

- 9 A government reduces income tax but at the same time raises the rate of sales tax (VAT).

What are the likely effects on the demand and supply of a normal good?

	demand	supply
<b>A</b>	decreases	decreases
<b>B</b>	decreases	increases
<b>C</b>	increases	decreases
<b>D</b>	increases	increases

- 10 An increase in the popularity of air conditioning units has resulted in their price increasing by 20%. In response to this the quantity supplied increased by 30%.

What can be concluded from this?

- A** price elasticity of supply = 0
- B** price elasticity of supply < 1
- C** price elasticity of supply = 1
- D** price elasticity of supply > 1
- 11 Which change does **not** have an immediate effect on the position of the demand curve for a product?
- A** a fall in the price of a complementary product
- B** a range of new products entering the market
- C** a rise in the labour costs of its production
- D** an increase in the price of a substitute product
- 12 When demand for a good falls, its price falls.

What is the function of the price fall?

- A** to eliminate shortages
- B** to reduce consumer surplus
- C** to send a signal to producers
- D** to stimulate a further fall in demand