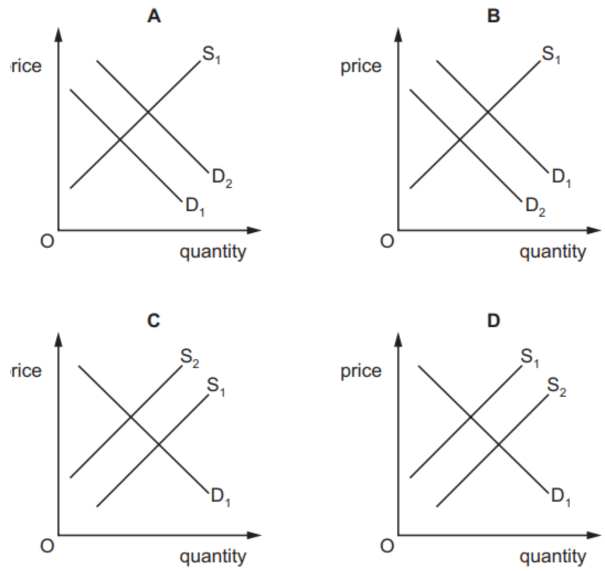
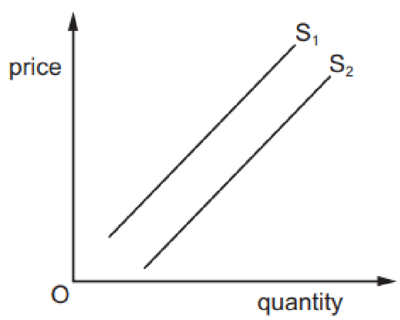
1. An economy relies on potash to make fertilizer. A new deposit of potash is discovered. Which diagram shows this change in the market for potash?



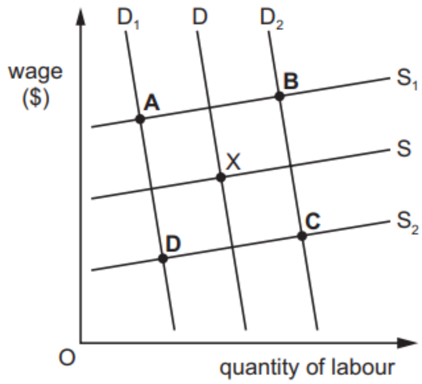
I. A
II. B
III. C
IV. <u>D</u>
V. None of the above

2. The diagram shows a shift in the supply curve for New Zealand's airlines from S1 to S2. What is the cause of this shift?



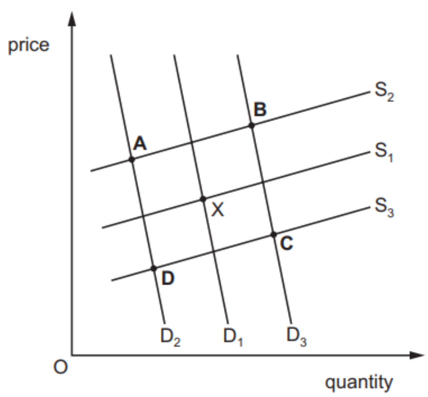
I. an increase in the demand for air travel
II. <u>a decrease in the costs of New Zealand's airlines</u>
III. a decrease in the number of people wanting to fly to New Zealand
IV. an increase in the price of train and bus travel in New Zealand
V. an increase in the tax on air travel in New Zealand

3. The diagram shows the market for information technology (IT) graduates. The original equilibrium was X. Later, more IT students graduated from university and greater use of artificial intelligence (AI) increased the demand for IT staff. What is the new equilibrium?



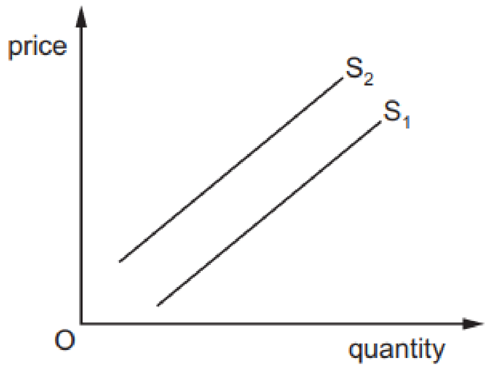
I. A
II. B
III. <u>C</u>
IV. D
V. Remains at X

4. The diagram shows the market for oil. The original equilibrium is X. Oil producers discover a new source of oil while there is economic growth. What is the new equilibrium?



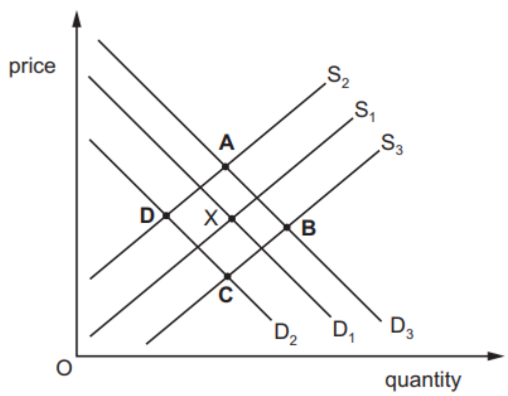
I. A
II. B
III. <u>C</u>
IV. D
V. Remains at X

5. The diagram shows a shift in the supply curve for cars in China from S1 to S2. What is the most likely cause of this shift in the supply curve?



I. an increase in an indirect tax on petrol in China
II. a decrease in the price of cars in China
III. an increase in the price of cars in China
IV. <u>an increase in the wages of Chinese car workers</u>
V. a new subsidy given to Chinese car manufacturers

6. The diagram shows the global market for copper with an equilibrium point of X. Which point represents the new equilibrium after the copper producers' costs increase and there is rapid global economic growth?



I. <u>A</u>
II. B
III. C
IV. D
V. Remains at X

7. Online clothes retailers invest in new warehouses to box enable them to hold larger stocks of clothes. Other things remaining the same, this is most likely to result in

I. a lower price elasticity of demand of clothes sold online
II. <u>a higher price elasticity of supply of clothes sold online</u>
III. a lower price elasticity of supply of clothes sold online
IV. lower barriers to entry to the online clothes industry.
V. diseconomies of scale in the online clothes industry.

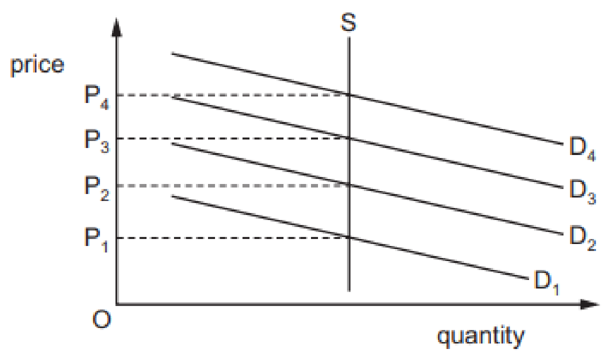
8. A manufacturer reduces the price of its goods after developing a more efficient manufacturing process. It makes leather belts that compete against belts made of artificial material. What are the likely outcomes of the change in the manufacturing process?

	supply of leather belts	price of artificial belts
I	decreases	decreases
II	decreases	increases
III	**increases**	**decreases**
IV	increases	increases
V	no change	decreases

9. Goose meat and chicken meat are substitutes. Goose meat and goose feathers for pillows are in joint supply. Other things being equal, what will be the effects of a fall in the price of chicken meat?

	Price of goose meat	Price of goose feathers
I. A	fall	fall
II. B	rise	fall
III. C	**fall**	**rise**
IV. D	rise	rise
V. E	no change	no change

10. In the diagram, the supply curve shows the number of spaces in a car park and the demand curves show the demand for spaces on four different days (D1, D2, D3 and D4). The owner wishes to charge a parking fee on each of these days to allocate the spaces according to the market mechanism. Which pricing policy should the owner use?



I. set a fixed price at P1
II. set a fixed price at P4
III. vary prices between P2 and P3
IV. vary prices between P1 and P4
V. none of the above

11. What is most likely to increase the quantity of houses supplied?

I. a policy to help house buyers on modest incomes
II. a restriction on the level of rent that can be charged
III. a rise in the tax on materials used for building houses
IV. the removal of a subsidy to house builders
V. none of the above

12. Diesel engines are a major cause of air pollution in cities. A city authority placed a charge on diesel taxis entering the city. What would be the most likely effects on the demand and supply of taxi journeys into the city?

	demand for taxi journeys	supply of taxi journeys
I	fall	fall
II	fall	remain unchanged
III	**remain unchanged**	**fall**
IV	rise	fall
V	remain unchanged	fall

13. The soap industry consists of several firms. Firm X produces a small percentage of total output. What is likely to cause the supply curve for firm X to shift to the right while the market supply curve shifts to the left?

I. Firm X has improved technology while other firms have higher input costs.
II. Firm X has to pay a large fine for polluting a river while other firms have a tax reduction.
III. Firm X is involved in a strike while other firms enter the industry.
IV. Firm X's rent and interest charges increase while other firms receive a government subsidy.
V. Both (ii) and (iii)

14. In response to an increase in price from $5 per kilo to $6 per kilo, a farmer increased supply from 400 kilos to 500 kilos per week. What is the price elasticity of supply?
    I. 0.8
    II. 0.9
    III. 1.0
    IV. 1.2
    V. <u>1.25</u>

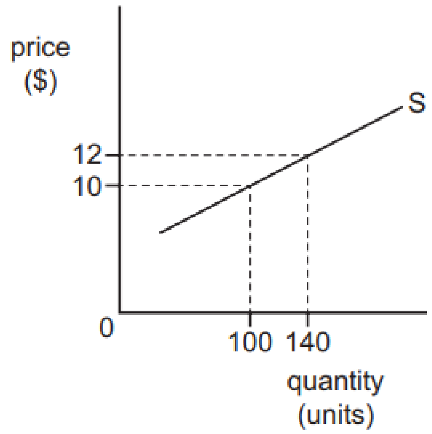
15. The table shows the supply schedule for a good. What is the price elasticity of supply when price increases from $1 to $3?

price ($)	quantity (000)
1	3
2	5
3	7

    I. 0.5
    II. <u>0.66</u>
    III. 1.0
    IV. 1.5
    V. 2.0

16. The price elasticity of supply of a good is 2. The price of the good then falls by 10%. What is the effect on quantity supplied?
    I. It falls by 0.2%.
    II. <u>It falls by 20%.</u>
    III. It remains the same
    IV. It increases by 0.2%.
    V. It increases by 20%.

17. The diagram shows the supply curve for a good. What is the price elasticity of supply when the price rises from $10 to $12?



I. 0.5
II. 0.75
III. 1.0
IV. 1.4
V. 2.0

18. A product with perfectly elastic supply has sales of 150 units per week at a price of Rs.4 per unit. Price elasticity of demand is (–)2 over the relevant range. The government imposes a tax of 25%. What will be the government's weekly tax revenue?
    I. Rs.28
    II. Rs.75
    III. Rs.150
    IV. Rs.168
    V. None of the above

19. A product with perfectly elastic supply has sales of 200 units per week at a price of Rs.8 per unit. Price elasticity of demand is (–)2 over the relevant range. The government imposes a tax of 25%. What will be the government's weekly tax revenue?
    I. Rs.100
    II. Rs.75
    III. Rs.200
    IV. Rs.1000
    V. Rs. 1600

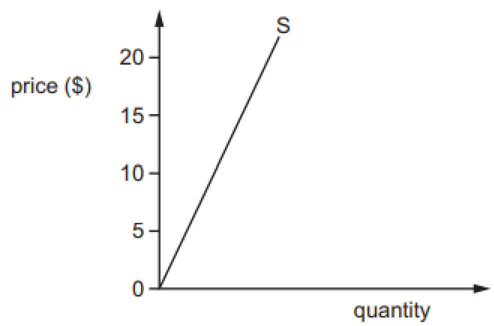
20. What is the likely price elasticity of supply of highly perishable goods and goods that have low stocks?

	highly perishable goods	goods that have low stocks
I	elastic	elastic

II	elastic	inelastic
III	**inelastic**	**elastic**
IV	inelastic	inelastic
V	Unit elastic	elastic

21. A good has a price elasticity of supply of 2.0. The current quantity supplied is 300 units per week at a market price of $20 per unit. The firm raises the price to $25 per unit. What will the new quantity supplied be per week?
    I. 150 units
    II. 375 units
    III. 400 units
    IV. 450 units
    V. None of the above

22. The diagram shows the supply curve o f a product. The government imposes a specific indirect tax of $5 on the product. How will the price elasticity of supply of the product change?
    I. from Unit elastic to inelastic
    II. from inelastic to elastic
    III. from inelastic to Unit elastic
    IV. From Unit elastic to elastic
    V. Remain at unit elastic



23. How might a firm raise the value of the price elasticity of supply for its product?
    I. decrease the amount of labour that it employs
    II. employ new technology to increase its productive capacity
    III. increase advertising expenditure to generate more revenue
    IV. reduce the level of stocks in order to cut costs
    V. None of the above

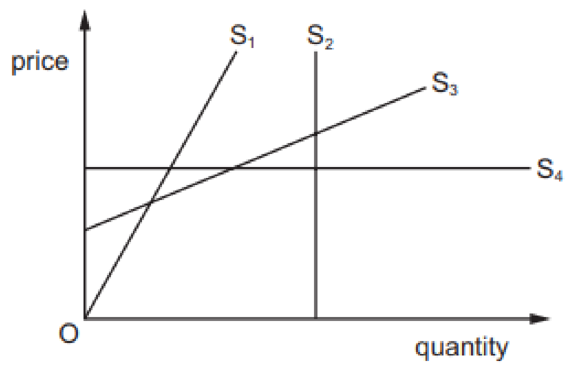
24. The supply (S) of a product is determined by the equation S = 10 + 10P when P is the price of the product in $.

What is the product's price elasticity of supply when its price rises from $1 to $2?
    I. 0.5
    II. 1.0
    III. 2.0
    IV. 5.0
    V. 0.2

25. A taxi firm raises fares at its busiest times by as much as five times the normal fare. Taxi drivers and customers are notified of the changes by mobile (cell) phone. What will result from this policy?
    I. It will be less likely that there is a market equilibrium.

II. Potential customers will have less perfect information.
III. The market surplus will become a shortage.
IV. <u>The supply of taxi rides will become more price elastic.</u>
V. The supply of the taxi rides will become more price inelastic

26. For which supply curve is the value of price elasticity of supply not the same at all points on the curve?

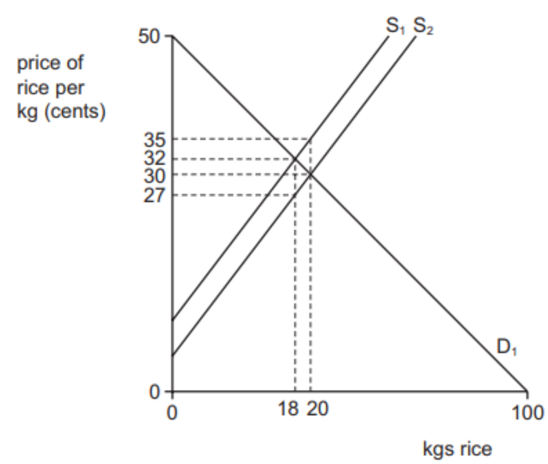


I. S1
II. S2
III. <u>S3</u>
IV. S4
V. All of the above except S3

27. The diagram shows the demand and supply of rice. Supply increases from S1 to S2.

What is the change in sales revenue received by the rice farmer?

I. <u>24</u>
II. 54
III. 60
IV. 600
V. 700

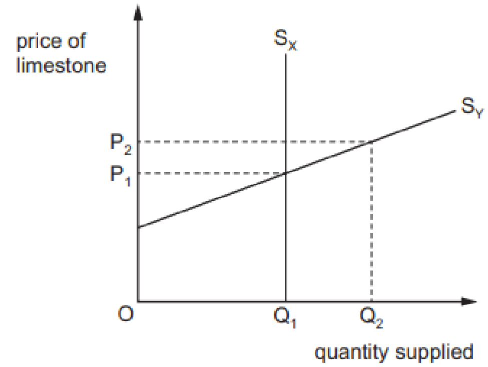


28. The diagram shows the supply of limestone from quarry X and quarry Y at two prices.

What is the measure of the responsiveness of supply as the price increases from P1 to P2?

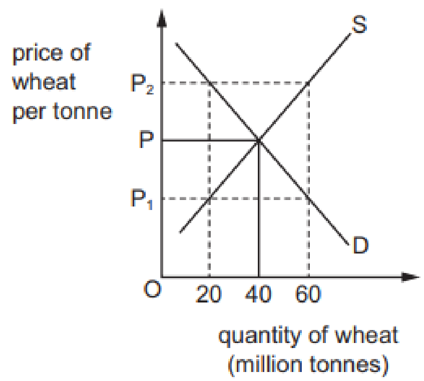
	SX	SY
<u>I</u>	**<u>0</u>**	**<u>>1</u>**

II	<1	1
III	1	<1
IV	>1	0
V	>1	<1



29. The market for wheat is in equilibrium at price P with supply at 40 million tonnes. Due to a drought in the growing season, supply falls to 20 million tonnes.

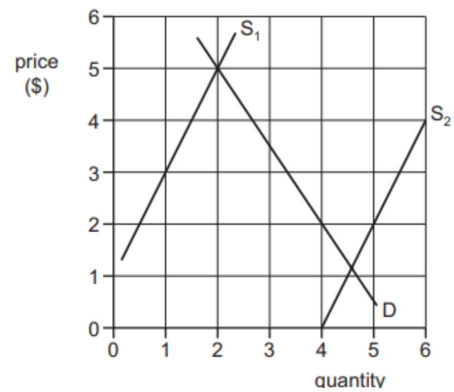
Which immediate action should be taken to maintain the equilibrium price of P?



I. grant a subsidy to farmers equivalent to PP1
II. impose an indirect tax equivalent to PP2
III. plant more wheat to increase supplies to 40 million tonnes
IV. <u>use existing stocks of wheat to increase supplies by 20 million tonnes</u>
V. none of the above

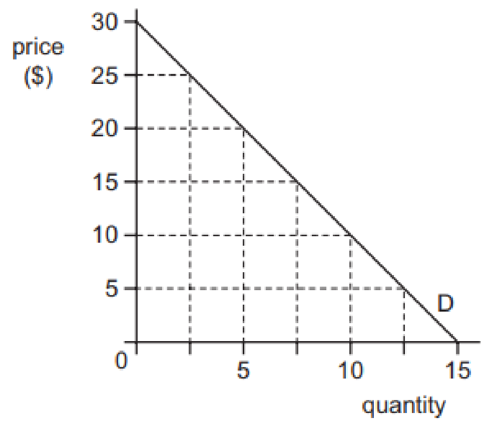
30. What must be correct when the free market for a good is in disequilibrium?
I. Consumers can buy all of the good that they demand at the market price.
II. Producers can sell all of the good that they supply at the market price.
III. The market price of the good will not change.
IV. <u>The quantity of the good demanded differs from the quantity supplied.</u>
V. None of the above

31. In the diagram, D is the demand curve for an agricultural commodity and S1 is the initial supply curve. A good harvest causes the supply curve to shift to S2. By how much will the demand curve have to shift to leave farm incomes unchanged?



I. 500 tonnes at all prices
II. <u>1000 tonnes at all prices</u>
III. 2000 tonnes at all prices
IV. 4000 tonnes at all prices
V. None of the above

32. The diagram shows a consumer's demand curve for a product. How does consumer surplus change as the price of the product rises?



I. It falls at a constant rate (%) with each $5 rise.
II. It falls by a constant amount with each $5 rise.
III. <u>It falls by a decreasing amount with each $5 rise.</u>
IV. It falls by an increasing amount with each $5 rise.
V. None of the above

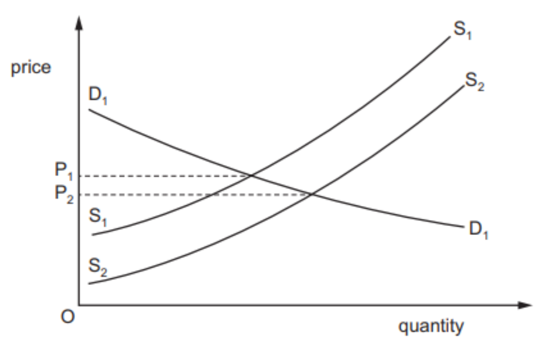
33. An indirect tax is imposed on a product in a competitive market. Under which circumstances would the value of the consumer surplus be most likely to remain unchanged?

I. New substitutes are developed for the product and production costs rise.
II. Some producers merge so there is less competition in the market.
III. The product is an inferior good, consumer incomes increase and production costs rise.
IV. <u>The product is a normal good, consumer incomes increase and production costs fall.</u>
V. None of the above

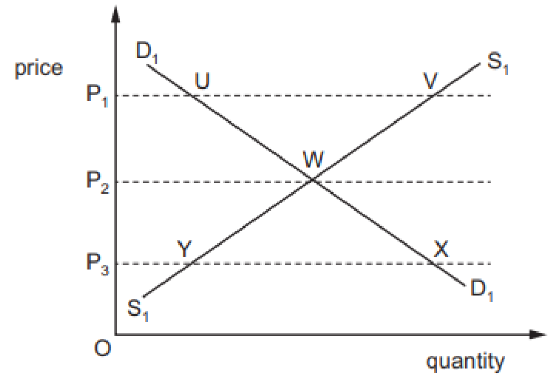
34. In the diagram, the supply of a product increases while the demand curve does not shift.

Which row correctly identifies the resulting impact on consumer and producer surplus?

	Consumer surplus	Producer surplus
I	has fallen	has fallen
II	has fallen	has risen
III	has risen	has fallen
<u>IV</u>	**<u>has risen</u>**	**<u>has risen</u>**
V	has remain unchanged	has fallen



35. The diagram shows the market demand and supply for a good. Which statement is not valid?



I. At price OP1, UV represents the market surplus.
II. At price OP3, P3X represents the quantity that consumers would like to buy.
III. <u>If price were to fall from OP1 to OP3, the extra quantity demanded would be equal to the extra quantity supplied.</u>
IV. Price OP2 is the market equilibrium price.
V. None of the above

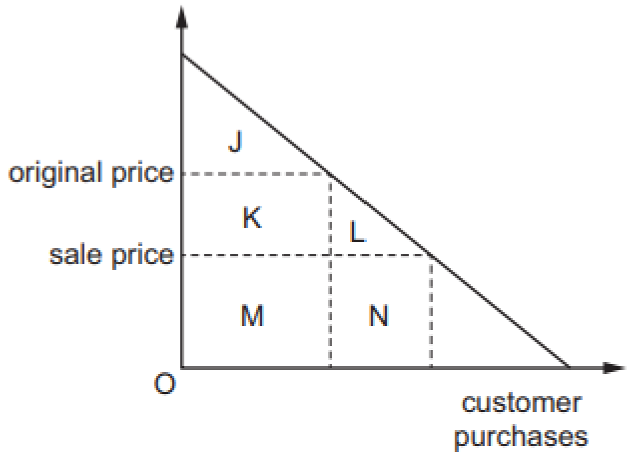
36. Producer surplus is the difference between
I. the consumer surplus from the good and the producers' total cost of supplying the good.
II. the highest price that the consumer would be willing to pay for the good and the price the producer actually sold it for.
III. <u>the lowest price that the producer would accept for the good and the price the producer actually sold it for.</u>
IV. the quantity that the producers manufacture in a week and the amount sold to consumers in that week.
V. the highest price that the producer would expect for the good and the price the producer actually sold it for.

37. What is most likely to cause an increase in the consumer surplus in the market for a normal good?
I. <u>an increase in consumer incomes</u>
II. an increase in the number of substitute goods
III. an increase in the price of a complementary good
IV. an increase in the price of the good
V. None of the above
I. None of the above

38. Assume a hypothetical competitive market which is in equilibrium at Rs. 50 per unit. Now assume that the market supply curve changes from being elastic at each price to become inelastic at each price and the market equilibrium price and quantity does not change. What is the effect of this change on consumer surplus and producer surplus?

	Consumer surplus	Producer surplus
I.	Increases	Decreases
II.	Increases	Unchanged
III.	Unchanged	Unchanged
IV.	**<u>Unchanged</u>**	**<u>Increases</u>**
V.	Decreases	Increases

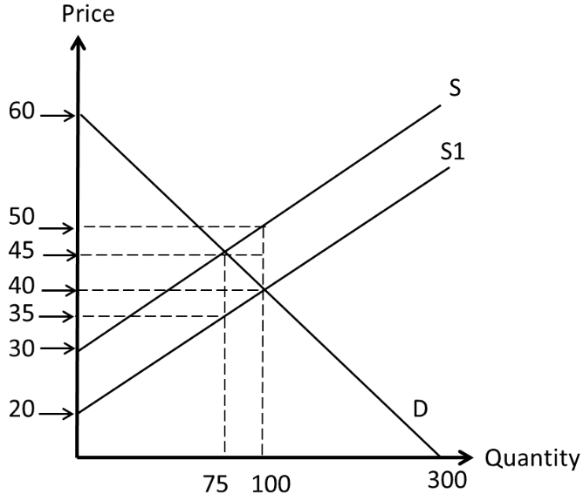
39. A well-known clothes retailer decides to have a summer sale in its shops. As a result the number of people who use the shops increases.



Which areas measure the change in consumer surplus for the customers who would have bought the clothes anyway and the surplus for the new customers?

	existing customers	new customers
i	J + K	L
ii	J + K + M	L + N
iii	**K**	**L**
iv	M	N
v	L + N	K

40. The following diagram shows that when the government remove a specific indirect tax that had been imposed on a commodity and the change of the supply curves due the removal of the unit tax.



What will be the effect of the above action of the government?

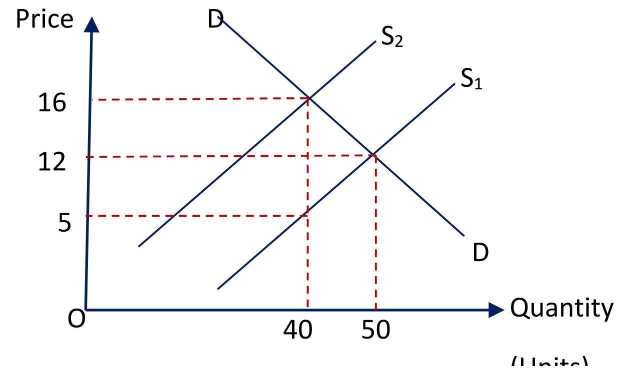
	Change in consumer Surplus	Change in Producer Surplus	tax burden on consumer	tax burden on Producer
I.	+ 437.5	+ 437.5	+ 500	+ 500
II.	+ 562.5	+ 562.5	+ 375	+ 375
III.	**+ 437.5**	**+ 437.5**	**-(375)**	**-(375)**
IV.	- (437.5)	-(437.5)	375	375
V.	-(562.5)	-(562.5)	-(500)	-(500)

41. Suppose in a particular product, demand elasticity is -0.3 and supply elastic is + 1. 2.

On this product government imposes a unit tax of Rs. 2.50/-. Further suppose, market price of this product before tax was Rs.10/-. What would be the new market price after this unit tax is imposed?

I. Rs,11.88
II. Rs.10.63
III. Rs.11
IV. Rs,12
V. Cannot be decided from the information given

42. The government imposes a tax on a good, causing the supply curve to shift from S_1 to S_2 as shown in the diagram below.



What part of the total tax burden falls on the consumers?

I. Rs. 200
II. <u>Rs. 160</u>
III. Rs. 280
IV. Rs. 250
V. Rs. 440

43. A government imposes a specific indirect tax on a product. When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

I. The product has price elastic demand and price elastic supply.
II. The product has price elastic demand and price inelastic supply.
III. <u>The product has price inelastic demand and price elastic supply.</u>
IV. The product has price inelastic demand and price inelastic supply.
V. None of the above

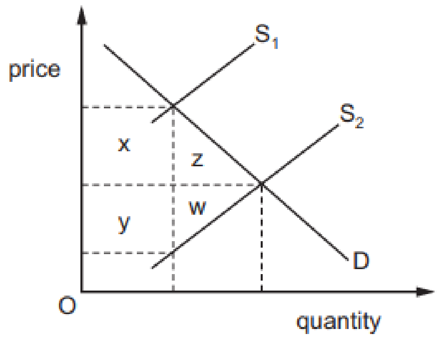
44. In the market for a good the quantity supplied (QS) and the quantity demanded (QD) are given by QS = P – 30 and QD = 240 – 2P where P = price in dollars.

After a government intervention on the good makes QS = P – 36.

How will the change affect equilibrium price?

I. It will fall by $2.
II. It will fall by $6.
III. <u>It will rise by $2.</u>
IV. It will rise by $6.
V. None of the above

45. In the diagram, D is the demand curve for Indian tea exports and S1 is the supply curve when there is a tax on tea exports. The Indian government removes the tax, which causes the supply curve to shift to S2. Which areas in the diagram measure the resulting loss in tax revenue to the Indian government and the resulting gain in consumer surplus?

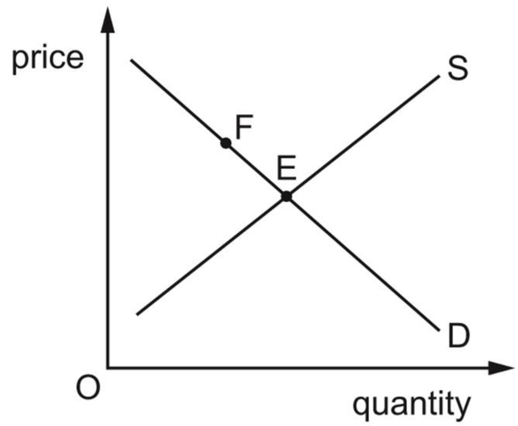


	loss in tax revenue	gain in consumer surplus
I	X	W + Y
II	X	X + Z
III	**X+Y**	**Z**
IV	X+Y	X + Z
V	Y	X+Y

46. A specific tax is imposed on a product for which the elasticity of supply is zero. Which statement is correct?
    I. The burden of this tax will fall entirely on consumers.
    II. The burden of this tax will fall entirely on suppliers.
    III. The burden of this tax will fall mainly on consumers.
    IV. The burden of this tax will fall mainly on suppliers.
    V. None of the above.

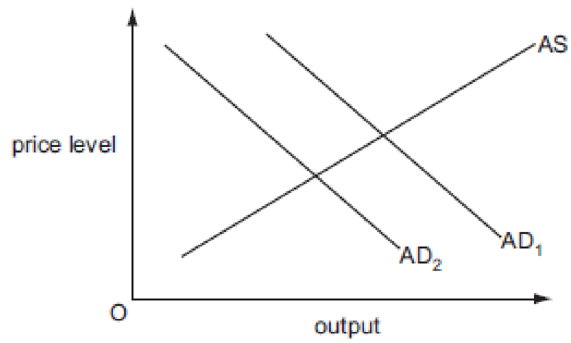
47. Doctors are concerned about the negative health effects of sugary drinks. When would a tax on sugary drinks be least effective in improving health?
    I. when the demand for sugary drinks is income elastic
    II. when the demand for sugary drinks is income inelastic
    III. when the demand for sugary drinks is price elastic
    IV. when the demand for sugary drinks is price inelastic
    V. None of the above

48. The diagram shows the equilibrium price and quantity of good X.
The initial market equilibrium is shown by point E.
What might cause the market equilibrium to move to point F?



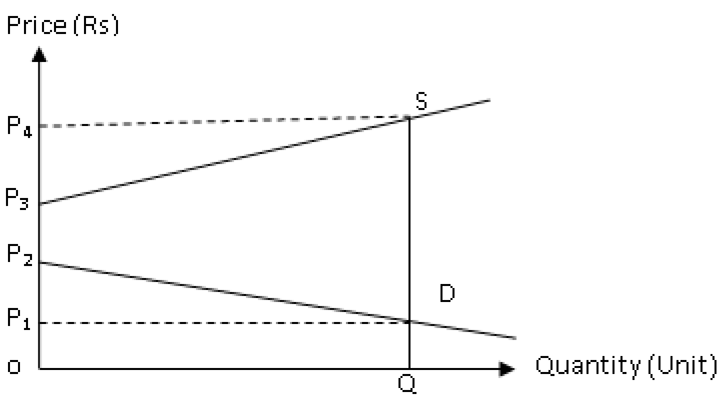
I. an increase in the costs of producing good X
II. a decrease in the demand for good X
III. an increase in the price of a substitute good
IV. <u>the imposition of a specific sales tax on producers of good X</u>
V. Both I and IV

49. AD_1 and AS are an economy's original aggregate demand and aggregate supply curves. What will cause the aggregate demand curve to shift to AD_2?



I. An increase in the money supply
II. A decrease in interest rate
III. Decrease in marginal propensity to consumption
IV. Increase in marginal propensity to tax
V. <u>Both III & IV</u>

50. In the following diagram market demand for the product is below the supply at all prices.
If the government wishes the community to buy OQ units, it will have to



I. Direct that price not be higher than OP_1
II. Permit the suppliers to change OP_4
III. Subsidies production by P_2P_3 per unit sold.

IV. Subsidies production by P_2P_3 per unit sold

V. <u>Subsidies production by P1P_4 unit sold</u>