NOTE: READ AND STRICTLY FOLLOW ALL THESE INSTRUCTIONS BEFORE ATTEMPTING THE QUIZ.

INSTRUCTIONS

- This quiz covers Lesson # 01- 14.
- Do not use red color in your quiz. It is used only for marking purpose.
- Last date for submission of quiz is 26-03-2009. It means you can submit your quiz till 27-03-2009, 12’O clock mid night.
- Upload your quiz with in due date and time. No quiz will be accepted after due date and time via email.
- Write down only one option in the answer sheet which you think is correct. More than one answer will be marked zero.
- Submit your quiz in the word document not as a PDF file.
- Please submit your solution files (a word document) as given below.
ANSWER SHEET TO SOLVE THE QUIZ

- Copy the following sheet and solve your quiz by providing answer in the given column.
- In the “Selected Option” column, write down only the option number (e.g. a, b, c, d) against each question number which you consider is the correct one.
- Upload only the answer sheet on VULMS. Don’t upload the whole quiz.

Student ID/Login ID: ____________________________
Student Name: ________________________________

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1. The price of good A goes up. As a result the demand for good B shifts to the left. From this we can infer that:
   a. Good A is used to produce good B.
   b. Good B is used to produce good A.
   c. Goods A and B are substitutes.
   d. Goods A and B are complements.

2. A rational person does not act unless:
   a. The action is ethical.
   b. The action produces marginal costs that exceed marginal benefits.
   c. The action produces marginal benefits that exceed marginal costs.
   d. The action makes money for the person.

3. When government sets the price of a good and that price is below the equilibrium price, the result will be:
   a. A surplus of the good.
   b. A shortage of the good.
   c. An increase in the demand for the good.
   d. A decrease in the supply of the good.

4. The reason for the law of demand can best be explained in terms of:
   a. Supply.
   b. Complementary goods.
   c. The rationing function of prices.
   d. Diminishing marginal utility.

5. Which of the following is a positive statement?
   a. When the price of a good goes up, consumers buy less of it.
   b. When the price of a good goes up, firms produce more of it.
   c. When the Federal government sells bonds, interest rates rise and private investment is reduced.
   d. All of the given options.

6. Economists use the term marginal utility to mean:
   a. Additional satisfaction gained divided by additional cost of the last unit.
   b. Total satisfaction gained when consuming a given number of units.
   c. Additional satisfaction gained by the consumption of one more unit of a good.
d. The process of comparing marginal units of all goods which could be purchased.

7. The income-consumption curve:
   a. Illustrates the combinations of incomes needed with various levels of consumption of a good.
   b. Is another name for income-demand curve.
   c. Illustrates the utility-maximizing combinations of goods associated with every income level.
   d. Shows the utility-maximizing quantity of some good (on the horizontal axis) as a function of income (on the vertical axis).

8. The income elasticity of demand is the:
   a. Absolute change in quantity demanded resulting from a one-unit increase in income.
   b. Percent change in quantity demanded resulting from the absolute increase in income.
   c. Percent change in quantity demanded resulting from a one percent increase in income.
   d. Percent change in income resulting from a one percent increase in quantity demanded.

9. The slope of an indifference curve reveals:
   a. That preferences are complete.
   b. The marginal rate of substitution of one good for another good.
   c. The ratio of market prices.
   d. That preferences are transitive.

10. An isoquant:
    a. Must be linear.
    b. Cannot have a negative slope.
    c. Is a curve that shows all the combinations of inputs that yield the same total output.
    d. Is a curve that shows the maximum total output as a function of the level of labor input.

11. The demand curve and its inverse relationship between price and quantity demanded are based on the assumption of:
    a. Other things equal.
    b. Changing expectations.
    c. Complementary goods.
d. Increasing marginal utility.

12. Economics is about the allocation of scarce resources. Which of the following is NOT an example of economic scarcity?

a. If Ahmad goes to see the movie Master and Commander on Saturday, he will not be able to afford buying ice cream.
b. If Jenny studies for her economics quiz this evening, she will not have time to walk her dog.
c. If General Motors increases its production of SUV’s this year, it will have to spend more on advertising.
d. If Borders Books increases the number of titles it carries, it will have to reallocate shelf space to accommodate the new titles.

13. Which of the following is a normative statement?

a. The taxes paid by the poor should be reduced in order to improve the income distribution in the U.S.
b. Presidential candidates should not be given funds from the federal government to run campaigns.
c. The sea otter should not be allowed to spread into Southern California coastal waters, because it will reduce the value of fisheries.
d. All of the given options.

14. The substitution effect of a wage increase will lead a person to:

a. Work more
b. Take more leisure
c. Not change anything
d. None of the given option

15. Which of the following statements about indifference curves is NOT correct?

a. Indifference curves are generally negatively sloped.
b. Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.
c. Two indifference curves cannot intersect unless they are identical throughout.
d. Two different indifference curves can intersect but only once.

16. A self-employed accountant spends a lot of money identifying clients and advertising her services. These activities are an example of:

a. External costs
b. Transaction costs
c. Fixed inputs
17. Assume that a firm is a price taker in its input markets. If the firm's technology is characterized by diminishing marginal physical product of its variable input in the short run, the firm's short run:

a. Marginal cost curve rises as output rises.
b. Average cost curve rises as output rises.
c. Marginal cost curve falls as output rises.
d. Marginal cost curves and average cost curves rises as output rises.

18. Which of the following statements describes the presence of diminishing returns?

a. The marginal product of a factor is positive and rising.
b. The marginal product of a factor is positive but falling.
c. The marginal product of a factor is falling and negative.
d. The marginal product of a factor is constant.

19. Diminishing marginal returns implies:

a. Decreasing marginal costs.
b. Increasing marginal costs.
c. Decreasing average variable costs.
d. Decreasing average fixed costs.

20. The largest amount of output that a firm can produce with a given combination of inputs is determined by the:

a. Marginal product of labor
b. Gains from specialization
c. Cost function
d. Production function

Best of Luck