Multiple Choice:

1. An uncompensated price change
a. requires compensation payments by the seller.
b. is not the same as the price changes we normally observe. That is why compensation is needed.
c. is the same as the price changes we normally observe. There is no addition or subtraction to income to ensure that the price change does not alter consumer utility.
d. requires compensation payments by the buyer.

2. The substitution effect of a price change
a. moves the consumer along one indifference curve.
b. is the same as the impact of a compensated price change.
c. both of the above
d. none of the above

3. The income effect involves:
a. no shift in the budget line.
b. rotation of the budget line.
c. a parallel shift in the budget line.
d. none of the above

4. For a normal good, the income and substitution effect work
a. in the same direction.
b. in opposite direction.
c. either a or b is possible

5. Application 6.1 (BW p.176) states that the elasticity of demand for shochu was 8.81. This implies that shochu
a. is an inferior good.
b. is a Giffen good.
c. is a normal good.
d. both a and b

6. Compensating variation is the amount of money that
a. exactly offsets the effect of a price change, and keeps the consumer on the same indifference curve.
b. measures the variation of income across individuals.
c. none of the above

7. Consumer surplus is
a. the area between the demand curve and the line that represents price – and between the quantity zero and the quantity purchased by the consumer.
b. the consumer's total net benefit.
c. both a and b

d. none of the above

8. Hausman estimated consumer surplus from cell phones
a. by estimating the demand curve and then computing the area between that demand curve and the price line.
b. and concluded that the federal regulation (that delayed the introduction of cell phones) helped consumers by increasing the magnitude of consumer surplus.
c. both a and b
d. none of the above

9. Real income
a. is the income that household really receive.
b. measures the inflation-adjusted income that households receive.
c. is the same as nominal income
d. none of the above

10. Lebow and Rudd concluded that the CPI
a. understates the annual rate of increase in the cost of living.
b. overstates the annual rate of increase in the cost of living.
c. provides an accurate measure of the rate of increase in the cost of living.
d. none of the above

Essay Questions

A: Chapter 6 In-Text Questions

6.3 (BW p.182)
6.4 (BW p.198)
6.5 (BW p.198)
6.6 (BW p.202)
6.7 (BW p.207)

B: End-of-Chapter 6 Questions (BW p.203-204)

6.7
6.8
6.10
6.11
6.13
6.14
6.15