

1. Assume the demand for a company's product is perfectly inelastic. Which of the following is true?

- (A) An increase in price will lead to a decrease in revenue
- (B) A decrease in price will lead to an increase in revenue
- (C) A decrease in price will increase demand
- (D) An increase in price will decrease demand
- (E) The demand curve would be vertical

2. Good A and Service B are complements. Which of the following is true?

- (A) An increase in price for Good A will lead to an increase in demand for Service B
- (B) A decrease in price for Good A will lead to decreased demand for Service B
- (C) An increase in demand for Good A will lead to increased revenues for providers of Service B
- (D) Demand for Good A will not affect demand for Service B
- (E) All of the above

Section 2 - The Nature and Function of Product Markets: Theory of Consumer Choice

3. The demand curve for iPhones slopes downward. That means that an increase in the price of iPhones will lead to:

- I. More consumers buying other phones
- II. More consumers going without phones at all
- III. Fewer iPhones available to buy

- (A) I only
- (B) II only
- (C) III only
- (D) I and/or II only
- (E) All of the above

4. Ivy got a raise at work and her income has increased. As a result, she buys less Johnson's mascara and more Jackson's mascara. Which statement below best describes this situation?

- (A) Johnson's mascara and Jackson's mascara are complementary goods
- (B) Johnson's mascara and Jackson's mascara are normal goods
- (C) The demand curve for Jackson's mascara is upward sloping
- (D) The demand curve for Johnson's mascara is upward sloping
- (E) Johnson's mascara is an inferior good, and Jackson's mascara is a normal good

5. The following table shows the marginal utility, measured in utils, that Kenny receives from purchasing good X and purchasing good Y. Good X costs \$5, and good Y

costs \$10. Kenny has a total of \$50 to spend on the two goods each week. If Kenny wants to maximize his total utility, which combination of goods should he buy?

- (A) 0 good X, 5 good Y
- (B) 2 good X, 4 good Y
- (C) 4 good X, 3 good Y
- (D) 6 good X, 2 good Y
- (E) 10 good X, 0 good Y

6. Jasmine uses her income to maximize her total utility by buying 10 good As and 5 good Bs. Which of the following statements would be true if Jasmine got a raise, increasing her income by 10%?

| Quantity of X | Marginal Utility of X | Quantity of Y | Marginal Utility of Y |
|---------------|-----------------------|---------------|-----------------------|
| 1 | 8 | 1 | 20 |
| 2 | 6 | 2 | 12 |
| 3 | 5 | 3 | 8 |
| 4 | 4 | 4 | 6 |
| 5 | 3 | 5 | 4 |
| 6 | 2 | 6 | 3 |
| 7 | 2 | 7 | 3 |
| 8 | 2 | 8 | 2 |
| 9 | 1 | 9 | 2 |
| 10 | 1 | 10 | 1 |

- (A) Her buying behavior will not change
- (B) The marginal utility of good A will increase
- (C) The marginal utility of good B will increase
- (D) Her total utility, measured in utils, will increase
- (E) Her total utility, measured in utils, will decrease

7. Brittany receives a raise at work. After receiving the raise, her purchases of good A increase and her purchases of good B decrease. Which of the following statements are true?

- I. Good A is an inferior good
- II. Good B is an inferior good
- III. Goods A and B are substitute goods
- IV. Brittany's total utility through purchases can increase after the raise

- (A) I and II only
- (B) II and IV only
- (C) I and III only
- (D) II and III only
- (E) I, II, and III only

8. Randy buys 10 good As and 10 good Bs each week, spending all of his income and maximizing his total utility. His income stays the same, but the price of good B increases. Which of the following is not true?

- (A) Randy may begin buying good C, a substitute good for good B
- (B) Randy's total utility will decrease
- (C) Randy's purchases of good A or good B will decrease
- (D) Randy's buying behavior will stay the same
- (E) All of the above

9. Which of the following examples illustrates the law of diminishing marginal utility?

- (A) When the price of a good increases from \$10 to \$12, Bob demands less of the good
- (B) As the supply of a good increases, consumers demand less of the good
- (C) As Juan buys more units of a single good, he gets less satisfaction from each new purchase
- (D) As Sally's income decreases, she is forced to reconsider the goods and services she buys
- (E) As a consumer's income decreases, the total utility he or she derives from that income, measured in utils, also decreases

Section 2 - The Nature and Function of Product Markets: Production and Costs

10. Short-run production is the time period during which _____. Long-run production is the time period during which _____.

- (A) a company's profits are maximized; a company's profits can be made greater
- (B) a company's costs are fixed; a company's costs can be decreased
- (C) a plant's revenue is fixed; a plant's revenue can increase
- (D) a company's production will not change; a company's production will change
- (E) a plant's production capacity cannot be changed; a plant's production capacity can be changed

CLEP Microeconomics Practice Question Answer Key

1. The correct answer is (E). If demand for a firm's product is perfectly inelastic, consumers will buy the same amount no matter the price. Therefore, the demand curve will be a straight line traveling up and down on the graph. A price increase would lead to an increase in revenue, a price decrease would lead to a decrease in revenue, and no price change would affect demand.
2. The correct answer is (C). Complementary goods or services are goods for which demand is linked. If demand for a good increases, the demand for the good's complement will also increase. It follows, then, that increased demand for Good A will lead to increased demand for Service B, which in turn will lead to increased revenue for the producers of Service B.
3. The correct answer is (D). If the price of iPhones goes up, more consumers will either buy other phones or go without a phone. This is reflected in the downward slope of the demand curve.
4. The correct answer is (E). Demand for an inferior good decreases when income goes up, while demand for a normal good increases as income rises.
5. The correct answer is (C). Choice (A) yields 50 utils, Choice (B) yields 60 utils, Choice (C) yields 63 utils, Choice (D) yields 60 utils and Choice (E) yields 34 utils. Since Kenny is maximizing utility, he should buy 4 of good X and 3 of good Y.²⁶ The correct answer is (D). Because Jasmine's income will increase, she will be able to buy some increased combination of good A and good B, and her total utility will increase as a result.
6. The correct answer is (B). Because Brittany's demand for good B decreases when her income increases, it is an inferior good. Her demand for good A increases, meaning it is a normal good. And with the increased income, she can purchase more goods, leading to greater total utility from her purchases. We do not know if goods A and B are substitutes or not based on the given information.
7. The correct answer is (D). With the increase in the price of good B, and no increase in income, Randy will have to alter his purchasing habits to stay within his budget constraint.
8. The correct answer is (C). The law of diminishing marginal utility states that at some point a consumer will notice less satisfaction from a good or service at each consecutive consumption level of that product.
9. The correct answer is (E). By definition, production in the short run is the time period during which a plant cannot increase production capacity, and production in the long run is the time period during which production capacity can be changed.