Quiz #3
ECON 310 – Fall 2006.

Name:

Multiple Choice (3 points each):

1) The price of bananas decreases from $0.48 per pound to $0.37 per pound. __________ provides a “measure of how much money a consumer would be willing to give up after this price decrease in order to be exactly as well off as she was before the price decrease (with her actual income).”
   a. demand.
   b. Consumer’s Surplus.
   c. Change in Consumer’s Surplus.
   d. Equivalent Variation (in income).
   e. Compensating Variation (in income).

2) As the price of pizza decreases from $15 to $12 per pie, Brad’s Compensating Variation (in income) is $CV = 21.12$ and his Equivalent Variation (in income) is $EV = 23.60$. From this information alone, we can infer that
   a. pizza is an inferior good for Brad.
   b. pizza is a normal good for Brad.
   c. the corresponding change in Consumer’s Surplus for this price decrease is greater than $23.60$.
   d. the corresponding change in Consumer’s Surplus for this price decrease is less than $21.12$.
   e. More than one of the above answers is correct.

Additional Question:

1) Consider a market in which demand is given by the linear function $D(p) = 80 – 4p$.
   a. Graphically illustrate the change in Consumers’ Surplus which results from a decrease in price from $15$ to $10$. (2 points)
   b. Determine the exact numerical value of the change in Consumers’ Surplus which results from a decrease in price from $15$ to $10$. (2 points)