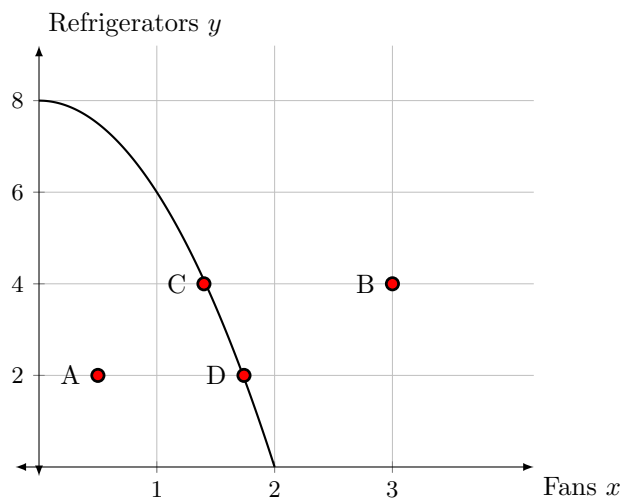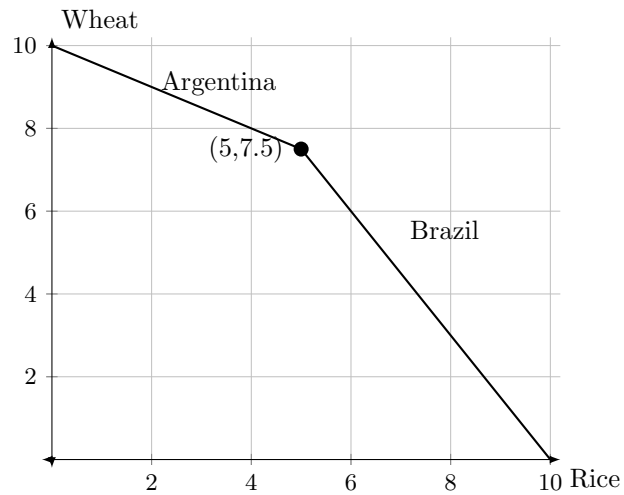# Easy multiple choice 3

1. Ana works as a waitress in a brewery, and for each day of work, she earns $1500. The disutility generated by this work is equivalent to $1000 per day. Her university friends have planned to spend the day on the Island. The happiness that this plan brings to Ana is equivalent to $1000. The round trip to the Island costs $250 and each of the attendees has to pay another $250 for the picnic food. Should Ana stay working in the brewery or spend the day on the Island?

   (a) It is indifferent between the two alternatives

   (b) There is not enough information to determine which alternative Ana should choose.

   (c) Go to the Island with her university friends.

   (d) Stay working at the Brewery.

2. Suppose that Luis is a consumer with rational, monotonic, and strictly convex preferences. He has an income given by $M = 200$ and maximizes his utility by consuming 10 units of ice cream and 5 units of chocolate per week. Both goods are divisible. Imagine that the government establishes a restriction on the weekly amount of ice cream that can be consumed: a maximum of 3 units. If the prices of chocolate and ice cream are $p_c = 20$ and $p_h = 10$, respectively, then, with respect to the initial situation:

   (a) The consumption of chocolate by this individual increases, the consumption of ice cream decreases, and his utility decreases.

   (b) The consumption of chocolate by this individual remains unchanged, the consumption of ice cream decreases, and his utility decreases.

   (c) The consumption of chocolate by this individual increases, the consumption of ice cream decreases, and his utility remains unchanged.

   (d) The consumption of chocolate by this individual remains unchanged, the consumption of ice cream decreases, and his utility remains unchanged.

3. The Production Possibilities Frontier of the factory known as *Industrial Section Ama-sadoras Mecánicas*, a producer of fans x and refrigerators y, can be represented by the following graph:

Choose the incorrect option:

(a) The maximum quantity of y that can be produced is greater than the maximum quantities of x.

(b) The total opportunity cost of moving from point (C) to (D) is 4 refrigerators.

(c) Point (A) is feasible but not efficient.

(d) Point (B) is not feasible.

4. You mentioned at the family dinner that you are studying Economics 1 at university. Your uncle asks you to summarize what you learned about trade in a single sentence. Which of the following statements would you NOT choose?

(a) Voluntary trade is always beneficial for at least one of the parties involved.

(b) Voluntary trade is not a zero-sum game in which one of the parties gains exactly what the other loses.

(c) Voluntary trade cannot lead one of the parties involved to move from their Production Possibilities Frontier to an interior point.

(d) According to the model seen in class, countries specialize in those products in which they have comparative advantages, i.e., the product that they have the highest opportunity cost.

5. Lautaro is a compulsive hoarder who divides his income of \$300 between collectible action figures and meals. It is known that, at most, he can buy 20 action figures a month, and since the price of each meal is \$5, he can buy 60 meals at most. One day, the State established a subsidy that allows all citizens to buy the first 20 meals at half price. What are the maximum quantities of action figures and meals that Lautaro can buy after the subsidy?

(a) 20 action figures and 120 meals.

(b) 20 action figures and 100 meals.

(c) 20 action figures and 60 meals.

(d) 25 action figures and 110 meals.

6. Juana consumes cookies (g) and Coca-Cola (c). Suppose that her preferences are such that she always consumes a fixed proportion of both goods, one glass of coke for every three cookies. Which of the following utility functions are appropriate to represent Juana's utility function?

(a) $U(c, g) = \min\{c, 3g\}$

(b) $U(c, g) = \min\{3c, g\}$

(c) $U(c, g) = \min\{c, g\}$

(d) $U(c, g) = 3c + g$

7. Consider the following joint Production Possibility Frontier (PPF) between Brazil and Argentina where wheat is represented on the ordinate axis and rice on the abscissa axis. Choose the correct option.

(a) Argentina has a comparative advantage in the production of wheat.

(b) Both countries have a comparative advantage in the production of rice.

(c) Both countries have an absolute advantage in the production of wheat.

(d) The opportunity cost of rice for Brazil is $\frac{2}{3}$ units of wheat.

Solutions

1. **a)** The correct answer is A, as by summing up how much utility is reported from going to the island, the result is the same as the net utility from going to work. Thus, there is no difference between the two options.

$$1500 - 1000 = 500$$

$$1000 - 250 - 250 = 500$$

2. **a)** The correct option is A, as chocolate consumption increases because this individual's budget for consuming chocolate is higher due to a restriction on the amount of ice cream that can be consumed. Ice cream consumption decreases due to government restrictions, and utility decreases because, according to revealed preferences, the individual did not choose this new basket previously, indicating that the previous basket offered more utility than the new one.

3. **b)** The correct option is B, because the opportunity cost of moving from point C to point D is not 4 refrigerators, but 12 refrigerators, as 4 minus 2 equals 2. Therefore, the number of refrigerators that need to be sacrificed to be at point D is 12 refrigerators. All other options are correct.

4. **d)** The correct option is D, as countries produce product that has a lower opportunity cost, not a higher one.

5. **b)** The correct option is B, as the maximum number of action figures remains unchanged due to the absence of a subsidy, and the maximum number of lunch boxes increases. Previously it was 60, now it is 100 because the first 20 lunch boxes cost 2.5 each, and with the remaining money, an additional 50 can be purchased, making a total of 100 lunch boxes.

6. **b)** The correct option is B, because if the individual consumes one glass of cola for every 3 cookies, the utility function representing these preferences would be the minimum between 3c and 1g

7. **d)** The correct option is D, because the opportunity cost of rice for Brazil is 3/5 units of wheat, as indicated by the slope of Brazil's production possibility frontier, which is -3/5. Thus, to produce an additional unit of rice, 3/5 units of wheat must be sacrificed.