**CHAPTER 3:**

**Preferences and Utility**

3.1 Indifference curves

a. may sometimes intersect.

b. are contour lines only of a linear utility function.

c. are convex if the utility function is quasi-concave.

d. shift when prices change.

ANSWER: c

3.2 For an individual who consumes only two goods, *x* and *y*, the opportunity cost of consuming one more unit of *x* in terms of how much *y* must be given up is reflected by

a. the individual's marginal rate of substitution.

b. the market prices of *x* and *y*.

c. the slope of the individual's indifference curve.

d. none of the above.

ANSWER: b

3.3 If bundles of goods *A* and *B* lie on the same indifference curve, one can assume the individual

a. prefers bundle *A* to bundle *B*.

b. prefers bundle *B* to bundle *A*.

c. enjoys bundle *A* and *B* equally.

d. bundle *A* contains the same goods as bundle *B*.

ANSWER: c

Questions 3.4 and 3.5 refer to an individual whose utility function is given by



3.4 With this utility function, the bundle (3,2) provides the same utility as the bundle

a. (2, 3).

b. (2, 4).

c. (2, 5).

d. (3, 3).

ANSWER: b

3.5 For this utility function, the *MRS*

a. depends on the values of *x* and *y*.

b. is always 0.

c. is always 2.

d. is always 4.

ANSWER: c

3.6 Which of these utility functions represent the same preferences as  ?

a. .

b. *.*

c. .

d. All of the above represent the same preferences.

ANSWER: d

3.7 If utility is given by  , then the person's *MRS* at the point *x* = 5, *y* = 2 is given by

a. 0.4.

b. 1.0.

c. 2.5.

d. 5.0.

ANSWER: a

3.8 If utility is given by , this person's indifference curves are

a. parabolas.

b. hyperbolas.

c. concentric circles.

d. straight lines.

ANSWER: d

3.9 Which of the following utility functions best represents the idea that two goods, *x* and *y*, are perfect complements?

a. .

b. *.*

c. .

d. .

ANSWER: d

3.10 If an individual's utility function is quasi-concave, his or her *MRS* will

a. diminish as *x* is substituted for *y*.

b. increase as *x* is substituted for *y*.

c. be undefined except in special cases.

d. always depend only on the ratio of *x* to *y*.

ANSWER: a

3.11 If utility is given by  then the bundle (3,2) provides the same utility as the bundle

a. (1, 3).

b. (2, 3).

c. (4, 1).

d. (4, 2).

ANSWER: c

3.12 Which of the following utility functions *would not* be consistent with the notion that *x* and *y* are both "goods" with positive marginal utilities?

a.  .

b.  *.*

c.  .

d.  *.*

ANSWER: d