Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL MULTIPLE CHOICE QUESTIONS

UTILITY

PAST QUESTIONS

1 Which statement about the concept of utility is correct?

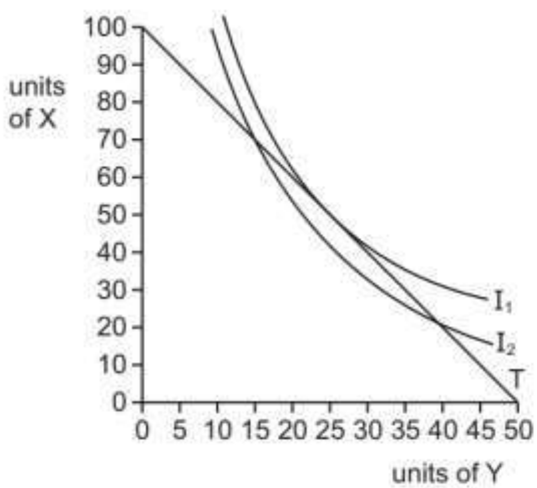
A Diminishing marginal utility means that producers become less efficient the more they produce.

B If marginal utility is above average utility, average utility must be rising.

C The equi-marginal principle says that a consumer gets equal total satisfaction from each item purchased.

D Total utility continually rises as the level of consumption rises.

2 The diagram shows indifference curves I1, I2 and a budget line T.



Which combination of X and Y gives the consumer maximum satisfaction?

	units of X	units of Y
A	100	0
B	70	15
C	50	25
D	20	40

3 The table shows the total utility gained by a consumer from the consumption of water.

quantity consumed / bottles	total utility
0	0
1	30
2	40
3	48
4	54
5	58

What can be concluded from this table?

A Marginal utility increases as consumption increases.

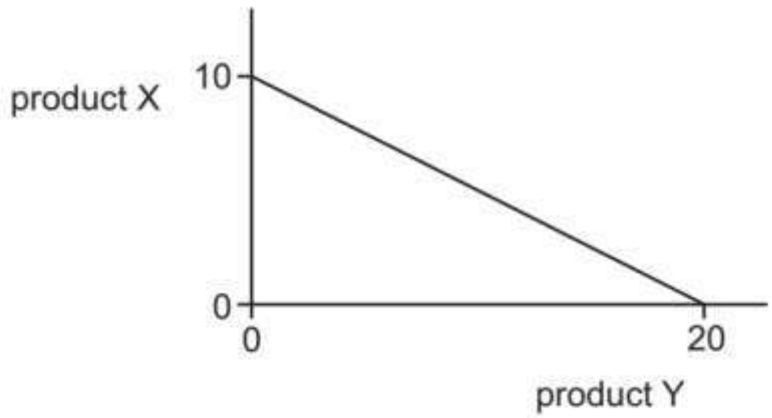
B The consumer cannot switch expenditure to another product to increase total utility.

C The marginal utility of the 3rd unit is 8.

D The marginal utility of the 5th unit is 2.

4 A consumer has $100 to spend on two products, X and Y.

The budget line shows the different possible combinations of products X and Y that can be purchased when all the consumer's income is spent.



If the price of product Y increases to $10, what will be the maximum number of units of product X and product Y that the consumer can now purchase?

	product X	product Y
A	5	10
B	5	20
C	10	10
D	20	10

5 A person buys two pairs of socks.

What does the purchase of the second pair of socks lead to?

A a decrease in marginal productivity

B a decrease in marginal utility

C an increase in marginal productivity

D an increase in marginal utility

6 What does an indifference curve show?

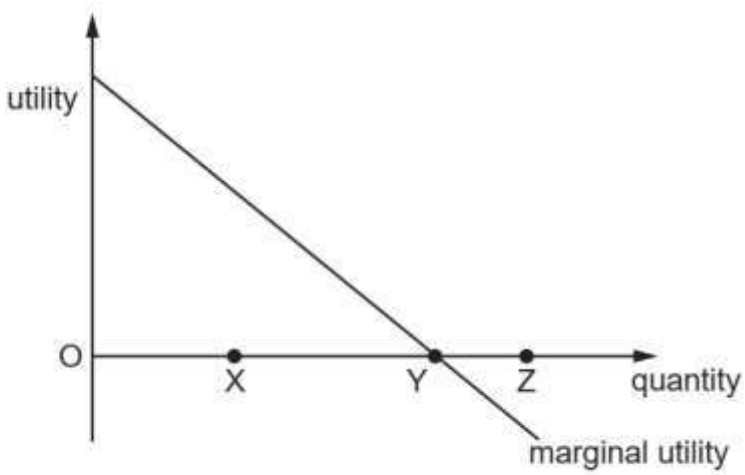
A the amount of two products achievable with given income and prices

B the different combinations of two goods that give a consumer equal utility

C the income available to buy the two goods

D the rate at which marginal utility changes as consumption changes

7 What does the marginal utility diagram show?



A Total utility becomes negative if the quantity consumed increases from Y to Z.

B Total utility decreases if the quantity consumed increases from X to Y.

C Total utility decreases if the quantity consumed increases from Y to Z.

D Total utility is maximised at X.

8 Which assumption in relation to an indifference theory diagram is not correct?

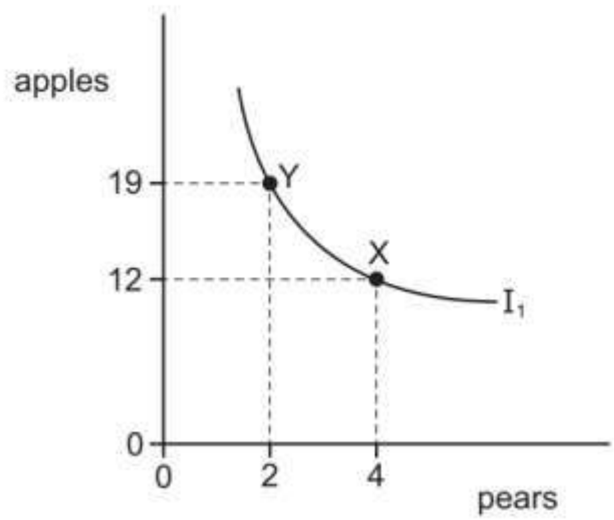
A The consumer's income may change.

B The consumer may change their satisfaction-maximising objective.

C The consumers may change their tastes and preferences.

D The relative prices of products may change.

9 The diagram shows an individual's indifference curve, I1, for apples and pears.



What can be concluded from the movement from point X to point Y on this curve?

A The individual can afford more apples than pears.

B The individual has not changed their total utility.

C The individual prefers apples to pears.

D The individual has gained more utility by moving from point X to point Y.

10 Utility theory is based on the assumption of the 'rational consumer'.

What is necessary to act as a 'rational consumer'?

	access to complete information	addictive behaviour	choice is independent of other consumers
A	no	yes	yes
B	yes	no	no
C	yes	yes	no
D	yes	no	yes

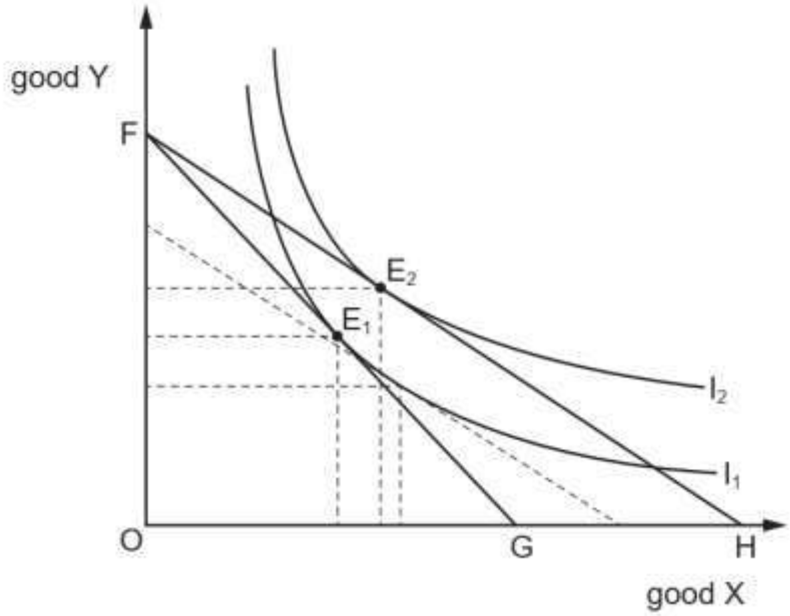
11 The price of good S is $6 and the price of good T is $8. A consumer's marginal utility for each good is shown.

units	marginal utility of good S	marginal utility of good T
1	36	32
2	24	22
3	18	20
4	9	18
5	0	9

If this consumer wants to maximise total utility, which combination of goods would they consume?

	good S	good T
A	1	1
B	2	1
C	3	4
D	5	5

12 The diagram shows the effect of a price change on an individual consumer's equilibrium, moving from E_1 to E_2.



What can be deduced from the diagram about the price change, the substitution effect and the income effect?

	price change	substitution effect	income effect
A	price of X falls	positive	positive
B	price of X falls	positive	negative
C	price of Y rises	negative	positive
D	price of Y rises	negative	negative

13 How can the concept of marginal utility explain the shape of the downward sloping demand curve?

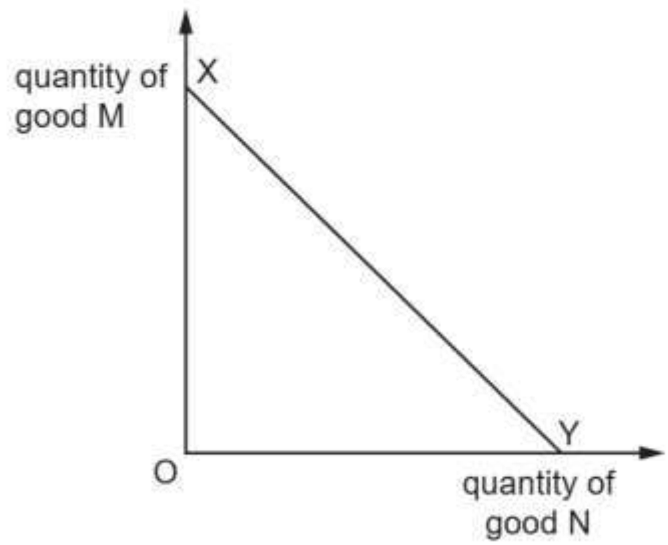
A Consumer tastes and preferences only change when their spending power increases.

B Extra utility gained from consuming successive units of a good will fall continuously.

C Satisfaction of consuming one more unit of a good is greater than the loss of money spent.

D Total utility gained from buying more and more units of a good will continue to increase indefinitely.

14 XY is the budget line of an individual consumer.

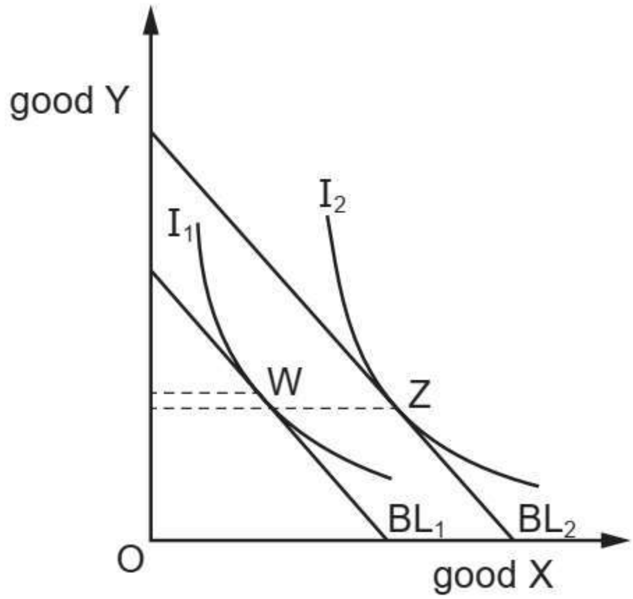


Which changes could leave the position of XY unchanged?

	consumer's income	price of good M	price of good N
A	decrease	decrease	increase
B	decrease	increase	increase
C	increase	increase	decrease
D	increase	increase	increase

15 The diagram shows an indifference map and two budget lines.

When the consumer's budget line shifts from BL_1 to BL_2, consumption changes from point W to point Z.



What do these changes indicate about the nature of goods X and Y?

	good X	good Y
A	normal	inferior
B	normal	normal
C	inferior	normal
D	inferior	inferior

16 What is the central principle of marginal utility theory?

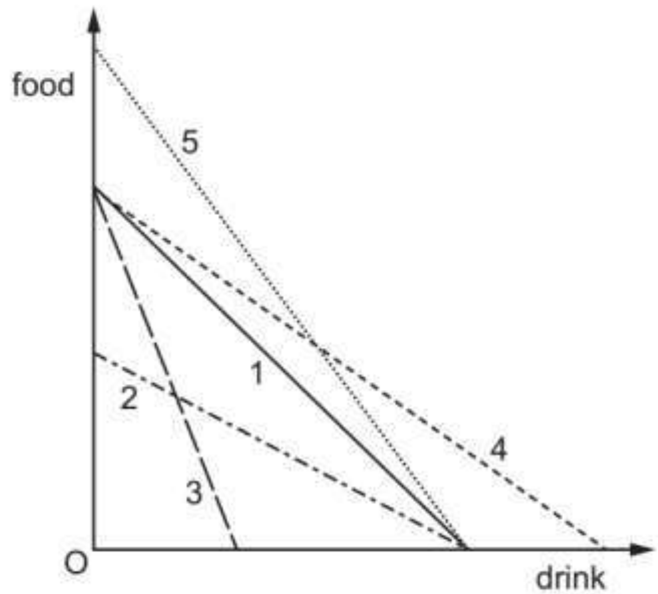
A As more is consumed of a normal good, the additional satisfaction gained increases.

B Consumers are in equilibrium when the marginal utility gained from good X equals the price of good Y.

C Consumers are in equilibrium when the ratio of the marginal utility of goods X and Y are equal to the ratio of their prices.

D Consumers are in equilibrium when the total utility gained from good X is the same as gained from good Y.

17 The diagram shows five budget lines. Line 1 is the original budget line.



Which pair of budget lines shows a relatively higher price for drink compared with food after a move from budget line 1?

A 2 and 3   B 2 and 4   C 3 and 5   D 4 and 5

18 Broken rice is an inferior good.

What would be the resulting income and substitution effect on the quantity demanded of broken rice if its price falls?

	quantity demanded due to income effect	quantity demanded due to substitution effect
A	falls	falls
B	falls	rises
C	rises	falls
D	rises	rises

19 What does a budget line show?

A the behaviour of a utility-maximising consumer

B the difference between an individual's consumption and saving

C the monetary value of the disposable income of a consumer

D the maximum combinations of two products that a consumer can buy with a given level of income

20 When the price of a good falls, the overall effect on the quantity demanded can be separated into income and substitution effects.

Which statement describes a Giffen good?

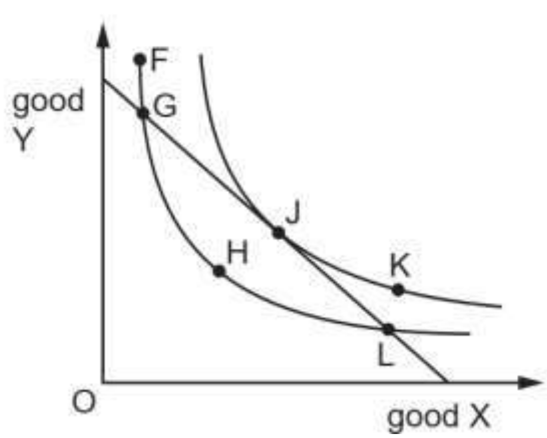
A The income effect is irrelevant for a Giffen good.

B The income effect works in the same direction as the substitution effect.

C The income effect works against the substitution effect and is of a greater magnitude.

D The income effect works against the substitution effect but is of a smaller magnitude.

21 A utility-maximising consumer has a fixed income and can choose between good X and good Y. The diagram shows her budget line and different consumption combinations (F, G, H, J, K and L) of products X and Y.



Which consumption combinations are currently available to her?

A F, G, H and L

B F, G, J, and L

C G, J and L only

D G, H, J and L

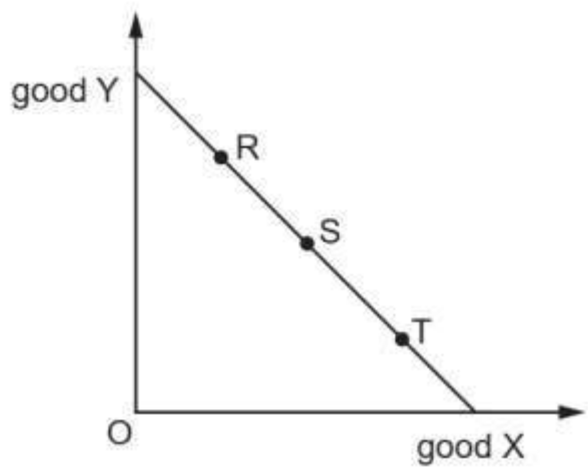
22 Rational consumer Romesh spent 90 rupees buying herb X and spice Y. Both cost 10 rupees per gram.

grams purchased	total utility herb X	total utility spice Y
2	15	12
3	30	25
4	45	35
5	55	42

How much of each should he buy?

	herb X (grams)	spice Y (grams)
A	2	3
B	3	5
C	4	5
D	5	4

23 The graph shows the budget line for a household as used in indifference curve analysis.



What can be concluded about the amount of income that could be spent by the household?

A It is greater at point R than point S.

B It is greater at point T than point S.

C It is greatest at point S.

D It is the same at points R, S and T.

24 Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?

A the final course of an 'eat all you can' banquet to end an evening out

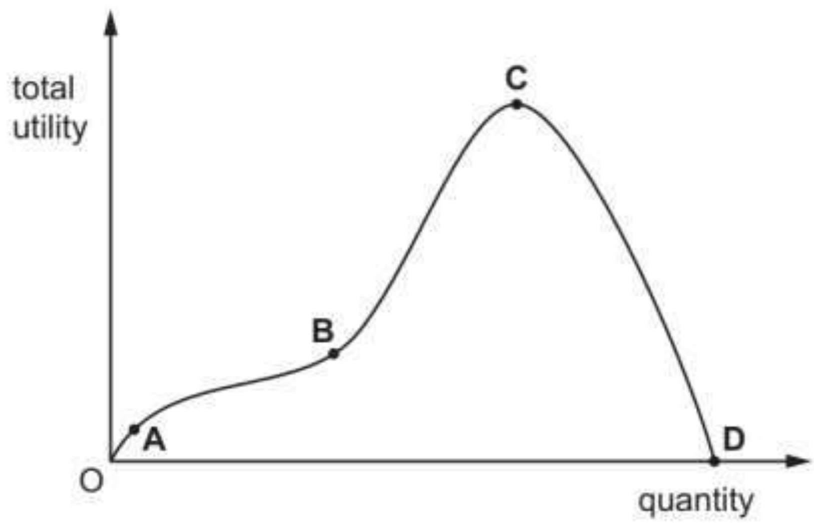
B the last coin to complete an enthusiast's coin collection

C the second of the two rolls of wallpaper needed to decorate a room

D the tenth driving lesson needed to enable a learner to pass the driving test

25 The diagram shows a total utility curve for a consumer.

At which point does marginal utility equal zero?



26 What is a characteristic of an indifference curve?

A It will remain concave to the origin of the diagram.

B It will remain convex to the origin of the diagram.

C It can intersect other indifference curves at any point.

D The lower the indifference curve, the greater the satisfaction attainable.

27 Economists normally assume that the marginal utility from consuming additional goods is positive and diminishing.

What is the effect on total satisfaction of consuming extra units of the good?

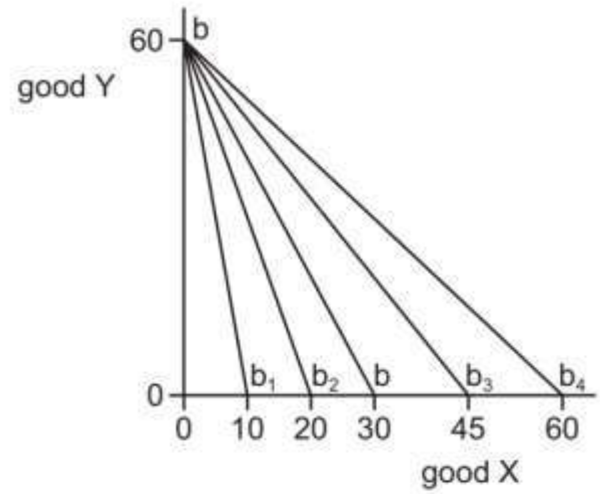
A Total satisfaction falls at a decreasing rate.

B Total satisfaction falls at an increasing rate.

C Total satisfaction rises at a decreasing rate.

D Total satisfaction rises at an increasing rate.

28 A budget line (b–b) shows the combinations of two goods, X and Y, that a consumer can obtain within a fixed income of $60 per week, when the price of Y = $1 and X = $2.



If the price of X rises to $3, what will be the new budget line?

A b–b_1 B b–b_2 C b–b_3 D b–b_4

29 What is a correct statement of the equi-marginal utility rule?

A The marginal utility of X must equal the marginal utility of Y.

B The marginal utility of X divided by the price of X must equal the marginal utility of Y divided by the price of Y.

C The marginal utility of X divided by the price of Y must equal the marginal utility of Y divided by the price of Y.

D The price of X must equal the price of Y.

30 Which statement is correct?

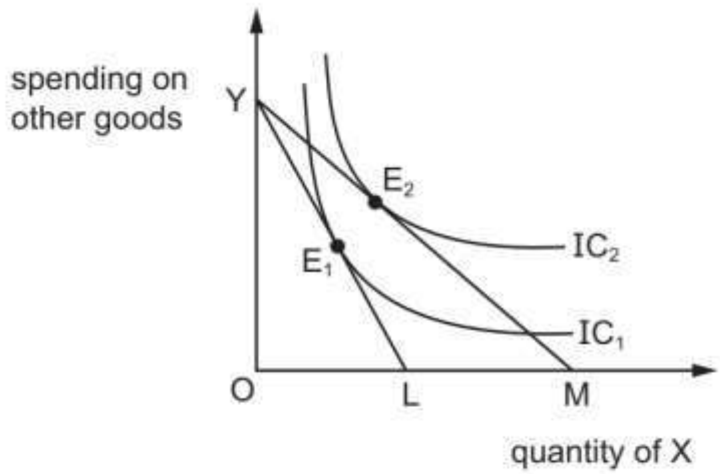
A A budget line shows the combinations of two goods which can be bought with a given income.

B A budget line shows the combinations of two goods which a consumer wants to buy.

C A budget line shows the difference between income and expenditure.

D A budget line shows the maximum potential output of two goods with given resources.

31 In the diagram, YL and YM show two budget lines for a consumer of a product, X, when its price changes. IC_1 and IC_2 are two indifference curves, representing the consumer's preferences between product X and spending on other goods.



What is not a valid statement?

A Product X must be a Giffen good, since the consumer spends more on other goods after the price change.

B The consumer has greater satisfaction at E_2 than at E_1.

C The prices of other goods are assumed to be held constant when drawing the budget lines.

D The shift from YL to YM represents a fall in the price of product X.

32 A rational consumer maximises satisfaction by buying three units of good X and four units of good Y which are the same dollar price.

What does this indicate?

A Marginal utility per dollar spent is equal for both goods.

B The total utility of 3X is equal to the total utility of 4Y.

C The consumer should buy one more unit of good X to maximise utility.

D Good Y has greater marginal utility than good X.

33 What does a budget line on an indifference curve diagram show?

A the amount that a household has available to spend plotted against time

B the combinations of two goods that can be purchased when all income is spent

C the difference between a government’s income and expenditure plotted against time

D the relationship between the price of a good and the amount demanded

MARK SCHEME

1 B

2 C

3 C

4 C

5 B

6 B

7 C

8 B

9 B

10 D

11 B

12 B

13 B

14 D

15 A

16 C

17 C

18 B

19 D

20 C

21 D

22 D

23 D

24 A

25 C

26 B

27 C

28 B

29 B

30 A

31 A

32 A

33 B