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Utility and consumer choice TOP: Rationality and Choice

14. The _____ bundle to choose from a set of available bundles is be the one that is assigned the _____ utility number by the agent's utility function.
- best, biggest
 - best, smallest
 - worst, biggest

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: The Need for Utility Functions

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
 - continuity
 - ordinality

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
 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?
- both rationality and continuity assumptions
 - only rationality assumptions
 - only continuity assumptions

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Utility and consumer choice TOP: The Existence of Continuous Utility Functions

17. The function $U = xy$ is an example of a(n)
- multiplicative utility function
 - additive utility function
 - cardinal utility function

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

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
 - cardinal sense
 - rational sense

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Cardinal and Ordinal Utility

19. Which of the following is not a psychological assumption made about economic agents?
- continuity
 - selfishness
 - nonsatiation

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Psychological Assumptions

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
- nonsatiation
 - convexity of preferences
 - ambiguous selfishness

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
 LOC: Utility and consumer choice TOP: Psychological Assumption 1: Selfishness

21. The results of the Dictator game seem to violate which of the following assumptions?
- both selfishness and nonsatiation
 - only selfishness
 - only nonsatiation

ANS: A PTS: 1 DIF: Easy NAT: Analytic
 LOC: Utility and consumer choice TOP: Resolving Teaser 1

22. According to Fehr and Schmidt, if $x_j > x_i$, then an inequality-averse person i would have a utility function like
- $U_i(x) = x_i$
 - $U_i(x) = x_i - b(x_i - x_j)$
 - $U_i(x) = x_i - a(x_j - x_i)$

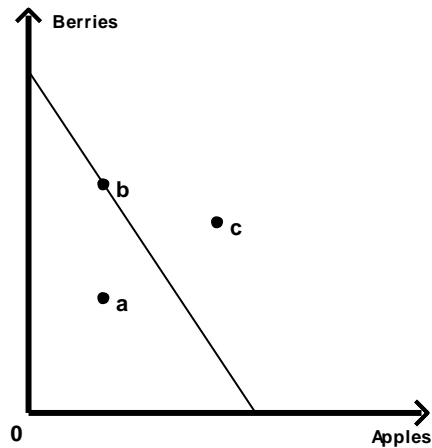
ANS: C PTS: 1 DIF: Hard NAT: Analytic
 LOC: Utility and consumer choice TOP: Resolving Teaser 1

23. According to Fehr and Schmidt, if people get _____ than others, the receivers feel _____, and if they get _____, they feel _____.
- less, envious, more, guilty
 - less, guilty, more, envious
 - more, neutral, less, guilty

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Utility and consumer choice TOP: Resolving Teaser 1

24. In the Dictator game, subjects were most selfish when
- the experiment is done using a double-blind protocol (no one is looking)
 - the right to be the divider is allocated randomly
 - subjects have to compete for the right to be the divider (excuse to justify selfishness)

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
 LOC: Utility and consumer choice TOP: Resolving Teaser 1

Figure 2-1

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

ANS: C

PTS: 1

DIF: Moderate NAT: Reflective Thinking

LOC: Utility and consumer choice

TOP: Income or Budget Constraints

SHORT ANSWER

- 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 other endpoint is a 16-ounce lemonade. By taking a fraction of 16 ounces of iced tea 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: Hard NAT: Reflective Thinking
LOC: Utility and consumer choice 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 consumer choice TOP: Cardinal and Ordinal Utility