MARGINALISM ECO54 UDAYAN ROY

These questions are based on chapter VII of *The Worldly Philosophers*, chapter VII of *New Ideas from Dead Economists* and chapter 8 of *The Ordinary Business of Life*. These chapters discuss the full flowering of marginalist (or neoclassical) economics in the work of four contemporaries: Léon Walras (1834-1910), William Stanley Jevons (1835-1882), Carl Menger (1840-1921) and Alfred Marshall (1842-1924).

1. In his *The Theory of Political Economy* (1871), _____ used differential calculus to derive the condition that utility would be maximized when the ratio of the marginal utilities of two goods was equal to the relative price of the two goods. He also showed that a worker works the number of hours such that the pain of an additional hour's work is exactly equal to the pleasure obtained from the additional commodities that that hour's labor enables him or her to purchase.

    a. Jevons
    b. Walras
    c. Menger
    d. Marshall

2. Reflecting the growing use of mathematics in economics towards the end of the nineteenth century, _____ wrote: "My theory of Economics … is purely mathematical in character."

    a. Jevons
    b. Walras
    c. Menger
    d. Marshall

3. *Natura non facit saltum* was the motto of:

    a. Alfred Marshall's *Principles of Economics*.
    b. J.A Hobson's *Imperialism*.
    c. Joseph Alois Schumpeter's *Theory of Economic Development*.
    d. Thorstein Veblen's *Theory of the Leisure Class*.

4. *Natura non facit saltum* means:

    a. Nature's main nutrient is salt.
    b. Nature makes no sudden leaps.
    c. Nature reappears in cycles.
    d. Nature behaves differently in the long run compared to the short run.

5. The essence of _________ is the insistence on incremental, gradual moves as the focus of inquiry. How do firms decide how many cars to produce? They continue producing until the revenue they receive from producing one more car equals the cost of producing that extra car.

    a. Marginalism.
    b. Institutionalism.
    c. Marxism.

d. The Classical School.

6. _______________ equilibrium analysis considered one market at a time, whereas ____________ equilibrium analysis considered all markets simultaneously.

a. Marshall's general, Walras's partial.
b. Marshall's partial, Walras's general.
c. Walras's partial, Marshall's general.
d. Walras's general, Marshall's partial.

7. The ________ assumption, which is essential to partial equilibrium analysis, can be translated as__________.

a. Ceteris paribus; other factors are unchanged.
b. Natura non facit saltum; other factors are unchanged.
c. Viva voce; nature makes no sudden leaps.
d. Curriculum vitae; nature makes no sudden leaps.

8. According to Marshall, the consumer is "constantly watching to see whether there is anything on which he is spending so much that he would gain by taking a little away from that line of expenditure and putting it on some other line." This idea is also known as:

a. The quantity theory of money.
b. The equimarginal principle.
c. Partial equilibrium theory.
d. Conspicuous consumption.

9. According to Alfred Marshall, __________ was the principal reason for price variations in the short run, whereas __________ was the principal reason for price variations in the long run.

a. Degree of competition; demand
b. Demand; the cost of production
c. Degree of competition; returns to scale
d. Cost of production; demand

10. In his *Principles of Economics*, first published in 1890, Alfred Marshall argued that:

a. Although not all producers are necessarily rational, only the rational producers will survive in competition.
b. All producers are rational.
c. The labor theory of value was correct.
d. None of the above.

11. Alfred Marshall wrote: "We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production." This statement emphasizes the fact that

a. Unlike classical economists, neoclassical economists were able to show that demand (which is driven by utility) is as important an influence on prices as cost of production
b. Unlike neoclassical economists, classical economists were able to show that demand (which is driven by utility) is as important an influence on prices as cost of production
c. Marshall believed that prices were determined neither by demand nor by supply but by historical factors
d. Marshall believed that it was largely a waste of time to analyze the factors that affected prices

12. An important marginalist concept is as follows: the quantity produced by a profit-maximizing firm is such that the additional revenue obtainable from additional production (marginal revenue) is equal to the additional cost of additional production (marginal cost). This idea was introduced by

    a. Adam Smith
    b. Alfred Marshall
    c. Herman Heinrich Gossen
    d. Antoine Augustin Cournot

13. Using his analysis of duopoly, _____ was the first to show that total output is ____ and the market price is ___ under duopoly than under monopoly

    a. Antoine Augustin Cournot; higher; lower
    b. Heinrich von Thunen; higher; lower
    c. Antoine Augustin Cournot; lower; higher
    d. Heinrich von Thunen; lower; higher

14. Using his analysis of an industry with an unlimited number of firms (also known as perfect competition) ______ was the first to show that the quantity produced by each firm would be such that the market price of the product would be equal to the additional cost of additional production

    a. Adam Smith
    b. William Stanley Jevons
    c. Antoine Augustin Cournot
    d. Alfred Marshall

15. The analysis of duopoly by _______ establishes him as a pioneer of _____.

    a. Cournot; game theory
    b. Cournot; econometrics
    c. Gossen; game theory
    d. John von Neumann; game theory
    e. Ragnar Frisch; econometrics

16. The marginalist analysis of rational consumer behavior is represented by the equimarginal principle. Which of the following best represents this principle?

    a. Given the quantities of goods X and Y consumed by a rational consumer, if the price of X is a certain multiple of the price of Y, then the additional utility from additional consumption of X must be the same multiple of the additional utility from additional consumption of Y.

b. The quantities consumed by a rational consumer must be such that the additional happiness obtainable from one dollar's worth of good X must be equal to the additional happiness obtainable from one dollar's worth of any other good Y.
c. The quantities consumed by a rational consumer must be such that the additional happiness obtainable from one dollar's worth of good X must be equal to the price of good X.
d. Both (a) and (b) are true

17. The marginalist analysis of rational consumer behavior was pioneered by

    a. William Stanley Jevons
    b. Leon Walras
    c. Herman Heinrich Gossen
    d. Alfred Marshall

18. According to _____, the utility that each consumer gets from a good can be measured by "the maximum sacrifice that each consumer would be willing to make in order to acquire the object". Moreover, the total utility—as defined in the previous sentence—of all consumers can be measured by the total area under the good's demand curve up to the quantity consumed.

    a. Hermann Heinrich Gossen
    b. Jules Dupuit
    c. Antoine Augustin Cournot
    d. Johann Heinrich von Thünen

19. The engineer and economist _____ showed that the net benefit obtained by society from building a canal or bridge could be measured by subtracting the cost of the project from the area under the demand curve for the use of the project. This establishes him as a pioneer of _____.

    a. Jules Dupuit; benefit-cost analysis
    b. Johann Heinrich von Thunen; socialism
    c. Leon Walras; benefit-cost analysis
    d. Alfred Marshall; welfare economics

20. By applying the tools of differential calculus and algebra, ____ became the first to show that the wage paid will equal the contribution to output made by the last worker to be employed—the marginal productivity theory of production.

    a. Johann Heinrich von Thunen
    b. Antoine Augustin Cournot
    c. Hermann Heinrich Gossen
    d. Jules Dupuit