Quiz 2 Name:____________________________________
Microeconomics - EC 2106
Monday/Wednesday 9:30 - 10:45am
Instructor: Robert McNab Score:________________

INSTRUCTIONS: Please answer all questions to the best of your ability within the allotted time of 10 minutes. You are required to show your work to receive credit. For multiple choice and true/false questions, please circle the appropriate answer. 15 possible points.

1. Which of the following statements would cause the demand for computers to increase? 2 points

a. An increase in the personal income tax.
b. A decrease in the price of computer software.
c. An increase in the price of computer software.
d. None of the above

2. T F If the price of butter increases, the demand for butter will decrease. 1 point

3. Assume that goods A and B are substitutes. All else remaining equal, if the relative price of good A increases, then the demand for good A will: 2 point

a. Remain stable
b. Increase
c. Decrease
d. Demand does not change, Quantity Demanded changes

4. In your own words, describe the difference between the concepts of absolute and comparative advantage. 3 points

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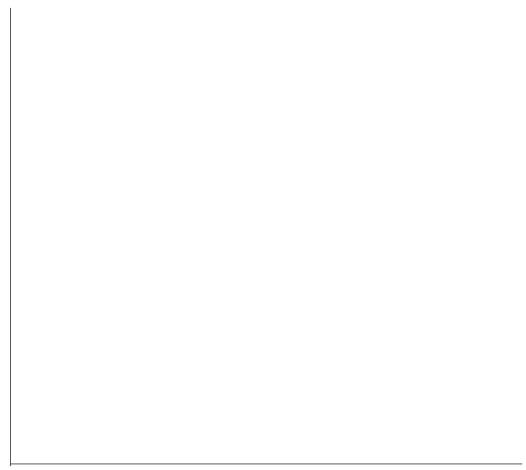
Use the following demand schedules to answer questions 4 -5. Assume that the individual demand schedules are for the consumption of computer games during a calendar year.

Price per game	John Quantity Demanded	Arlene Quantity Demanded	Mary Quantity Demanded
$100	0	1	0

$75	1	2	0
$50	2	3	1
$25	3	4	2

5. Draw the market demand curve for computer games in the figure below. To receive full credit you must label each axis and illustrate each of the points on the market demand curve. 2 points.



6. If the price per computer game is $50, what is the market quantity demanded? 2 points

a. 3
b. 9
c. 6
d. None of the above

7. In your own words, explain how the principle of diminishing marginal utility can be broken down into the income and substitution effects. Hint: Describe each of the effects in your own words. 3 points.

Quiz 2 **Answer Key**
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1. Which of the following statements would cause the demand for computers to increase? 2 points

   A decrease in the price of computer software.

2. **False** If the price of butter increases, the demand for butter will decrease. (Quantity Demanded will decrease)

3. Assume that goods A and B are substitutes. All else remaining equal, if the relative price of good B increases, then the demand for good A will: 2 point

   Increase

4. In your own words, describe the difference between the principles of absolute and comparative advantage.

Absolute advantage states that you should only trade when the terms of trade are in your favor while the law of comparative advantage states that if the relative production costs differ, then mutually beneficial trade can occur even if one country has an absolute advantage in relative production costs.

Use the following demand schedules to answer questions 5-6. Assume that the individual demand schedules are for the consumption of computer games during a calendar year.

Price per game	John Quantity Demanded	Arlene Quantity Demanded	Mary Quantity Demanded
$100	0	1	0
$75	1	2	0
$50	2	3	1
$25	3	4	2

5. Draw the market demand curve for computer games in the figure below. To receive full credit you must label each axis and illustrate each of the points on the market demand curve. 2 points.

   Not shown

6. If the price per computer game is $50, what is the market quantity demanded? 2 points

   6

7. In your own words, explain how the principle of diminishing marginal utility can be broken down into the income and substitution effects. Hint: Describe each of the effects in your own words. 3 points.

Income effect is when the relative price of a good decreases, you can purchase the same amount of the good that you consumed previously and still have income left over to consume more goods than before the price change. Substitution effect is that as the relative price of a good falls, you substitute away from relatively more expensive goods to the good whose relative price has fallen.

Also, there is a positive relationship between the demand for normal and luxury goods and income and a negative relationship between the demand for inferior goods and income.