1. A normal good is a good for which a consumer’s demand for the good:

a) Increases when the price increases (and income stays the same)
b) Decreases when the price increases (and income stays the same)
c) Increases when the consumer’s income increases (and prices stay the same)
d) Decreases when the consumer’s income increases (and prices stay the same)

2. An inferior good is a good for which a consumer’s demand for the good:

a) Increases when the price increases (and income stays the same)
b) Decreases when the price increases (and income stays the same)
c) Increases when the consumer’s income increases (and prices stay the same)
d) Decreases when the consumer’s income increases (and prices stay the same)

For Questions 3 through 6, please use the following graphs:
3. Which graph best represents the change in the budget constraint when the price of Good X increases?

a) Graph A
b) Graph C
c) Graph D
d) Graph F

4. Which graph best represents the change in the budget constraint when the price of Good Y increases?

a) Graph A
b) Graph C
c) Graph E
d) Graph F

5. Which graph best represents the change in the budget constraint when the price of Good X decreases?

a) Graph A
b) Graph B
c) Graph D
d) Graph F

6. Which graph best represents the change in the budget constraint when income increases?

a) Graph B
b) Graph D
c) Graph E
d) Graph F

For Questions 7 through 9, consider a consumer that consumes two goods – Good X and Good Y.

7. When the preferences of the consumer shift in favor of Good X, what will happen to the consumer’s demand curve for Good X?

a) Shift to the right
b) No shift
c) Shift to the left
d) Uncertain
8. When the preferences of the consumer shift in favor of Good X, what will happen to the consumer’s quantity demanded for Good X and quantity demanded for Good Y?

a) Good X increase, Good Y increase  
b) Good X increase, Good Y decrease  
c) Good X decrease, Good Y increase  
d) Good X decrease, Good Y decrease

9. If good X is an inferior good, what will happen to the consumer’s demand curve for Good X when the consumer’s income increases?

a) Shift to the right  
b) No shift  
c) Shift to the left  
d) Uncertain

10. If good X is a normal good, what will happen to the consumer’s demand curve for Good X when the consumer’s income increases?

a) Shift to the right  
b) No shift  
c) Shift to the left  
d) Uncertain

For Questions 11 to 20, consider a household that consume only two goods – food and “other goods” – that are each normal goods The income of the household is $100, the price of food is $5 and the price of “other goods” is $10. The household always consumes 25 percent of its income (or income plus value of coupon) on food and 75 percent on other things.

The government is considering four policies designed to raise food consumption.

-- A transfer of $20 in cash to the household
-- A coupon that can be used only to consume 4 units of food
-- A subsidy of $2/unit on food

11. How much food and “other goods” does the household consume in the initial situation?

a) 25 food, 75 other goods  
b) 5 food, 10 other goods  
c) 20 food, 10 other goods  
d) 5 food, 7.5 other goods

12. If the government gives a transfer of $20 in cash to the household, how much food and “other goods” does the household consume?

a) 5 food, 7.5 other goods  
b) 9 food, 7.5 other goods  
c) 6 food 9 other goods  
d) 30 food, 90 other goods
13. If the government gives a coupon for 4 units of food to the household, how much food and “other goods” does the household consume?

a) 5 food, 7.5 other goods
b) 9 food, 7.5 other goods
c) 6 food, 9 other goods
d) 30 food, 90 other goods

14. Between the $20 transfer and the coupon for 4 units of food, under which policy does the household consume more food?

a) Transfer
b) Coupon
c) Neither, consumption of food is the same
d) Cannot be determined

15. If the government gives a subsidy of $2/unit on food, how much does the household have to pay of its own money for one unit of food?

a) $2
b) $3
c) $5
d) $25

16. If the government gives a subsidy of $2/unit on food how many units of food does the household purchase?

a) 5 units
b) 6 units
c) 8.33 units
d) 9 units

17. How much does it cost the government with the $2/unit subsidy?

a) $2
b) $10
c) $16.67
d) $20

18. Under which policy is the household consumption of food the highest?

a) Initial situation
b) Transfer of $20
c) Coupon for 4 units of food
d) Subsidy of $2/unit

19. Under which policy does the government spend the least?

a) Initial situation
b) Transfer of $20
c) Coupon for 4 units of food
d) Subsidy of $2/unit
20. If the government wants to spend as little money as possible and raise the food consumption of the household as much as possible, which policy should it adopt?

a) Transfer of $20 in cash
b) Coupon worth 4 units of food
c) Subsidy of $2/unit
d) Doesn’t matter, they are all the same