Homework 2

Due Date: Oct-18/19-2018

I. Multiple Choice Questions

1. An increase in price will lead to a lower quantity demanded because:

A) suppliers will supply only the smaller amount.

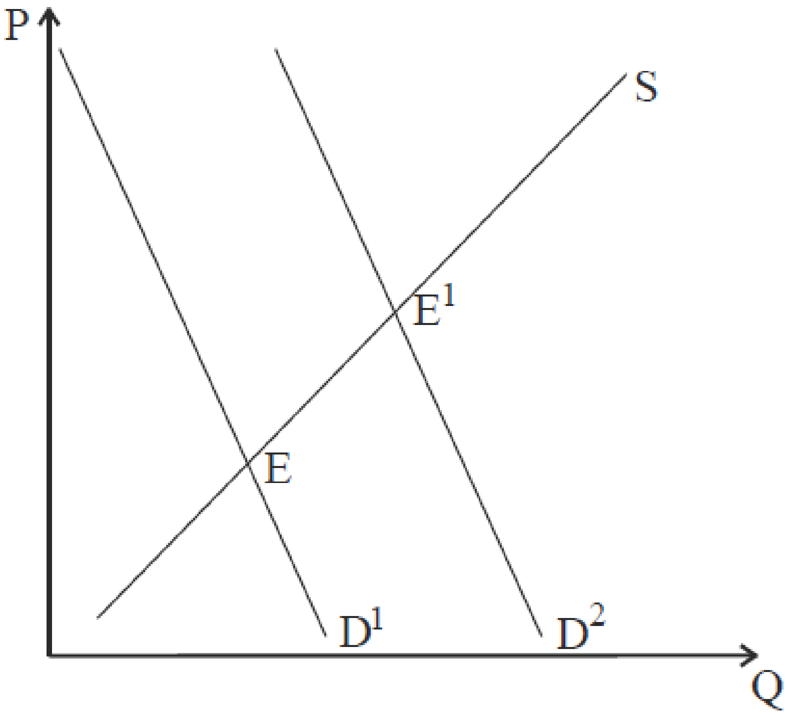
B) some individuals will no longer purchase the good.

C) individuals purchase less of the good.

D) a and b.

E) b and c.

2. If E were the old equilibrium in the market for wheat in the figure below, and E' the new one, which of the following could have caused the change?



A) Consumer income rose, causing a supply shift.

B) Bad weather caused a supply shift.

C) Consumer income rose, causing a demand shift.

D) Supply and demand both shifted.

E) None of the above are plausible descriptions.

3. A change in which of the following will not alter the demand curve for rental housing?

A) The price of houses.

B) Rental prices.

C) Incomes of consumers.

D) Energy prices.

E) Growth in the community.

4. The demand curve for a normal good will shift to the right if:

A) income increases.

B) population increases.

C) the price of a substitute good increases.

D) all the above.

E) none of the above.

5. The demand curve for a normal good will shift to the left if:

A) income increases.

B) population increases

C) the price of a substitute good decreases.

D) all the above.

E) none of the above.

6. A drought would probably:

A) cause wheat suppliers to move up their supply curves to a higher price.

B) induce greater demand for wheat, yielding a higher price.

C) cause people to reduce their demand for wheat.

D) induce an upward and leftward shift in wheat's supply curve.

E) lower the prices of substitutes for wheat.

7. 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.

8. An increase in the supply of commodity X for any given price of X could be caused by:

A) an increase in the prices of other commodities.

B) an increase in the prices of factors of production important to this commodity.

C) a reduction in the prices of factors of production important to this commodity.

D) an increase in consumer income.

E) none of the above.

9. If the demand schedule may be written $P = 100 - 4Q$, and the supply schedule $P = 40 + 2Q$, then the market clearing price and quantity are:

A) $P = 60$, $Q = 10$.

B) $P = 10$, $Q = 6$.

C) $P = 40$, $Q = 6$.

D) $P = 20$, $Q = 20$.

E) none of the above.

10. Four of the five events described below might reasonably be expected to shift the demand curve for beef to a new position. One would not shift that demand curve. The single exception is:

A) a rise in the price of some good which consumers regard as a substitute for beef.

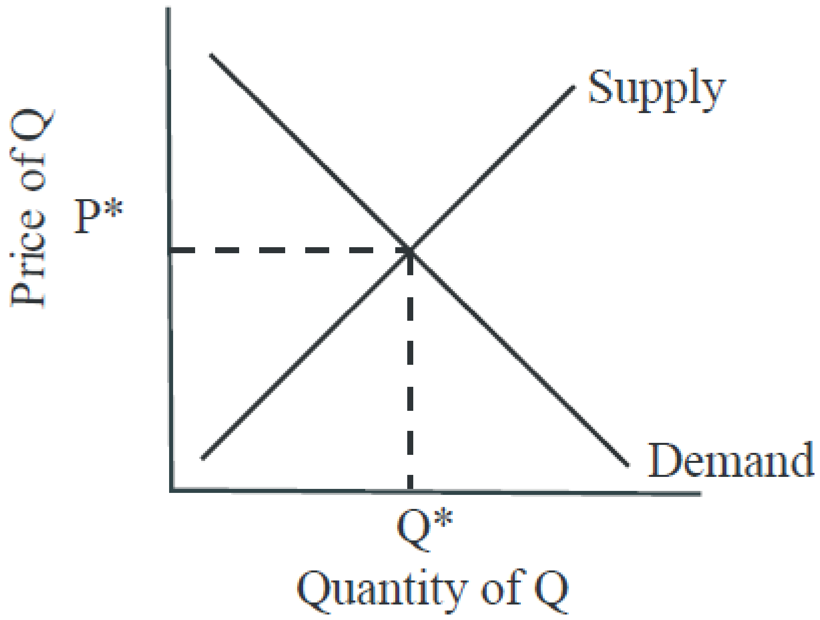
B) a fall in the price of beef

C) an increase in the money incomes of beef consumers.

D) a widespread advertising campaign undertaken by the producers of a product competitive with beef (e.g. pork).

E) a change in people's tastes with respect to beef.

Use the following figure to answer questions 11-13:



11. 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.

12. Let P* and Q* represent market clearing price and quantity, respectively. Given the supply and demand curves drawn in the figure, an increase in the price of an input employed in the production of Q can be expected to cause:

A) P* and Q* to climb.

B) P* to climb while Q* falls.

C) P* to climb while Q* holds steady.

D) P* to fall while Q* climbs.

E) P* and Q* to fall.

13. Let P* and Q* represent market clearing price and quantity, respectively. Given the supply and demand curves drawn in the figure above, the appearance of foreign suppliers willing to sell any quantity at a price slightly higher than equilibrium can be expected to cause:

A) P* and Q* to climb.

B) P* and Q* to fall.

C) P* to climb while Q* falls.

D) Q* to fall while P* holds steady.

E) none of the above.

14. According to the law of demand:

A) the intersection of demand and supply establishes the market equilibrium point.

B) consumers' tastes can influence the quantity demanded.

C) there is an inverse relationship between price and the quantity demanded.

D) "all other things held equal" is an important concept.

E) there is a direct relationship between price and the quantity demanded.

15. An increase in price will lead to a lower quantity demanded because:

A) suppliers will supply only the smaller amount.

B) quality deteriorates.

C) people will purchase less of the good.

D) all of the above.

E) none of the above.

16. 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.

17. When we say that a price in a competitive market is "too low to clear the market," we usually mean that:

A) the quantity supplied exceeds the quantity demanded at that price, so there is too much competition among producers to try to get rid of that supply.

B) consumers are not willing to buy enough at that price.

C) producers are leaving the industry.

D) the quantity demanded exceeds the quantity supplied at that price.

E) no producer can cover costs of production at that price.

18. 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.

19. If you were a government official and wanted to raise the price of oil, which of the following actions would you take?

A) Take oil from government storage and sell it on the open market.

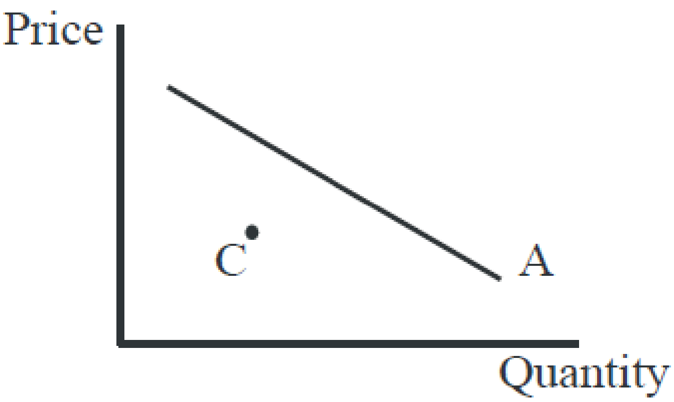
B) Encourage producers to drill more wells.

C) Try to lower the price of alternative fuels.

D) Try to lower average family income.

E) Encourage producers to cut back on drilling for oil.

20. Point C in the following figure could represent:



A) a point on the demand schedule for a normal good with higher incomes.

B) an equilibrium point.

C) a point on the supply schedule.

D) both a and c.

E) none of the above.

21. Which of the following could affect a demand schedule for petroleum products?

A) A change in the technology of oil production.

B) The discovery of new oil fields in Texas.

C) A strike by oil refinery workers.

D) An increase in national income.

E) None of the above.

Use the following table to answer questions 22-26:

The Market for Potato Chips
(quantities measured in bags per week)

Price	Quantity Supplied	Quantity Demanded
$1.00	500	2000
2.00	1000	1750
3.00	1500	1500
4.00	2000	1250
5.00	2500	1000

22. According to the table, the equilibrium price for potato chips is:

A) $1.00.

B) $2.00.

C) $2.50.

D) $3.00.

E) $4.00.

23. According to the table, the equilibrium level of output is:

A) 1750.

B) 1625.

C) 1500.

D) 1375.

E) none of the above.

24. According to the table, for every $1.00 increase in price, the quantity demanded decreases by:

A) 5.

B) 500.

C) 10.

D) 25.

E) 250.

25. The data in this table:

A) support the law of demand.

B) indicate that the supply curve is vertical.

C) contradict economic reasoning.

D) both b and c.

E) none of the above.

26. According to the table, we can be fairly certain that:

A) demand and supply are directly related.

B) if price increases to $6.00, the quantity supplied will increase.

C) if price falls to $0.75, supply will drop to 0.

D) some people will pay almost anything for potato chips.

E) one of the curves is about to shift.

II. Short Answers

27. Question 6, “Questions for Discussion”, Chapter 3 of the textbook.

28. Question 7, “Questions for Discussion”, Chapter 3 of the textbook.

29. For some commodities, e.g, housing or stocks in the capital market, we usually observe that when their price goes up, their demand increase accordingly. Therefore, for these commodities, the “law of demand” does not apply.”

    Do you agree with the argument above? Briefly explain your reasons.