Homework 2

1. 1. A shortage of OPEC oil at current market prices will increase oil prices because of:
   A) the law of elastic supply.
   B) the law of elastic demand.
   C) consumers will bid up the price of oil.
   D) all of the above.
   E) none of the above.

2. The market clearing price in a competitive market:
   A) is one that will be established immediately when buyers and sellers come together to the market.
   B) would persist if actually reached, but doesn't have much significance in real life, due to the lack of any forces tending to push the price to this level.
   C) has no significance at all in real life because analysis of competitive markets takes no account of incomes, tastes, or other factors that influence demand.
   D) will tend to be reached, although not necessarily immediately, because of the competitive forces set up whenever price is at any level other than equilibrium.
   E) has no application except where everyone is an "economic person" (homo economicus).

3. One reason that the quantity demanded of a good tends to rise as its price falls is that:
   A) the decrease in price shifts the supply curve downward.
   B) people feel a bit richer and increase their use of the good.
   C) demand has to rise to restore equilibrium after a price reduction.
   D) suppliers are willing to supply more at lower prices.
   E) the decrease in price shifts the demand curve upward.

4. A price at which the amount people wish to buy exceeds the amount that people wish to produce (given upward-sloping supply curves):
   A) lies above the equilibrium, market clearing price.
   B) lies below the market clearing price.
   C) will induce a shift in the demand schedule to achieve equilibrium.
   D) is impossible.
   E) is none of the above.

5. Given a fixed supply of lamb chops, a reduction in the price of pork chops (close substitutes) will tend to:
   A) shift the demand curve for lamb chops to the right.
   B) shift the demand curve for pork chops to the right.
   C) shift the demand curve for pork chops to the left.
   D) raise the price of lamb chops.
   E) lower the price of lamb chops.

6. The quantity of good X demanded by an individual may depend upon:
   A) the individual's income.
   B) the price of X.
   C) the price of some other goods.

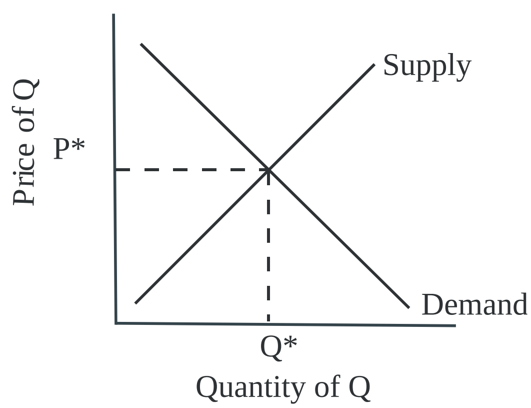
D) all of the above.
E) answers a and b, only.

7. If farmers work harder and longer to maintain their incomes and living standards as their earnings per hour fall, that would involve:
A) an exception to the downward slope of the demand curve for labor.
B) an exception to the upward slope of the supply curve for labor.
C) a confirmation of the downward slope of the supply curve for labor.
D) a confirmation of the upward slope of the supply curve for labor.
E) none of the above.

8. Good growing conditions for wheat would probably
A) increase the prices of substitutes for wheat.
B) induce greater demand for wheat, yielding a higher price.
C) cause wheat suppliers to move up their supply curves to a higher price.
D) cause people to reduce their demand for wheat.
E) induce a rightward shift in wheat's supply curve.

9. The position of the supply schedule for American-made cars will not be directly affected by which of the following?
A) Union wage rates.
B) Car prices.
C) The price of tires.
D) A change in assembly technology.
E) All of the above will affect supply.

Use the following to answer questions 10



10. Given the supply and demand curves drawn for a normal good in the Figure, an increase in income can be expected to cause:
A) equilibrium price and quantity to increase.
B) equilibrium price to increase and equilibrium quantity to fall.
C) equilibrium price to increase while equilibrium quantity holds steady.
D) equilibrium price and quantity to fall.
E) equilibrium price to fall and equilibrium quantity to climb.

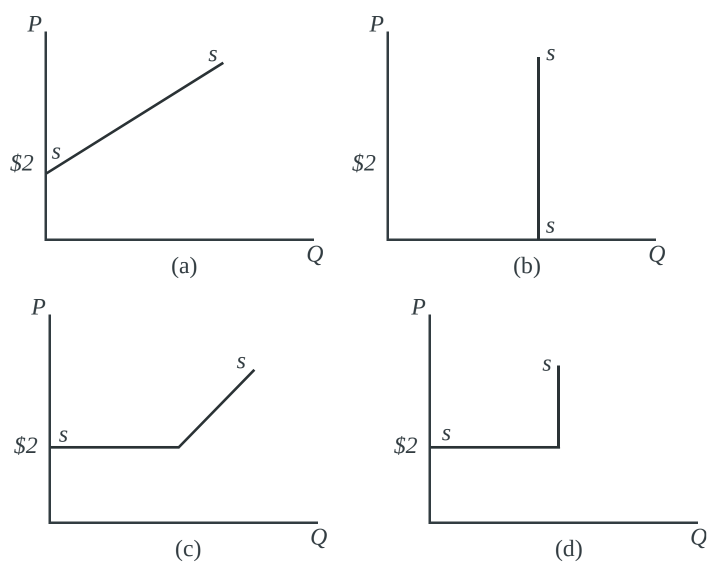
11. Which of the following might explain why farm revenues are higher in years of lower production due to bad weather?
    A) Demand is more elastic than supply.
    B) Supply is perfectly elastic.
    C) Demand is relatively inelastic; a leftward shift in supply will increase total revenue.
    D) Supply is relatively inelastic; a leftward shift in supply will increase total revenue.
    E) None of the above.

12. An increase in supply will lower price unless:
    A) supply is perfectly price inelastic.
    B) demand is perfectly price elastic.
    C) it is followed by a reduction in quantity demanded.
    D) demand is highly price inelastic.
    E) both demand and supply are highly price inelastic.

13 If the burden of an excise tax is shifted forward completely onto the consumer, we can say that:
    A) supply is perfectly price elastic.
    B) demand is perfectly price elastic.
    C) demand is more price elastic than supply.
    D) supply is price inelastic and demand is price elastic.
    E) none of the above.

14. A horizontal demand curve may be described as:
    A) relatively price elastic.
    B) perfectly price inelastic.
    C) relatively price inelastic.
    D) perfectly price elastic.
    E) unit elastic.

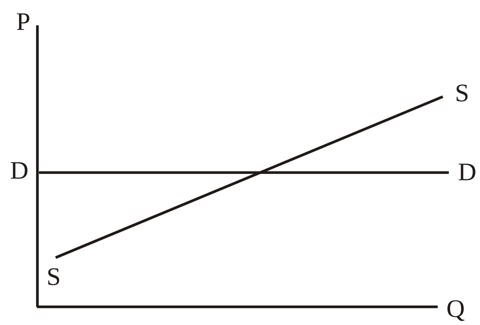
15. The government declares that it is prepared to sell any and all cotton yard goods from its surpluses to domestic purchasers at a price of $2 per yard. Which-if any-of the four panels in the figure below could be used as shown to illustrate this government supply situation?



A) a.
B) b.
C) c.
D) d.
E) None of these diagrams.

16. The government reduces the excise tax on the sellers in a competitive industry by $10 per unit sold. Both supply and demand curves have some elasticity with respect to price. This reduction in tax means that:
A) supply curve shifts down by $10, but (unless demand is perfectly elastic) price remain constant.
B) supply curve shifts down by less than $10, but (unless demand is highly inelastic) price falls by more than $10.
C) supply curve shifts down by less than $10, but (unless demand is highly elastic) price falls by $10.
D) supply curve shifts down by $10, but (unless supply is perfectly elastic) any price decline is less than $10.
E) demand curve shift down by $10 and price falls by $10.

17. Given the supply and demand curves shown in the figure below, a $1 tax on sales should be expected to cause:



A) price to increase by $1 with quantity unchanged.
B) quantity to fall with price left unchanged.
C) no change in either price or quantity.
D) price to rise and quantity to fall.
E) quantity to increase with price left unchanged.

18. "If its advocates are correct, the minimum-wage bill passed by the House of Representatives would raise wages for nearly 7 million underpaid workers, but would have no noticeable effect on employment." The quotation implies that the demand for the labor services of the 7 million workers mentioned, with respect to the price of labor services, has elasticity equal to:
A) 2.
B) 5.
C) 1.
D) 0.
E) 0.5

19. During the summer of 1978, the airlines had a large increase in revenues after introducing a large number of bargain fares. Which of the following is a possible explanation?

A) Demand was price inelastic.
B) Demand was price elastic.
C) The demand curve had shifted leftward.
D) All the above.
E) None of the above.

20. Suppose that demand is everywhere price inelastic. In this case, a contraction in the quantity supplied at every price must cause:
A) total revenue to climb.
B) total revenue to fall.
C) total revenue to remain flexed as profits fall.
D) any of the above depending upon circumstance.
E) either answer a or c, depending upon circumstance.

Chapter 3, Questions for discussion, page 61-62
Q4, Q6, Q9

Chapter 4, Questions for discussion, page 82-83
Q3, Q4, Q8