Multiple Choice (3 points each):

1) Chad’s preferences over beer and pretzels are “complete.” This means that
c. given a choice between any two consumption bundles, he is able to say which one
he prefers.

2) The income elasticity of demand for margarine is -0.20. This value suggests that
d. an increase in consumer income will lead to a decrease in demand for
margarine.

Additional Question:

1) Consider a market in which demand is given by the linear function below:

   $\begin{align*}
   &\text{Along any linear demand curve, demand is elastic for prices greater than half of} \\
   \ &\text{the “choke price” (that is, the lowest price for which quantity demanded is equal} \\
   \ &\text{to zero). From the graph above, we see that this cutoff value is} \\
   \ &\frac{1}{2}(20.00) = 10.00. \text{ Therefore, at a price of} \ \$15.00 \ (\text{which is greater than} \\
   \ &\$10.00) \text{ demand is elastic.}
   \end{align*}$

   i. Is demand “elastic,” “inelastic,” or “unit elastic” at a price of $15.00? Explain.
(2 points)

   ii. Could “Total Consumer Expenditures” in this market ever be equal to $12,500?
   Explain. (2 points)

   $\begin{align*}
   &\text{In general, for “Total Consumer Expenditures” to be maximized demand must be} \\
   \ &\text{unit elastic. Along a linear demand curve demand is unit elastic only at the} \\
   \ &\text{“midpoint” of the curve. From the graph above, this midpoint corresponds to} \\
   \ &q = 1,000 \text{ and } p = 10, \text{ implying that the maximum value of “Total Consumer} \\
   \ &\text{Expenditures” in this market is } (1,000)(10) = $10,000 \ (\text{which is less than} \\
   \ &$12,500). \text{ As a result, “Total Consumer Expenditures” can never be equal to} \\
   \ &$12,500. 
   \end{align*}$