

Name _____

Part I Match the term with the best definition

- | | |
|------------------------------------|---|
| ___ 1. Total revenue | ___ 11. Inferior good |
| ___ 2. Price elasticity of demand | ___ 12. Total utility |
| ___ 3. Income elasticity of demand | ___ 13. Marginal utility |
| ___ 4. Cross elasticity of demand | ___ 14. Law of diminishing marginal utility |
| ___ 5. Price elasticity of supply | ___ 15. Consumer equilibrium condition |
| ___ 6. Elastic demand | ___ 16. Budget constraint |
| ___ 7. Inelastic demand | ___ 17. Indifference curve |
| ___ 8. Complement goods | ___ 18. Marginal rate of substitution |
| ___ 9. Substitute goods | ___ 19. Income effect |
| ___ 10. Normal goods | ___ 20. Substitution effect |

- A. Raising price along the demand curve lowers total revenue, ceteris paribus
- B. Added satisfaction a consumer gets from consuming one more unit of a good
- C. Goods that are used together
- D. Absolute value of the slope of an indifference curve at any point
- E. Goods that compete with one another for the consumer's income
- F. Shows how much quantity demanded of a good will change as income changes, ceteris paribus
- G. MU of A divided by Price of A equals to Marginal Utility of B divided by price of B.... and all income is spent
- H. Goods whose demand increases when consumers have less income to spend, ceteris paribus
- I. Amount of income a consumer has available to spend or save
- J. The marginal utility a consumer receives from one more of a good will eventually decline
- K. Quantity sold times the price received per unit
- L. Hypothetical measure of the total satisfaction consumers receive as they consume more units of a good
- M. Total revenue increases as price is increased along the demand curve, ceteris paribus
- N. Shows how much the quantity demanded of a good will change if the price of another good changes, ceteris paribus
- O. Various combinations of two goods that give a consumer a constant amount of total utility
- P. More of a good is purchased as its price falls because the consumer has more real income to spend
- Q. Shows how much the quantity demanded of a good will change as the price of another good changes, ceteris paribus
- R. Shows how much quantity supply will change as the price changes along a given demand curve
- S. Goods whose demand decreases as consumers have more income to spend
- T. More of a good is purchased as its price falls because it substitutes for another good

Part II Answer all of the following questions in a few complete sentences.

1. Why should a business have knowledge of its price, income, and cross elasticities of demand?

2. Your boss has decided to increase the price of a product that you know has an elastic demand. Explain to him why this might not be a good idea

3. Do you think the demand for an RMC diploma is elastic or inelastic? Why?

4. If consumer utility cannot be objectively measured, what is the value of discussing it in the text and the classroom?

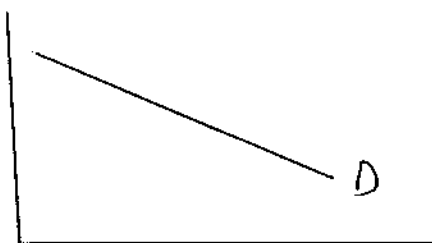
5. Briefly explain how the income and substitution effects are used to explain the law of demand.

Part III Problems and graphs

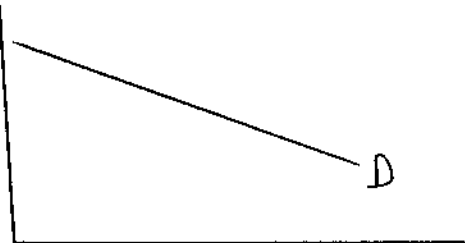
1. Given the following demand schedule, compute the total revenue at each price/quantity demanded. Compute the average elasticity between a price of 5 and 6 and compute the exact price elasticity at a price of 5.

Price	Quantity demanded	Total revenue
7	10	_____
6	20	_____
5	30	_____
4	40	_____
3	50	_____

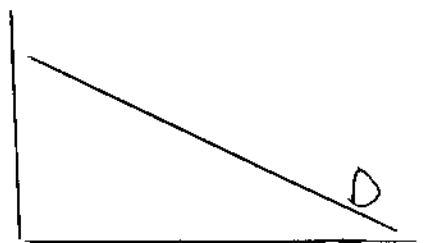
2. Illustrate how the demand curves would be changed by the following changes in the market place



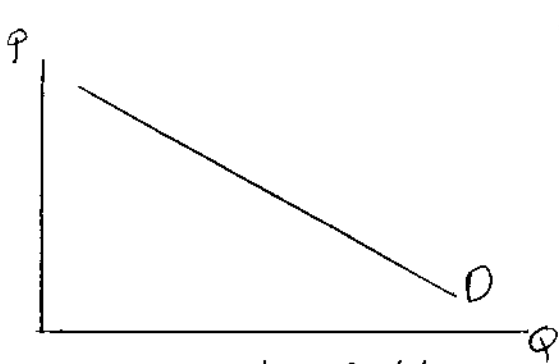
A substitute good's price rises



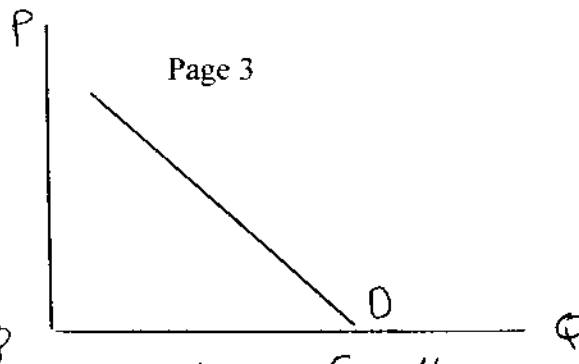
A complement goods price rises



Income rises for this inferior good

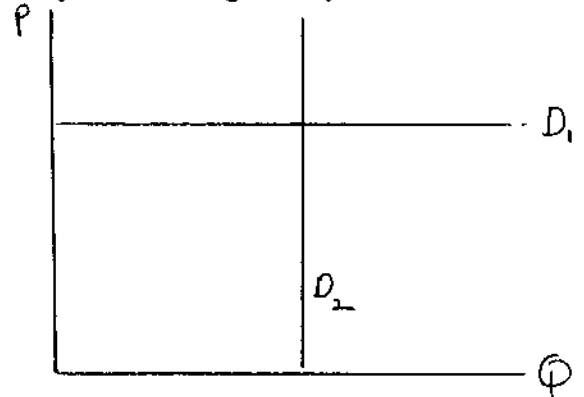
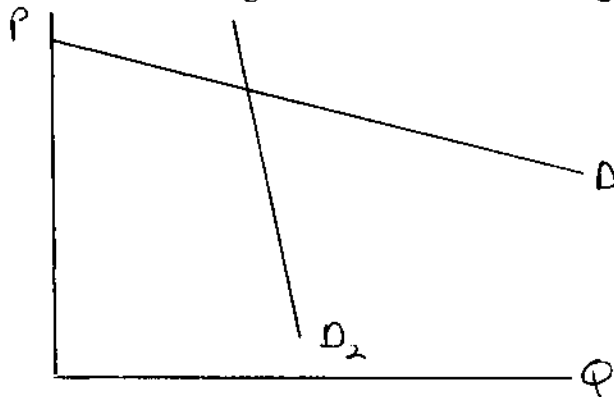


The supply of this product rises



The income for this normal good falls

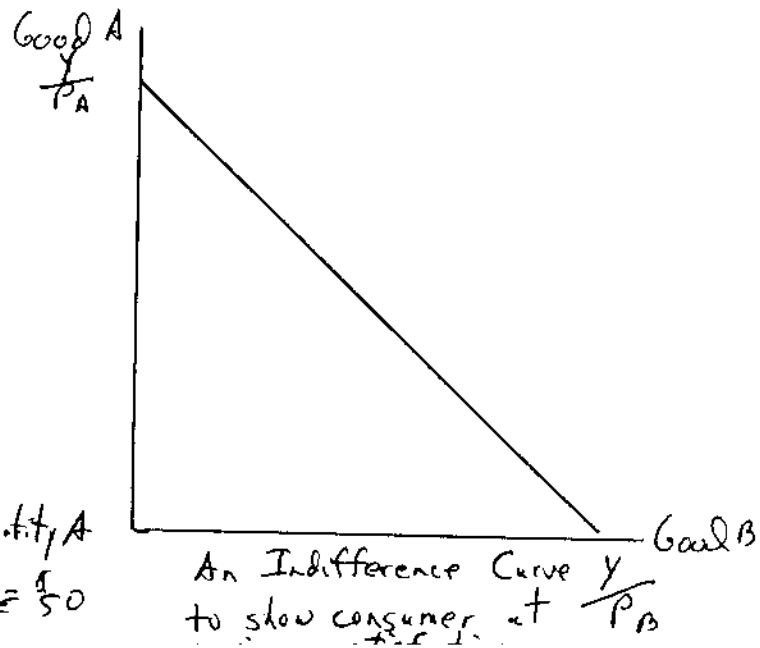
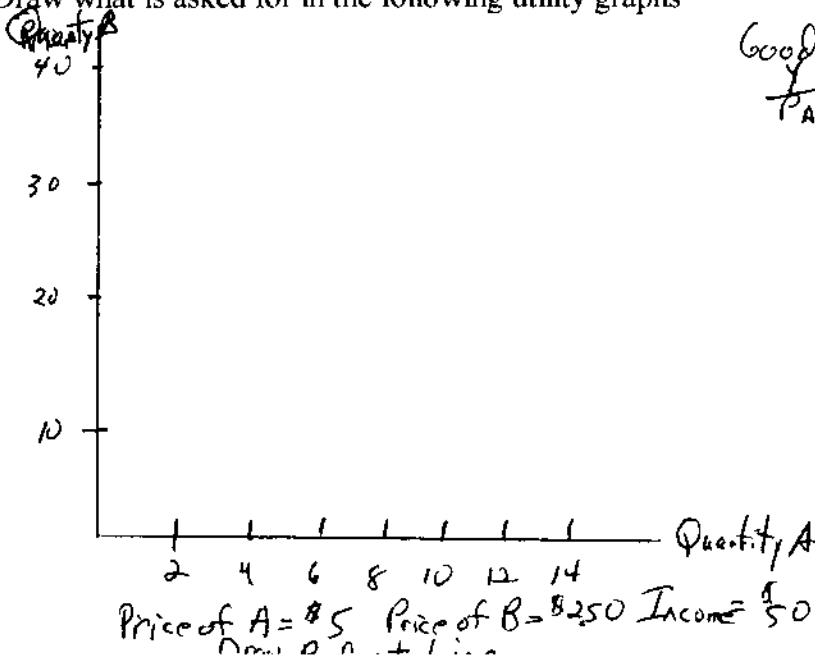
3. Indicate which of the following demand curves would be generally elastic and generally inelastic

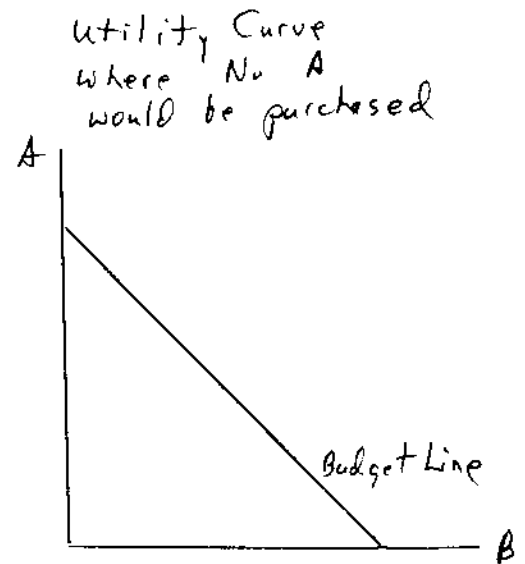
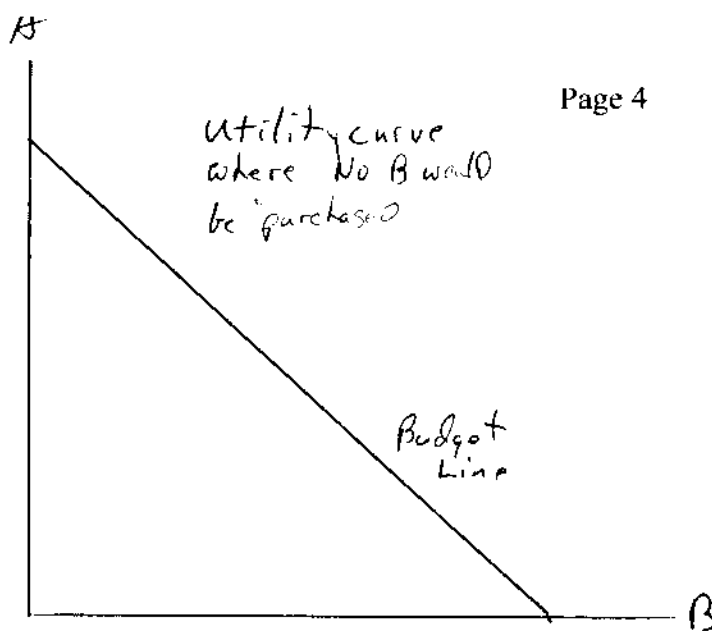


4. Linda has the following preferences for apples and oranges. If they sell for a dollar each and she has \$5 to spend, how many of each will she buy and what will be her total utility?

Units Consumed	TU Apples	TU Oranges
0	0	0
1	22	15
2	41	28
3	58	39
4	73	48
5	12	55

5. Draw what is asked for in the following utility graphs





Part IV True/false, multiple choice, fill in the blanks, etc

1. You have a great idea about a new product that you believe will make you into another Bill Gates. The bank wants to know how many units you can sell at what prices. Two ways to find this out are by _____ and by _____.
2. If you were selling a product with an inelastic demand, you would lower your price in order to get more revenue (T F).
3. In general, the characteristics of a product with an elastic demand would be that there are (few many) substitutes available, the product is (expensive inexpensive), and would be considered a (necessity luxury) item.
4. Two goods with a negative cross elasticity would be considered as (complements substitutes). An example of two such goods is _____ and _____.
5. Goods with a positive cross elasticity would be considered to be (complements substitutes). An example of two such goods is _____ and _____.
6. The significance of knowing cross elasticity coefficients is that if the price of another good changed, you could easily estimate how your demand and revenue would be affected (T F).
7. An example of an inferior good is _____. If your income was to rise you would purchase (more less) of this good.
8. The reason that Adam Smith never solved the diamond /water paradox was because he failed to understand the concept of total utility (T F).
9. Frederick Bell found that the Papal Decree saying that Catholics could eat meat on Fridays except during lent caused the incomes of the New England fisherpersons to drop by an average of about _____ percent. This same study showed by far the most important substitute for fish in this market was (imported fish chicken and beef).
10. (Most goods have (positive negative) elasticities and the income elasticity coefficient tends to be fairly (small large).

(5)

11. The law of diminishing marginal utility says that

12. Economists generally believe that rich people receive more total utility from their consumption than do people with less income (T R).

13. The reason that most people cannot get as much utility as they would like is because of their limited _____.

14. Economists assume the goal of rational consumers is to _____.

15. The reason that economists disagree over government programs such as housing and food assistance is because they disagree about what the consumer's (indifference curves productivity) are likely to look like.