

AEDE 503
Quiz 1

Name: _____

Circle the correct answer:

1. Microeconomic analysis of public policy is concerned with:
 - a. Fiscal policy
 - b. Monetary policy
 - c. Market failures**
 - d. Foreign policy

2. Poorly-defined property rights result in:
 - a. Monopolies
 - b. Externalities**
 - c. Imperfect information
 - d. Lawyers making money

3. A public good is one where:
 - a. Private markets over-supply the good
 - b. Private markets under-supply the good**
 - c. Private markets supply the efficient amount of the good
 - d. The good is sold at a public auction

4. In an *exchange* economy, the fixed amounts of goods are:
 - a. Production by firms
 - b. Imports
 - c. Initial endowments**
 - d. Production by consumers

5. The characteristics of *well-behaved preferences* are:
 - a. Upward-sloping and convex indifference curves
 - b. Downward-sloping and concave indifference curves
 - c. Upward-sloping and concave indifference curves
 - d. Downward-sloping and convex indifference curves**

6. For bundles of goods 1 and 2, a consumer has a *weak preference* for 1 over 2 if:
 - (a) A consumer is indifferent between bundles 1 and 2
 - (b) A consumer either prefers bundle 1 over bundle 2, or is indifferent between them**
 - (c) A consumer dislikes both bundles 1 and 2
 - (d) A consumer likes bundle 1 slightly more than bundle 2.

7. For one consumer, the *transitivity* axiom means that:
 - (a) Their indifference curves must cross
 - (b) Their indifference curves slope upward
 - (c) Their indifference curves cannot cross**
 - (d) Their indifference curves slope downward

8. A *convex* indifference curve means that:
 - (a) There is a diminishing marginal rate of substitution**
 - (b) There is a constant marginal rate of substitution
 - (c) There is an increasing marginal rate of substitution
 - (d) Preferences are also a concave set

9. In an exchange economy, if the initial endowment of *both* goods increases:
 - (a) The Edgeworth Box gets taller
 - (b) The Edgeworth Box gets wider
 - (c) The Edgeworth Box gets taller and wider**
 - (d) The Edgeworth Box stays the same size

10. In an exchange economy, a *Pareto improvement* is where:
 - (a) One consumer can be made better off and the other made worse off
 - (b) At least one consumer can be made better off and the other made no worse off**
 - (c) Both consumers are made worse off
 - (d) Both consumers get goods that are *goods*

11. In an exchange economy, *Pareto efficiency* occurs when:
 - (a) At least one consumer can be made off and the other made no worse off
 - (b) Both consumers can be made better off
 - (c) No consumer can be made better off without making the other worse off**
 - (d) Both consumers are made worse off

12. In an Edgeworth Box of Exchange, the contract curve:
 - (a) Joins up all points where two consumers' indifference curves cross
 - (b) Joins up all points where two consumers' indifference curves are tangent**
 - (c) Joins up *only* the origins of the two consumer's indifference maps
 - (d) Traces out the vertical and horizontal axes of the Edgeworth Box

For an extra 2 points: Suppose in an exchange economy, there are 50 sodas and 10 pizzas, where Michael starts out with 5 sodas and 9 pizzas. How many sodas and pizzas does Jenna start with? From this information, draw and label the Edgeworth Box, and plot the initial endowment point for Michael and Jenna.

- Jenna has 45 sodas and 1 pizza

