ESFM2-L3 Score: ______

1. Jane spends all her income on goods A and B that are perfect complements consumed at a ratio of 2 units of good A with 1 unit of good B. If we measure the amount of good A on the horizontal axis, then the price consumtion curve

- (A) is linear with zero intercept and the slope of 1/2.
- (B) overlaps with the vertical axis.
- (C) is not linear.
- (D) is linear with zero intercept and the slope of 2.

2. Martin spends his income on goods A and B that are perfect substitutes. He is willing to substitute these goods at a ratio of 1:1. If we measure the quantity of good A on the horizontal axis and the price of good A is higher than the price of good B, then the income consumption curve

- (A) equals to the horizontal axis.
- (B) equals to the vertical axis.
- (C) has the intercept of zero and the slope of 1.
- (D) has a kink.

3. If the Engel curve of a good is increasing, then the good is

- (A) a bad.
- (B) neutral.
- (C) inferior.
- (D) normal.

4. The substitution effect can be

- (A) only negative.
- (B) zero or negative.
- (C) negative, zero or positive.

5. If consumer buys less of good due to a reduction in his income, we can be certain, that the good is

- (A) ordinary.
- (B) inferior.
- (C) a complement.
- (D) None of the above.

6. A consumer with Cobb-Douglas preferences chooses from two goods: *X* and *Y*. Suppose good *X* is inferior, but not Giffen, and the price of good *X* goes down, the total effect of the price change on quantity demanded will be

- (A) lower than if good *X* was normal.
- (B) higher than if good *X* was normal.

7. Goods 1 and 2 are perfect substitutes. At original prices Michael buys only good 1. Then the price of good 2 falls and Michael starts buying only good 2. In that case,

- (A) the substitution effect is zero.
- (B) the income effect is zero.
- (C) both the substitution effect and the income effect are positive.