

Principles of Microeconomics, 10e (Case/Fair/Oster)

Chapter 3 Demand, Supply, and Market Equilibrium

3.1 Firms and Households: The Basic Decision Making Units

1 Multiple Choice

1) Mary Kay Ash was one of the first individuals who sold cosmetics directly to customers via independent sales representatives. The company founded by Mary Kay is now one of the largest and most successful cosmetics companies in the world. Mary Kay Ash would be classified as a(n)

- A) entrepreneur.
- B) opportunist.
- C) monopolist.
- D) socialist.

Answer: A

Diff: 1

Topic: Firms and Households

Skill: Conceptual

2) Organizations that transform resources into products are known as

- A) firms.
- B) entrepreneurs.
- C) households.
- D) factors.

Answer: A

Diff: 1

Topic: Firms and Households

Skill: Definition

3) An entrepreneur is a person who

- A) assumes the risk of a firm.
- B) organizes and manages a firm.
- C) turns a new idea or product into a business.
- D) all of the above

Answer: D

Diff: 1

Topic: Firms and Households

Skill: Definition

4) Firms engage in production to

- A) develop a supply schedule.
- B) participate in the circular flow.
- C) acquire profits.
- D) assume risk.

Answer: C

Diff: 1

Topic: Firms and Households

Skill: Conceptual

2 True/False

- 1) Economists would classify the New York Mets as a firm.
Answer: TRUE
Diff: 2
Topic: Firms and Households
Skill: Conceptual
AACSB: Reflective Thinking
- 2) Firms are the consuming units of the economy.
Answer: FALSE
Diff: 1
Topic: Firms and Households
Skill: Definition
- 3) Entrepreneurs are necessary in a market economy and their profit is earned.
Answer: TRUE
Diff: 1
Topic: Firms and Households
Skill: Conceptual
AACSB: Reflective Thinking

3.2 Input Markets and Output Markets: The Circular Flow

1 Multiple Choice

- 1) In factor or input markets
 - A) consumers purchase products.
 - B) firms supply goods.
 - C) firms demand resources
 - D) households demand goods.Answer: C
Diff: 1
Topic: Input Markets and Output Markets
Skill: Conceptual
- 2) Resources are exchanged in _____ markets.
 - A) product
 - B) factor
 - C) exchange rate
 - D) stockAnswer: B
Diff: 1
Topic: Input Markets and Output Markets
Skill: Conceptual

3) Consumers purchase products in _____ markets.

- A) output
- B) factor
- C) resource
- D) input

Answer: A

Diff: 2

Topic: Input Markets and Output Markets

Skill: Conceptual

4) Capital, wages and income are

- A) factors of production.
- B) inputs.
- C) resources.
- D) all of the above

Answer: D

Diff: 2

Topic: Input Markets and Output Markets

Skill: Fact

2 True/False

1) Inputs are traded in the factor market.

Answer: TRUE

Diff: 1

Topic: Input Markets and Output Markets

Skill: Conceptual

2) Households are paid income for the resources they supply in an output market.

Answer: FALSE

Diff: 1

Topic: Input Markets and Output Markets

Skill: Conceptual

3) Labor is demanded by firms in an input market.

Answer: TRUE

Diff: 1

Topic: Input Markets and Output Markets

Skill: Conceptual

3.3 Demand in Product / Output Markets

1 Multiple Choice

1) Income _____ along the demand curve.

- A) increases
- B) decreases
- C) is held constant
- D) either increases or decreases

Answer: C

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

2) Which of the following will NOT cause a shift in the demand curve for DVDs?

- A) a change in income
- B) a change in wealth
- C) a change in the price of prerecorded VHS tapes
- D) a change in the price of DVDs

Answer: D

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

3) The law of _____ implies that as prices fall, _____.

- A) demand; demand increases
- B) demand; demand falls
- C) demand; quantity demanded increases
- D) supply; supply increases

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

4) According to the law of demand, quantity demanded increases as _____, *ceteris paribus*.

- A) prices rise
- B) prices fall
- C) demand increases
- D) demand decreases

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

5) According to the law of demand there is negative relationship between _____ and _____.

- A) price; demand
- B) quantity; income
- C) price; income
- D) price; quantity demanded

Answer: D

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

6) As an individual consumes _____ of a product within a given period of time, it is likely that each additional unit consumed will yield _____ satisfaction.

- A) more; successively more
- B) more; successively less
- C) more; no additional
- D) less; negative

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

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Refer to the information provided in the Figure below to answer the questions that follow.

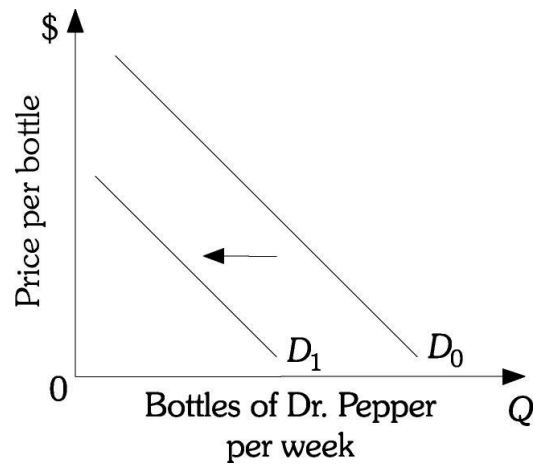


Figure 3.1

- 7) Refer to Figure 3.1. Which of the following would be most likely to cause the demand for Dr. Pepper to shift from D_0 to D_1 ?
- A) an increase in income, assuming that Dr. Pepper is a normal good
 - B) a decrease in the price of 7-UP, assuming 7-UP is a substitute for Dr. Pepper
 - C) an increase in the price of Dr. Pepper
 - D) an increase in the price of sugar used to make Dr. Pepper

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in the Figure below to answer the questions that follow.

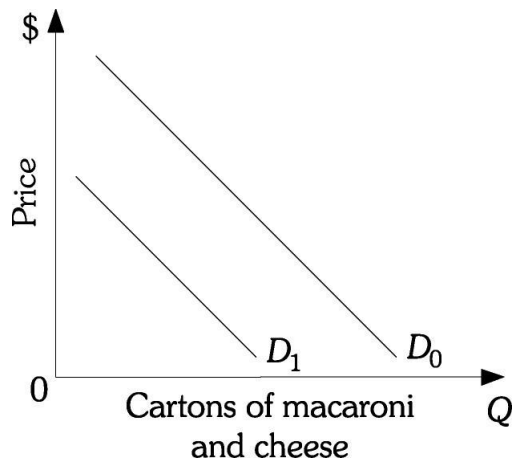


Figure 3.2

- 8) Refer to Figure 3.2. Which of the following would be most likely to cause the demand for macaroni and cheese to shift from D_0 to D_1 ?
- A) an increase in the price of macaroni and cheese
 - B) an increase in the price of flour used to make macaroni and cheese
 - C) a decrease in income, assuming macaroni and cheese is a normal good
 - D) an increase in the quantity demanded for macaroni and cheese

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 9) If the demand for mac and cheese decreases as income increases, mac and cheese is a(n)
- A) complementary good.
 - B) normal good.
 - C) inferior good.
 - D) substitute good.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 10) If the demand for green tea increases as income increases, green tea is a(n)
- A) complementary good.
 - B) substitute good.
 - C) normal good.
 - D) inferior good.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

Refer to the information provided in Figure 3.3 below to answer the questions that follow.

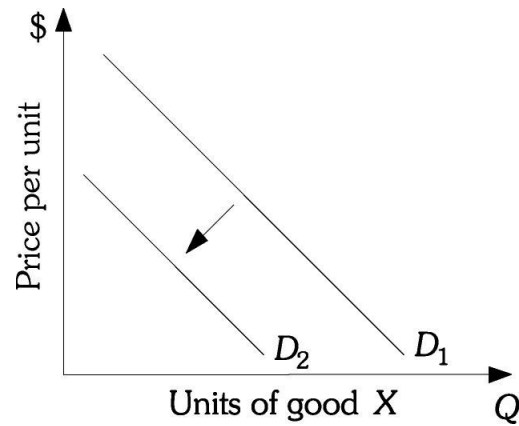


Figure 3.3

11) Refer to Figure 3.3. As your income decreased, the demand for X shifted from D_1 to D_2 .

Good X is

- A) an inferior good.
- B) a normal good.
- C) a luxury good.
- D) an income-neutral good.

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.4 below to answer the questions that follow.

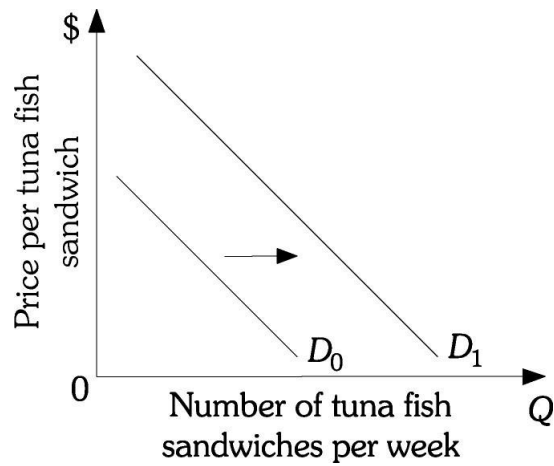


Figure 3.4

- 12) Refer to Figure 3.4. If consumer income increases, the demand for tuna fish sandwiches shifts from D_0 to D_1 . This implies that tuna fish sandwiches are a(n)
- A) normal good.
 - B) inferior good.
 - C) substitute good.
 - D) complementary good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

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Refer to the information provided in Figure 3.5 below to answer the questions that follow.

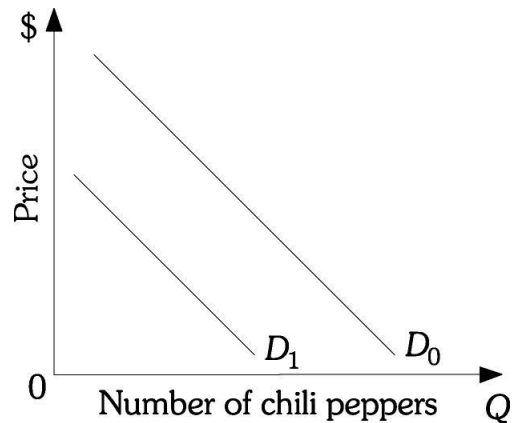


Figure 3.5

- 13) Refer to Figure 3.5. If consumer income decreases, the demand for chili peppers shifts from D_0 to D_1 . This implies that chili peppers are a(n)
- A) normal good.
 - B) inferior good.
 - C) substitute good.
 - D) complementary good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 14) Suppose the demand for lawnmowers goes down when the price of gasoline goes up. We can say that these two goods are
- A) complements.
 - B) substitutes.
 - C) unrelated goods.
 - D) perfect substitutes.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 15) During an economic upturn when consumer income rises, the demand for caviar increases and the demand for hummus decreases. This implies that caviar
- A) and hummus are complements.
 - B) is a normal good and hummus is an inferior good.
 - C) is an inferior good and hummus is a normal good.
 - D) is an economic bad and hummus is an economic good.

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 16) A good whose demand is directly related to income is a(n)
- A) normal good.
 - B) inferior good.
 - C) regular good.
 - D) new good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 17) In college you could barely afford to dine in restaurants. Now you earn \$80,000 a year. and dine out at least three times per week. We can safely conclude that you consider restaurant meals to be a(n)
- A) normal good.
 - B) inferior good.
 - C) substitute good.
 - D) complementary good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 18) For inferior goods, demand will fall when
- A) income increases.
 - B) income decreases.
 - C) price increases.
 - D) price decreases.

Answer: A

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Definition

- 19) When the increase in the price of one good causes the demand for another good to decrease, the goods are
- A) normal.
 - B) inferior.
 - C) substitutes.
 - D) complements.

Answer: D

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 20) An increase in demand for laptop computers would likely be caused by
- A) an increase in the price of a substitute good.
 - B) an increase in the price of laptop computers.
 - C) an increase in the price of a complementary good.
 - D) a decrease in the price of laptop computers.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 21) Demand for one item goes down when the price of another item goes down. These items must be
- A) substitutes.
 - B) complements.
 - C) normal goods.
 - D) inferior goods.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 22) In response to news reports that drinking a glass of red wine each day can reduce an individual's risk of heart disease, there will most likely be a(n)
- A) increase in the demand for red wine.
 - B) decrease in the supply of red wine.
 - C) increase in the supply of red wine.
 - D) increase in the quantity demanded of red wine.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

23) _____ curves are derived while holding constant income, tastes, and the prices of other goods.

- A) Distribution
- B) Production
- C) Demand
- D) Supply

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

24) The quantity demanded of Coca Cola has increased. The best explanation for this is that

- A) the price of Pepsi has decreased.
- B) Coca Cola has instituted a new, successful advertising campaign.
- C) the price of Coca Cola has decreased.
- D) Coca Cola consumers had an increase in income.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.6 below to answer the questions that follow.

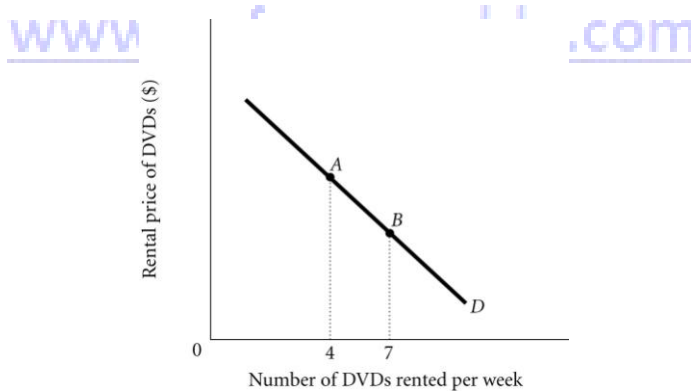


Figure 3.6

25) Refer to Figure 3.6. The number of DVDs Isabel rents per week decreases from 7 to 4. This is caused by

- A) a decrease in income if DVDs are a normal good.
- B) an increase in the price of popcorn which is a complement to DVDs.
- C) an increase in the rental price of DVDs.
- D) a decrease in the cable price of pay-per-view movies.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

26) A change in the _____ of a good or service leads to a change in _____ that leads to a _____.

- A) supply; demand; change in price
- B) demand; quantity demanded; change in supply
- C) price; quantity demanded; movement along the demand curve
- D) quantity; supply; change in demand

Answer: C

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

27) A change in _____ leads to a change in demand that causes a _____.

- A) income or price of other goods; shift in the demand curve
- B) income or price of other goods; movement along the demand curve
- C) the price of the original product; shift of the demand curve
- D) income or price of the original product; movement along the demand curve

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

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Refer to the information provided in Figure 3.7 below to answer the following questions.

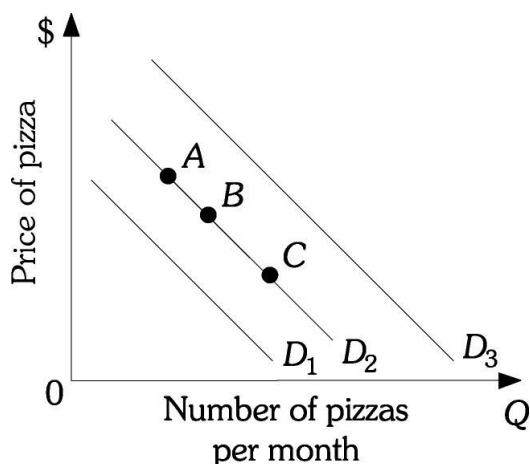


Figure 3.7

28) Refer to Figure 3.7. Assume the market is initially at Point B and that pizza is a normal good. An increase in income would cause the market to move from Point B on demand curve D_2 to

- A) Point A on demand curve D_2 .
- B) Point C on demand curve D_2 .
- C) demand curve D_1 .
- D) demand curve D_3 .

Answer: D

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

29) Refer to Figure 3.7. If pizza and beer are complementary goods, an increase in the price of beer will cause a movement from Point B on demand curve D_2 to

- A) demand curve D_1 .
- B) demand curve D_3 .
- C) Point A on demand curve D_2 .
- D) Point C on demand curve D_2 .

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 30) Refer to Figure 3.7. If pizza and burritos are substitutes, a decrease in the price of burritos will cause a movement from Point *B* on demand curve *D*₂ to
- A) demand curve *D*₁.
 - B) demand curve *D*₃.
 - C) Point *A* on demand curve *D*₂.
 - D) Point *C* on demand curve *D*₂.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 31) Refer to Figure 3.7. A movement from Point *A* to Point *B* on demand curve *D*₂ would be caused by a(n)
- A) decrease in income, assuming pizza is a normal good.
 - B) decrease in the price of burritos, assuming that pizza and burritos are substitutes.
 - C) decrease in the price of pizza.
 - D) increase in the price of pizza.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 32) Refer to Figure 3.7. An increase in demand is represented by the movement
- A) from *D*₂ to *D*₁.
 - B) from *D*₂ to *D*₃.
 - C) along *D*₂ from Point *B* to Point *A*.
 - D) along *D*₂ from Point *B* to Point *C*.

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 33) Refer to Figure 3.7. A decrease in quantity demanded is represented by movement
- A) from *D*₂ to *D*₁.
 - B) from *D*₂ to *D*₃.
 - C) along *D*₂ from Point *B* to Point *A*.
 - D) along *D*₂ from Point *B* to Point *C*.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.8 below to answer the following questions.

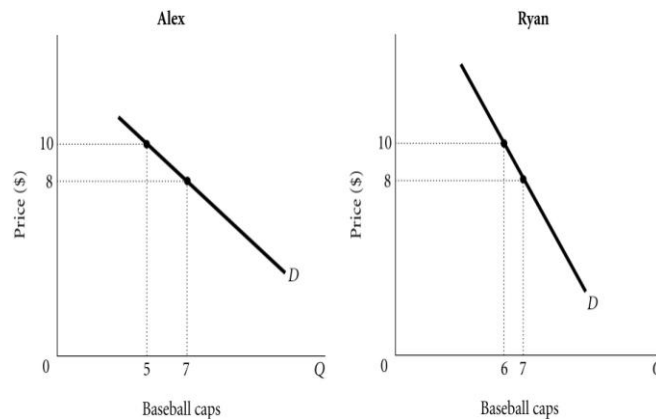


Figure 3.8

34) Refer to Figure 3.8. Assume that there are only two people in the market for baseball caps: Alex and Ryan. Along the _____ for baseball caps, at a price of \$10, quantity demanded would be 11.

- A) demand curve for Alex
- B) demand curve for Ryan
- C) market demand curve
- D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

35) Refer to Figure 3.8. Assume there are only two people in the market for baseball caps: Alex and Ryan. Along the _____, at a price of \$8, quantity demanded would be 14.

- A) demand curve for Alex
- B) demand curve for Ryan
- C) market demand curve
- D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.9 below to answer the following questions.

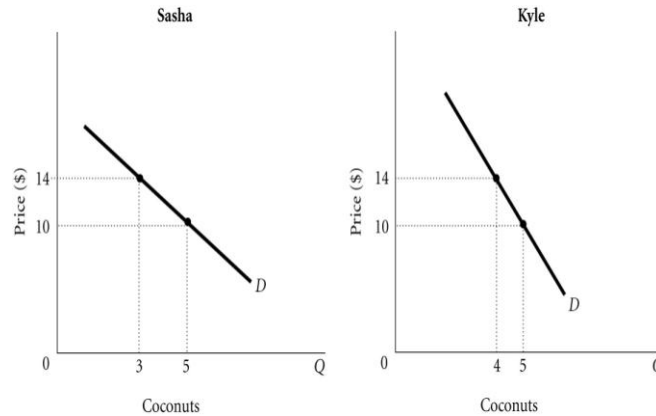


Figure 3.9

- 36) Refer to Figure 3.9. Assume that there are only two people in the market for coconuts: Sasha and Kyle. Along the _____ for coconuts, at a price of \$14, quantity demanded would be 7.
- A) demand curve for Sasha
 - B) demand curve for Kyle
 - C) market demand curve
 - D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 37) Refer to Figure 3.9. Assume there are only two people in the market for coconuts: Sasha and Kyle. Along the _____, at a price of \$10, quantity demanded would be 10.
- A) demand curve for Sasha
 - B) demand curve for Kyle
 - C) market demand curve
 - D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to Scenario 3.1 below to answer the following questions.

SCENARIO 3.1: Rented DVDs and movies shown in theaters are substitutes. Rented DVDs and plasma TVs are complements. Plasma TVs and movies shown in theaters are normal goods.

- 38) Refer to Scenario 3.1. Most plasma TVs sold in the United States are imported from Japan. If the United States government reduces the number of plasma TVs that can be imported into the United States, *ceteris paribus*, what would happen?
- A) The price of plasma TVs and the rental price of DVDs would increase.
 - B) The price of plasma TVs and the rental price of DVDs would decrease.
 - C) The price of plasma TVs would decrease and the rental price of DVDs would increase.
 - D) The price of plasma TVs would increase and the rental price of DVDs would decrease.

Answer: D

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 39) Refer to Scenario 3.1. In response to complaints from movie theater owners, the government removes an entertainment tax on movie tickets, but there are no additional taxes levied on rented DVDs. This would lead to
- A) a decrease in the price of movie tickets, but no change in the rental price of DVDs.
 - B) a decrease in the price of a movie ticket and an increase in the rental price of DVDs.
 - C) a decrease in the price of movie tickets and the rental price of DVDs.
 - D) no change in the price of a movie ticket and a decrease in the rental price of DVDs.

Answer: C

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 40) Refer to Scenario 3.1. You observe that the rental price for DVDs is higher in the summer than in the winter. This would be explained by the fact that
- A) the quantity demanded of rented DVDs is higher in the summer than in the winter.
 - B) there are more DVDs released into the rental market in the summer than in the winter.
 - C) demand for rented DVDs is higher in the summer than in the winter.
 - D) the supply of rented DVDs is higher in the summer than in the winter.

Answer: C

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 41) Refer to Scenario 3.1. If the number of stores renting DVDs increases by 10%, which of the following would occur?
- A) The rental price of DVDs would increase and the price of plasma TVs and movie tickets would decrease.
 - B) The rental price of DVDs and the price of movie tickets would decrease, but the price of plasma TVs would increase.
 - C) The rental price of DVDs and the price of movie tickets would increase, but the price of plasma TVs would decrease.
 - D) The rental price of DVDs would increase, but the price of plasma TVs and movie tickets would be unaffected.

Answer: B

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

2 True/False

- 1) Wealth is a stock measure.

Answer: TRUE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 2) A change in the price of a good or service leads to a change in the demand of the good.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 3) Quantity demanded is determined by how much consumers are willing to pay for the good or service.

Answer: TRUE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 4) Supply is determined by how much suppliers are willing and able to produce.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

5) Inferior goods are also known as substitute goods.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

6) If french fries and ketchup are complements, then an increase in the price of french fries will result in an increase in the demand for ketchup.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

3.4 Supply in Product / Output Markets

1 Multiple Choice

1) According to the law of _____, there is a positive relationship between price and _____.

- A) supply; the change in supply
- B) supply; the quantity supplied
- C) demand; quantity demanded
- D) demand; change in demand

Answer: B

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Definition

2) The price of circuit boards used in the manufacturing of LCD televisions has fallen. This will lead to _____ LCD televisions.

- A) an increase in the supply of
- B) a decrease in the supply of
- C) an increase in the quantity supplied of
- D) a decrease in the quantity supplied of

Answer: A

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 3) If the price of spinach decreases, there will be _____ of spinach enchiladas.
- A) an increase in the supply
 - B) a decrease in the supply
 - C) an increase in the quantity supplied
 - D) a decrease in the quantity supplied

Answer: A

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 4) An electronics manufacturer can produce either MP3 players or cell phones. As the result of a decrease in the price of cell phones, the firm produces more MP3 players and fewer cell phones. An economist would explain this by saying
- A) the supply of cell phones increased and the supply of MP3 players decreased.
 - B) there has been an increase in the quantity supplied of cell phones and a decrease in the quantity supplied of MP3 players.
 - C) there has been a decrease in the quantity supplied of cell phones and an increase in the supply of MP3 players.
 - D) the supply of cell phones increased and the quantity supplied of MP3 players decreased.

Answer: C

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

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Refer to the information provided in Figure 3.14 below to answer the following questions.

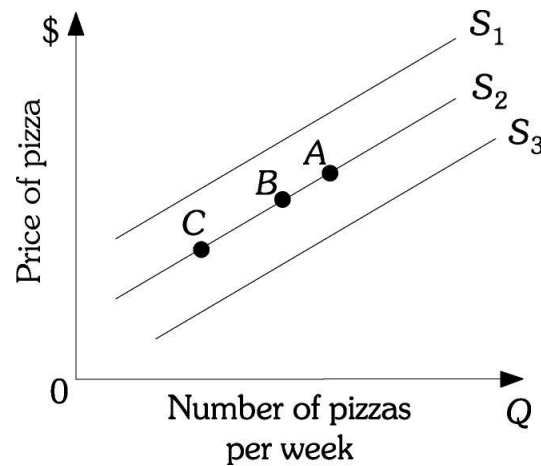


Figure 3.14

5) Refer to Figure 3.14. An increase in the wage rate of pizza makers will cause a movement from Point B on supply curve S₂ to

- A) Point A on supply curve S₂.
- B) Point B on supply curve S₂.
- C) supply curve S₃.
- D) supply curve S₁.

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

6) Refer to Figure 3.14. A decrease in supply is represented by the movement from

- A) S₂ to S₃.
- B) S₂ to S₁.
- C) Point B to Point A along supply curve S₂.
- D) Point B to Point C along supply curve S₂.

Answer: B

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 7) Refer to Figure 3.14. An increase in quantity supplied is represented by a movement from
- A) S_2 to S_3 .
 - B) S_2 to S_1 .
 - C) Point B to Point A along supply curve S_2 .
 - D) Point B to Point C along supply curve S_2 .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 8) Refer to Figure 3.14. A decrease in the price of pizza sauce will cause a movement from Point B on supply curve S_2 to
- A) supply curve S_3 .
 - B) supply curve S_1 .
 - C) Point A on supply curve S_2 .
 - D) Point C on supply curve S_2 .

Answer: A

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 9) Refer to Figure 3.14. A movement from Point C to Point B on supply curve S_2 would be caused by a(n)
- A) decrease in the price of pizza.
 - B) decrease in the price of pizza dough.
 - C) increase in the demand for pizza.
 - D) increase in the price of hamburgers, assuming hamburgers are a substitute for pizza.

Answer: C

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.15 below to answer the following questions.

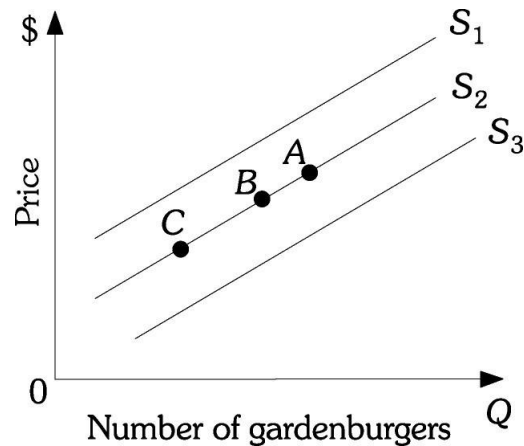


Figure 3.15

- 10) Refer to Figure 3.15. A decrease in the wage rate of gardenburger makers will cause a movement from Point B on supply curve S₂ to
- A) Point A on supply curve S₂.
 - B) Point B on supply curve S₂.
 - C) supply curve S₃.
 - D) supply curve S₁.

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 11) Refer to Figure 3.15. An increase in supply is represented by the movement from
- A) S₂ to S₃.
 - B) S₂ to S₁.
 - C) Point B to Point A along supply curve S₂.
 - D) Point B to Point C along supply curve S₂.

Answer: A

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Figure 3.15. A decrease in quantity supplied is represented by a movement from
- A) S_2 to S_1 .
 - B) S_2 to S_3 .
 - C) Point B to Point A along supply curve S_2 .
 - D) Point B to Point C along supply curve S_2 .

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Figure 3.15. An increase in the price of tomatoes (an input for gardenburgers) will cause a movement from Point B on supply curve S_2 to
- A) supply curve S_3 .
 - B) supply curve S_1 .
 - C) Point A on supply curve S_2 .
 - D) Point C on supply curve S_2 .

Answer: B

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Figure 3.15. A movement from Point A to Point B on supply curve S_2 would be caused by a(n)
- A) increase in the price of gardenburgers.
 - B) decrease in the demand for gardenburgers.
 - C) increase in the price of tomatoes.
 - D) increase in the price of hamburgers, assuming hamburgers are a substitute for pizza.

Answer: B

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 15) The change in the _____ of a good leads to a change in _____, which leads to a _____.
- A) price; quantity supplied; movement along a supply curve
 - B) quantity; supply; change in demand
 - C) supply; demand; change in price
 - D) demand; quantity demanded; supply

Answer: A

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.16 below to answer the questions that follow.

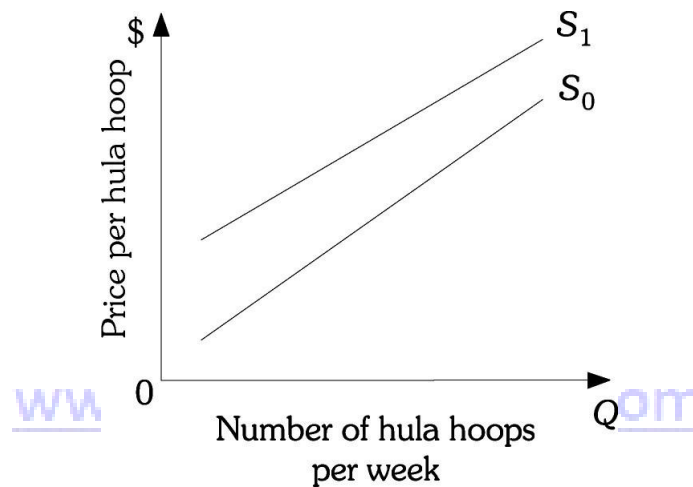


Figure 3.16

- 16) Refer to Figure 3.16. The supply of curve for hula hoops shifts from S_1 to S_0 . This could be caused by
- A) a decrease in the price of hula hoops.
 - B) a decrease in the number of firms selling hula hoops.
 - C) a decrease in the demand for hula hoops.
 - D) a decrease in the cost of producing hula hoops.

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.11 below to answer the questions that follow.

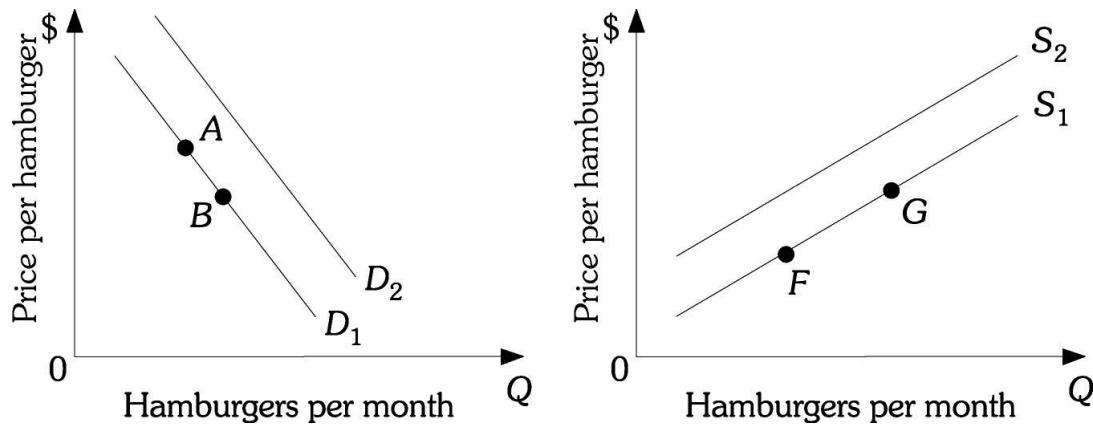


Figure 3.11

- 17) Refer to Figure 3.11. Assume hamburgers are a normal good. A decrease in income will cause a movement from
- A) Point A to Point B.
 - B) Point G to Point F.
 - C) D_2 to D_1 .
 - D) S_2 to S_1 .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 18) Refer to Figure 3.11. Assume hamburgers and hot dogs are substitutes. An increase in the price of hot dogs will cause a movement from
- A) Point B to Point A.
 - B) Point F to Point G.
 - C) D_2 to D_1 .
 - D) D_1 to D_2 .

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 19) Refer to Figure 3.11. Assume hamburgers and french fries are complements. An increase in the price of french fries will cause a movement from
- A) Point *A* to Point *B*.
 - B) Point *B* to Point *A*.
 - C) D_2 to D_1 .
 - D) D_1 to D_2 .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 20) Refer to Figure 3.11. A decrease in the number of cattle ranchers will cause a movement from
- A) Point *A* to Point *B*.
 - B) Point *G* to Point *F*.
 - C) D_2 to D_1 .
 - D) S_1 to S_2 .

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

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2 True/False

- 1) A movement along the supply curve is caused by a change in a good's own price.
- Answer: TRUE
- Diff: 1
- Topic: Supply in Product / Output Markets
- Skill: Conceptual
- 2) A technological advance in the production of digital video recorders will cause them to become less expensive.
- Answer: TRUE
- Diff: 1
- Topic: Supply in Product / Output Markets
- Skill: Conceptual
- AACSB: Reflective Thinking
- 3) An increase in the wage rate of diamond cutters will increase the supply of cut diamonds.
- Answer: FALSE
- Diff: 1
- Topic: Supply in Product / Output Markets
- Skill: Conceptual
- AACSB: Reflective Thinking

4) Supply is determined by how much suppliers are willing and able to produce.

Answer: FALSE

Diff: 1

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

3.5 Market Equilibrium

1 Multiple Choice

1) When quantity demanded equals quantity supplied

A) there must be no government intervention in the market.

B) the demand curve must be the same as the supply curve.

C) the market is in equilibrium.

D) all of the above

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Definition

Refer to the information provided in Table 3.1 below to answer the questions that follow.

Mohammed taha
Table 3.1

Price per Pizza	Quantity Demanded (Pizzas per Month)	Quantity Supplied (Pizzas per Month)
\$3	1,200	600
6	1,000	700
9	800	800
12	600	900
15	400	1,000

2) Refer to Table 3.1. This market will be in equilibrium if the quantity of pizzas supplied per month is

A) 700.

B) 750.

C) 800.

D) 900.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 3) Refer to Table 3.1. If the price per pizza is \$3, the price will
- A) remain constant because the market is in equilibrium.
 - B) increase because there is an excess supply in the market.
 - C) increase because there is an excess demand in the market.
 - D) decrease because there is an excess supply in the market.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 4) Refer to Table 3.1. If the price per pizza is \$6, there is a(n)
- A) excess supply of 1,000 units.
 - B) excess demand of 200 units.
 - C) excess demand of 300 units.
 - D) excess supply of 700 units.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 5) Refer to Table 3.1. If the price per pizza is \$12, there is an excess
- A) demand of 400 pizzas.
 - B) demand of 600 pizzas.
 - C) supply of 300 pizzas.
 - D) supply of 900 pizzas.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 6) Refer to Table 3.1. In this market there will be an excess demand of 600 pizzas at a price of
- A) \$3.
 - B) \$6.
 - C) \$12.
 - D) \$15.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 7) Refer to Table 3.1. In this market there will be an excess supply of 600 pizzas at a price of
- A) \$3.
 - B) \$6.
 - C) \$12.
 - D) \$15.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 8) Refer to Table 3.1. If the price per pizza is \$9, the price will
- A) remain constant because the market is in equilibrium.
 - B) increase because there is an excess demand in the market.
 - C) increase because there is an excess supply in the market.
 - D) decrease because there is an excess supply in the market.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Table 3.2 below to answer the questions that follow.

Table 3.2

Price per Cheeseburger	Quantity Demanded (Cheeseburgers per Month)	Quantity Supplied (Cheeseburgers per Month)
\$5	1,500	500
6	1,200	700
7	900	900
8	600	1,100
9	300	1,300

- 9) Refer to Table 3.2. This market will be in equilibrium if the quantity of gardenburgers demanded is
- A) 300.
 - B) 600.
 - C) 900.
 - D) 1,200.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 10) Refer to Table 3.2. If the price per gardenburger is \$5, the price will
- A) remain constant because the market is in equilibrium.
 - B) decrease because there is an excess demand in the market.
 - C) increase because there is an excess demand in the market.
 - D) decrease because there is an excess supply in the market.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 11) Refer to Table 3.2. If the price per gardenburger is \$6, there is a(n)
- A) market equilibrium.
 - B) excess demand of 1,000 units.
 - C) excess demand of 500 units.
 - D) excess supply of 700 units.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Table 3.2. If the price per gardenburger is \$8, there is an excess
- A) demand of 600 gardenburgers.
 - B) supply of 500 gardenburgers.
 - C) demand of 300 gardenburgers.
 - D) supply of 1,100 gardenburgers.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Table 3.2. In this market there will be an excess demand of 500 gardenburgers at a price of
- A) \$5.
 - B) \$6.
 - C) \$7.
 - D) \$8.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Table 3.2. In this market there will be an excess supply of 1,000 gardenburgers at a price of
- A) \$5.
 - B) \$6.
 - C) \$7.
 - D) \$9.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 15) Refer to Table 3.2. If the price per gardenburger is \$8, the price will
- A) remain constant because the market is in equilibrium.
 - B) decrease because there is an excess demand in the market.
 - C) increase because there is an excess supply in the market.
 - D) decrease because there is an excess supply in the market.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 16) When there is an excess demand of a product in an unregulated market, the tendency is for
- A) price to rise.
 - B) price to decrease.
 - C) quantity supplied to decrease.
 - D) quantity demanded to increase.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.17 below to answer the questions that follow.

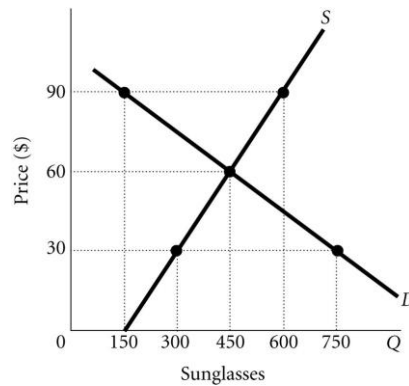


Figure 3.17

- 17) Refer to Figure 3.17. The market for sunglasses _____ at a price of \$60 and a quantity of 450 sunglasses.
- A) has a surplus
 - B) has a shortage
 - C) is in equilibrium
 - D) cannot remain in business

Answer: C

Diff: 1

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 18) Refer to Figure 3.17. At a quantity demanded of 750, there is an excess
- A) demand of 450 sunglasses if the price is \$60.
 - B) demand of 450 sunglasses if the price is \$30.
 - C) demand of 300 sunglasses if the price is \$60.
 - D) supply of 300 sunglasses if the price is \$30.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 19) Refer to Figure 3.17. If this market is unregulated and the price is currently \$30, you would expect that the price
- A) of sunglasses would remain at \$30, because firms would not want to increase the price.
 - B) of sunglasses would rise to \$90, so the firm could meet its excess demand.
 - C) of sunglasses would rise to \$60, where quantity demanded equals quantity supplied.
 - D) of sunglasses would rise, but the new price is indeterminate from the information provided.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 20) Refer to Figure 3.17. At a price of \$60, there is an excess
- A) demand of 150 sunglasses.
 - B) supply of 300 sunglasses.
 - C) demand of 300 sunglasses.
 - D) supply of zero sunglasses.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 21) When there is a surplus of a product in an unregulated market, there is a tendency for
- A) price to rise.
 - B) price to fall.
 - C) quantity demanded to increase.
 - D) quantity supplied to decrease.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 22) If the market for blue tooth headsets is unregulated and is presently characterized by excess demand, you can accurately predict that price will
- A) increase, the quantity demanded will fall, and the quantity supplied will rise.
 - B) increase, the quantity demanded will rise, and the quantity supplied will fall.
 - C) decrease, the quantity demanded will rise, and the quantity supplied will fall.
 - D) decrease, the quantity demanded will fall, and the quantity supplied will rise.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 23) Cell phones and blue tooth headsets are complements. An increase in the price of blue tooth headsets would cause which of the following in the market for cell phones?
- A) The equilibrium price and quantity of cell phones would increase.
 - B) The equilibrium price and quantity of cell phones would decrease.
 - C) The equilibrium price of cell phones would increase and the equilibrium quantity would decrease.
 - D) The equilibrium price of cell phones would decrease and the equilibrium quantity would increase.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 24) Suppose that Palm Pilots are a normal good. If the income of Palm Pilot users decreases, you predict that in the market for Palm Pilots
- A) both equilibrium price and quantity will fall.
 - B) both equilibrium price and quantity will increase.
 - C) equilibrium price will increase and quantity will decrease.
 - D) equilibrium price will fall but quantity will increase.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

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Refer to the information provided in Figure 3.18 below to answer the questions that follow.

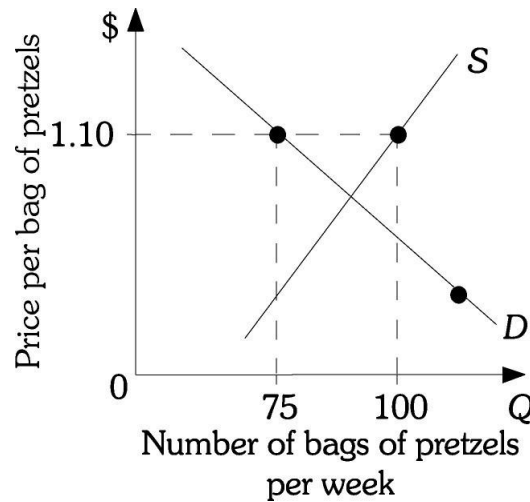


Figure 3.18

- 25) Refer to Figure 3.18. The current quantity of bags of pretzels supplied is 100. You accurately predict that in this market
- A) price tends to remain constant and quantity supplied increases.
 - B) price, quantity demanded, and quantity supplied decrease.
 - C) price and quantity supplied decrease and quantity demanded increases.
 - D) price and quantity demanded increase and quantity supplied decreases.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 26) When Hurricane Katrina hit Louisiana in 2005, approximately half of the sugar cane crop was destroyed. *Ceteris paribus*
- A) the demand for sugar decreased and the price of sugar decreased.
 - B) the supply of sugar decreased and the price of sugar increased.
 - C) the supply of sugar decreased and the price of sugar decreased.
 - D) the demand for sugar increased and the price of sugar increased.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 27) Bacon is used to produce bacon cheeseburgers, and the price of bacon decreases. In the market for bacon cheeseburgers you would expect that
- A) the demand for bacon cheeseburgers would increase and the price of bacon cheeseburgers would increase.
 - B) the demand for bacon cheeseburgers would decrease and the price of bacon cheeseburgers would fall.
 - C) the supply of bacon cheeseburgers would decrease and the price of bacon cheeseburgers would increase.
 - D) the supply of bacon cheeseburgers would increase and the price of bacon cheeseburgers would decrease.

Answer: D

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 28) If increases in government regulations have increased the cost of producing gasoline-powered lawnmowers, you accurately predict that in the market for gasoline-powered lawnmowers, there will be a(n)
- A) decrease in the quantity supplied of gasoline-powered lawnmowers, a reduction in the price, and an increase in the quantity demanded.
 - B) decrease in the supply of gasoline-powered lawnmowers, an increase in the price, and a decrease in the quantity demanded.
 - C) decrease in the supply of gasoline-powered lawnmowers, an increase in the price, and a decrease in the demand.
 - D) increase in the supply of gasoline-powered lawnmowers, an increase in the price, and a decrease in the demand.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 29) Which of the following will definitely occur when there is a simultaneous increase in demand and an increase in supply?
- A) an increase in equilibrium price
 - B) a decrease in equilibrium price
 - C) an increase in equilibrium quantity
 - D) a decrease in equilibrium quantity

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 30) A movement along the demand curve to the right may be caused by a(n)
- A) decrease in income.
 - B) increase in supply.
 - C) fall in the number of substitute goods.
 - D) rise in the price of inputs.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 31) Which of the following will definitely occur when there is a decrease in the supply of and an increase in demand for wireless speakers?
- A) an increase in equilibrium price
 - B) a decrease in equilibrium price
 - C) an increase in equilibrium quantity
 - D) a decrease in equilibrium quantity

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 32) Which of the following will definitely occur when there is a decrease in demand for and an increase in supply of potato chips?
- A) an increase in equilibrium price
 - B) a decrease in equilibrium price
 - C) an increase in equilibrium quantity
 - D) a decrease in equilibrium quantity

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 33) A new fertilizer which greatly improves the corn crop yield is being widely used by corn farmers. You accurately predict that this
- A) will shift the supply curve of corn to the right, the equilibrium price of corn will increase, and the demand for corn will fall.
 - B) will shift the supply curve of corn to the right, the equilibrium price of corn will decrease, and the quantity demanded of corn will increase.
 - C) will shift the supply curve of corn to the left, the equilibrium price of corn will increase, and the quantity demanded of corn will decrease.
 - D) will shift the supply curve of corn to the left, the equilibrium price of corn will increase, and the demand for corn will fall.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 34) Pineapples and kumquats are substitute goods. A hurricane in Guatemala destroyed a good portion of the pineapple crop. *Ceteris paribus*
- A) the price of both pineapples and kumquats will increase.
 - B) the price of both pineapples and kumquats will fall.
 - C) the price of kumquats will increase and the price of pineapples will fall.
 - D) the price of kumquats will fall and the price of pineapples will increase.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.19 below to answer the questions that follow.

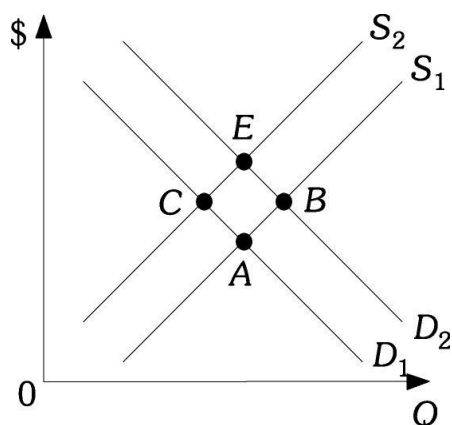


Figure 3.19

- 35) Refer to Figure 3.19. When the economy moves from Point C to Point A, there has been
- A) an increase in demand and an increase in supply.
 - B) an increase in demand and an increase in quantity supplied.
 - C) an increase in quantity demanded and a decrease in supply.
 - D) an increase in quantity demanded and an increase in supply.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 36) Refer to Figure 3.19. When the economy moves from Point C to Point E, there has been
- A) a decrease in supply and a decrease in quantity demanded.
 - B) a decrease in quantity supplied and a decrease in demand.
 - C) an increase in supply and an increase in quantity demanded.
 - D) an increase in demand and an increase in quantity supplied.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 37) Refer to Figure 3.19. When the economy moves from Point C to Point B, there has been
- A) an increase in demand and an increase in supply.
 - B) a decrease in demand and a decrease in supply.
 - C) an increase in demand and a decrease in supply.
 - D) an increase in quantity demanded and an increase in quantity supplied.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 38) Refer to Figure 3.19. When the economy moves from Point B to Point A, there has been
- A) an increase in supply and a decrease in quantity demanded.
 - B) a decrease in both supply and demand.
 - C) a decrease in demand and a decrease in quantity supplied.
 - D) a decrease in supply and an decrease in quantity demanded.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

Refer to Scenario 3.2 below to answer the questions that follow.

SCENARIO 3.2: Mustard and mayonnaise are substitutes. Mustard and relish are complements. Mustard is a normal good. During the summer, about 50% of all mustard was recalled by manufacturers and removed from store shelves.

- 39) Refer to Scenario 3.2. As a result of the recall, you would expect that
- A) the supply of mustard would decrease, the price of mustard would increase, and the demand for mustard would decrease.
 - B) the price of mustard would increase, the supply of mustard would increase, and the quantity demanded of mustard would decrease.
 - C) the supply of mustard would decrease, the price of mustard would increase, and the quantity demanded of mustard would decrease.
 - D) the price of mustard would increase and both the quantity of mustard supplied and the quantity of mustard demanded would increase.

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 40) Refer to Scenario 3.2. The mustard recall would have caused the equilibrium price of mayonnaise to _____ and the equilibrium quantity of mayonnaise to _____.
- A) increase; increase
 - B) increase; decrease
 - C) decrease; increase
 - D) decrease; decrease

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

41) Refer to Scenario 3.2. The mustard recall would have caused

- A) an increase in the demand for relish.
- B) an increase in the quantity demanded of relish.
- C) a decrease in the demand for relish.
- D) a decrease in the quantity demanded of relish.

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

42) Refer to Scenario 3.2. If at the same time of the mustard recall, consumer income also decreased. Then, ceteris paribus, in the market for mustard this would have caused

- A) both the equilibrium price and quantity to decrease.
- B) the equilibrium price to increase and the equilibrium quantity to decrease.
- C) the equilibrium price to either increase, decrease, or remain the same and the equilibrium quantity to decrease.
- D) the equilibrium quantity could have increased, decreased, or remained the same and the equilibrium price to decrease.

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

43) Refer to Scenario 3.2. The government wants to protect consumers from rising food prices. Therefore, price restrictions are imposed on mustard producers, prohibiting them from raising the price of mustard. This will cause

- A) an excess demand for mustard.
- B) an excess supply of mustard.
- C) an increase in the demand for mustard.
- D) a decrease in the supply of mustard.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.10 below to answer the questions that follow.

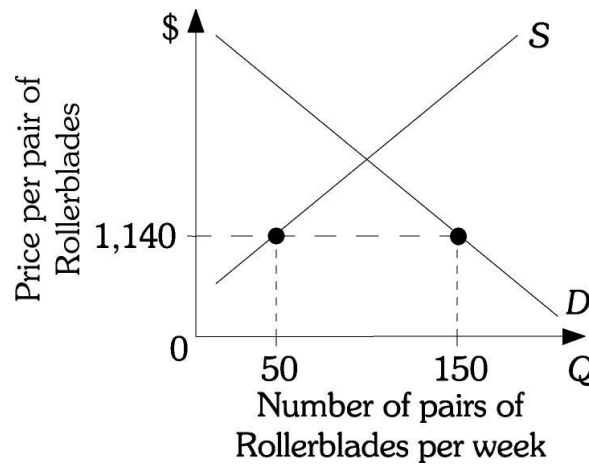


Figure 3.10

- 44) Refer to Figure 3.10. If the current quantity demanded of rollerblades is 150 per week, you accurately predict that in this market
- A) price and quantity supplied will increase and quantity demanded will decrease.
 - B) price and quantity supplied will decrease and quantity demanded will increase.
 - C) price, quantity supplied and quantity demanded will increase.
 - D) price, quantity supplied and quantity demanded will decrease.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

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Refer to the information provided in Figure 3.12 below to answer the questions that follow.

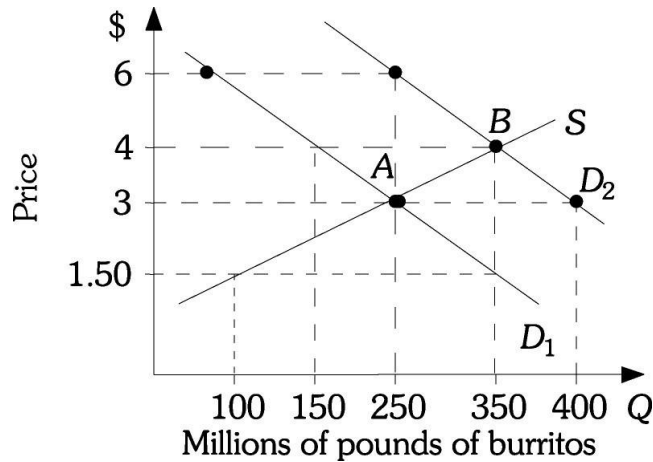


Figure 3.12

- 45) Refer to Figure 3.12. The market is initially in equilibrium at Point A. If demand shifts from D_1 to D_2 and there is an excess demand of 150 million pounds of burritos, the price of burritos would be

- A) \$1.50.
- B) \$3.00.
- C) \$4.00.
- D) \$6.00.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 46) Refer to Figure 3.12. The market is initially in equilibrium at Point B. If demand shifts from D_2 to D_1 and there is an excess supply of 200 million pounds of burritos, the price of burritos would be

- A) \$1.50.
- B) \$3.00.
- C) \$4.00.
- D) \$6.00.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

47) Refer to Figure 3.12 The market is initially in equilibrium at Point A. If demand shifts from D_1 to D_2 , the equilibrium price will change from _____ and the equilibrium quantity will change from _____.

- A) \$4.00 to \$3.00; 250 to 350
- B) \$4.00 to \$3.00; 350 to 250
- C) \$3.00 to \$4.00; 250 to 350
- D) \$3.00 to \$4.00; 350 to 250

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

48) Refer to Figure 3.12 The market is initially in equilibrium at Point B. If demand shifts from D_2 to D_1 , the equilibrium price will change from _____ and the equilibrium quantity will change from _____.

- A) \$4.00 to \$3.00; 250 to 350
- B) \$4.00 to \$3.00; 350 to 250
- C) \$3.00 to \$4.00; 250 to 350
- D) \$3.00 to \$4.00; 350 to 250

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

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Refer to the information provided in Figure 3.13 below to answer the questions that follow.

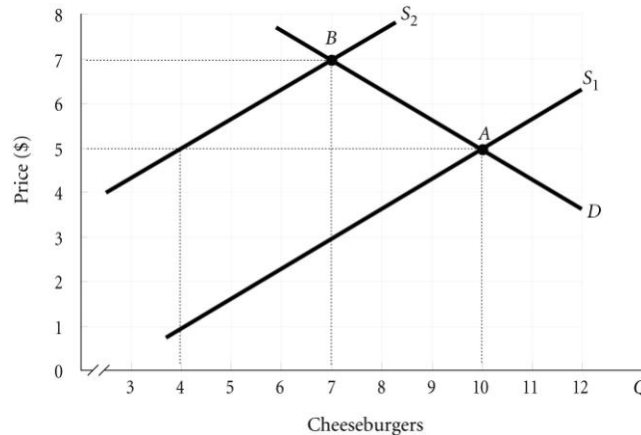


Figure 3.13

- 49) Refer to Figure 3.13. The market is initially in equilibrium at Point A. If supply shifts from S_1 to S_2 and there is an excess demand of 6 cheeseburgers, the price of cheeseburgers will have
- A) moved from \$5.00 to \$7.00.
 - B) moved from \$7.00 to \$5.00.
 - C) remained constant at \$5.00.
 - D) remained constant at \$7.00.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 50) Refer to Figure 3.13. The market is initially in equilibrium at Point A. If supply shifts from S_1 to S_2 , the equilibrium price will change from _____ and the equilibrium quantity will change from _____.
- A) \$5.00 to \$7.00; 10 to 7.
 - B) \$5.00 to \$7.00; 4 to 7.
 - C) \$7.00 to \$5.00; 7 to 4.
 - D) \$7.00 to \$5.00; 7 to 10.

Answer: A

Diff: 1

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 51) Refer to Figure 3.13. The market is initially in equilibrium at Point B. If supply shifts from S_2 to S_1 , the equilibrium price will change from _____ and the equilibrium quantity will change from _____.
- A) \$5.00 to \$7.00; 10 to 7.
 - B) \$5.00 to \$7.00; 4 to 7.
 - C) \$7.00 to \$5.00; 7 to 4.
 - D) \$7.00 to \$5.00; 7 to 10.

Answer: D

Diff: 1

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 52) Related to the *Economics in Practice* on p. 67: The freezing weather in California caused the _____ curve for oranges to shift to the _____, increasing the equilibrium price and decreasing the equilibrium quantity of oranges.
- A) supply; right
 - B) demand; right
 - C) supply; left
 - D) demand; left

Answer: C

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 53) Related to the *Economics in Practice* on p. 67: The freezing weather in California decreased the supply of oranges. This would _____ apple juice, a substitute for orange juice.
- A) increase the supply of
 - B) increase the demand for
 - C) decrease the supply of
 - D) decrease the demand for

Answer: B

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

54) Related to the *Economics in Practice* on p. 69: One explanation for the increase in the price of the Baltimore newspaper is the new, increased regard the citizens of Baltimore have for newspapers. This would cause the _____ Baltimore newspapers to _____.

- A) demand for; increase
- B) quantity demanded of; increase
- C) demand for; decrease
- D) quantity demanded of; decrease

Answer: A

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

55) Related to the *Economics in Practice* on p. 69: Assuming the demand for Baltimore newspapers increases while the supply of Baltimore newspapers decreases, the equilibrium _____ will definitely _____.

- A) price; increase
- B) price; decrease
- C) quantity; increase
- D) quantity; decrease

Answer: A

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

2 True/False

1) A decrease in demand for a product will cause the price of the product to rise and supply of the product to increase.

Answer: FALSE

Diff: 1

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

2) A simultaneous increase in both the supply of and the demand for vitamin water would cause an increase in the equilibrium quantity of vitamin water.

Answer: TRUE

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 3) If price is below the equilibrium, then quantity supplied will be less than quantity demanded putting upward pressure on price.

Answer: TRUE

Diff: 1

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

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