

Practice Problems for Quiz 2

ECO 1110 Current Economic Problems

1. The demand for a good will be less elastic if

- a) there are no close substitutes for the good.
- b) the cost of production is lower.
- c) it is a luxury.
- d) the time horizon is longer.

2. In 1994 the price of cigarettes was \$3.00 per pack, and 40 billion packs were sold. When the price rose to \$3.30 a pack, 38 billion packs were sold. In this case, we should expect the revenues of cigarette companies to

- a) rise between 4 and 6 percent.
- b) fall between 4 and 6 percent.
- c) remain more or less unchanged.
- d) fall below its costs.

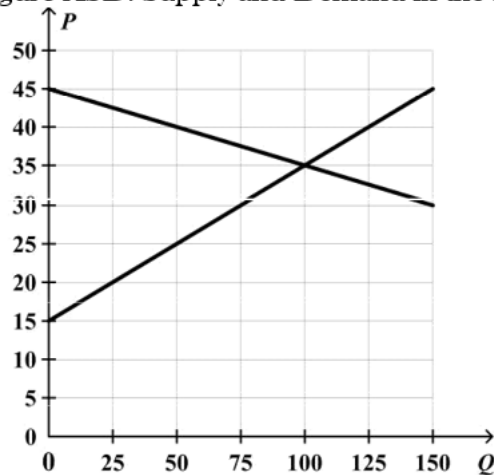
3. In Richmond, most people sometimes eat pork and sometimes eat chicken, but not in the same meal. The cross-price elasticity of demand for pork and chicken in Richmond is likely to be

- a) zero.
- b) negative.
- c) positive.
- d) infinite.

4. In Milwaukee, people like to eat bread with cheese. If the price of cheese rises, then

- a) the demand for cheese will shift left.
- b) the demand for cheese will shift right.
- c) the demand for bread will shift left.
- d) the demand for bread will shift right.

Figure ASD. Supply and Demand in the market for milk.



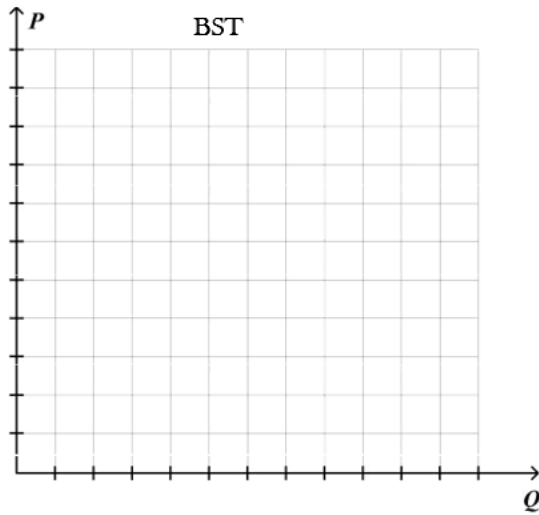
5. See Figure ASD. At a price of \$30 the market would
 - a) have an excess demand of 75 units.
 - b) have an excess supply of \$5.
 - c) be in equilibrium.
 - d) have an excess demand of 50 units.

6. See Figure ASD. If the price is \$40, then
 - a) the quantity purchased will have a tendency to decrease.
 - b) the supply curve will shift left.
 - c) the demand curve will shift right.
 - d) the price will have a tendency to decrease.

7. See Figure ASD. When the price increases from \$25 to \$30, the price elasticity of supply is approximately
 - a) 2.5
 - b) 1.25
 - c) -0.5
 - d) 0.5

8. Again look at the figure ASD. A rumor that a dangerous chemical has been added to the milk causes the quantity demanded to be cut in half at every price. What is the new equilibrium price? (Hint: Drawing a graph would help)
 - a) 30
 - b) 18
 - c) 0
 - d) 25

Scenario BST. Suppose farmers treat cows with the hormone BST, which makes the cows give more milk. However, many consumers believe that milk from BST-treated cows is bad for their health.



9. See Scenario BST. The supply curve for milk will

- a) rotate.
- b) shift right.
- c) shift left.
- d) be unaffected.

10. See Scenario BST. The demand curve for milk will

- a) shift right.
- b) be unaffected.
- c) shift left.
- d) rotate.

11. See Scenario BST. The equilibrium price of milk

- a) will not change.
- b) will decrease.
- c) could increase or decrease.
- d) will increase.

12. Suppose the equilibrium price of a burger is \$6, and the government imposes a price floor of \$5 per burger. As a result of the price floor, the

- a) demand curve for burger shifts to the left.
- b) supply curve for burger shifts to the right.
- c) quantity demanded of burger decreases, and the quantity of burger that firms want to supply increases.
- d) Nothing changes.

13. Suppose the equilibrium price of a burger is \$6, and the government imposes a price ceiling of \$5 per burger. As a result of the price floor, the

- a) demand curve for burger shifts to the left.
- b) supply curve for burger shifts to the right.
- c) quantity demanded of burger decreases, and the quantity of burger that firms want to supply increases.
- d) quantity supplied of burger decreases, and the quantity demanded increases.

14. Suppose that gasoline prices increase dramatically this month. Olivia commutes 100 miles to work each weekday. Over the next few months, Olivia drives less on the weekends to try to save money. Within the year, she sells her home and purchases one only 10 miles from her place of employment. These examples illustrate the importance of

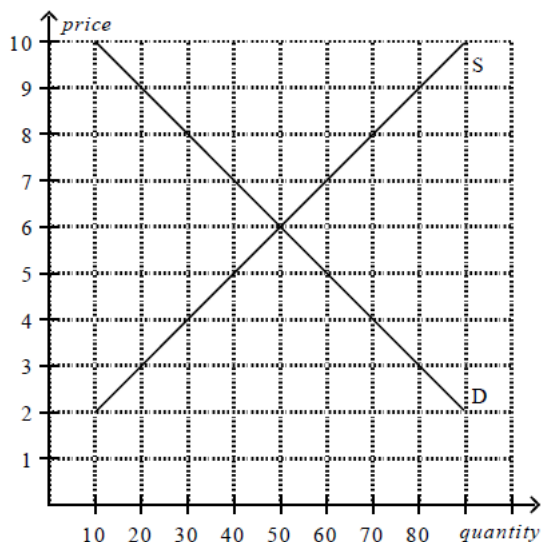
- a) the availability of substitutes in determining the price elasticity of demand.
- b) a necessity versus a luxury in determining the price elasticity of demand.
- c) the definition of a market in determining the price elasticity of demand.
- d) the time horizon in determining the price elasticity of demand.

15. The value of the price elasticity of demand for a good will be relatively small when

- a) there are no good substitutes available for the good.
- b) the time period in question is relatively short.
- c) the good is a necessity rather than a luxury.
- d) All of the above are correct

16. Which of the following is not a determinant of demand?

- a) the price of a resource that is used to produce the good
- b) the price of a complementary good
- c) the price of the good next month
- d) the price of a substitute good



17. Refer to the figure above. Which of the following price controls would cause a shortage of 40 units of the good?

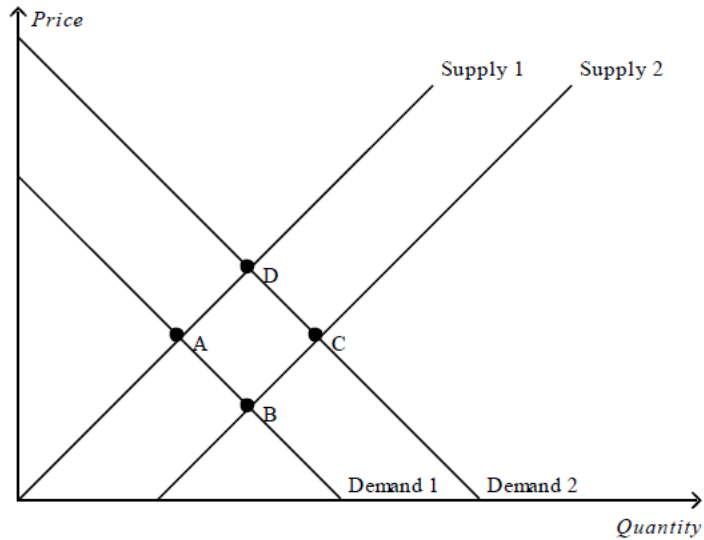
- a) a price ceiling set at \$4
- b) a price floor set at \$4
- c) a price floor set at \$8
- d) a price ceiling set at \$8

18. Danita rescues dogs from her local animal shelter. When Danita's income rises by 7 percent, her quantity demanded of dog biscuits increases by 12 percent. For Danita, the income elasticity of demand for dog biscuits is

- a) negative, and dog biscuits are a normal good.
- b) negative, and dog biscuits are an inferior good.
- c) positive, and dog biscuits are an inferior good.
- d) positive, and dog biscuits are a normal good

19. Tax incidence

- a) depends on the legislated burden
- b) is entirely random
- c) depends on the elasticities of supply and demand
- d) falls entirely on buyers or entirely on sellers



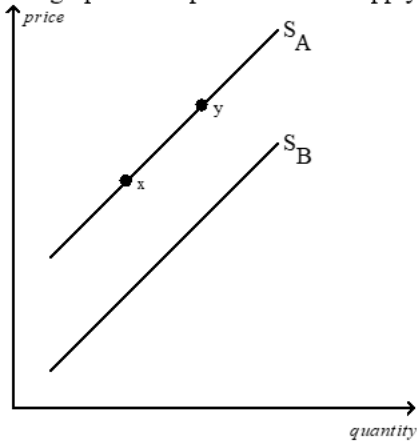
20. In recent years, due to the process known as “fracking”, private companies in the United States have begun extracting oil from shale formation. It has made cheaper to extract oil. Which of the following movements would illustrate the effect of it?

- a) Point A to Point B
- b) Point C to Point B
- c) Point C to Point D
- d) Point A to Point D

21. Which of the following movements would illustrate the effect in the market for paper napkins as a result of a “Go Green” advertising campaign encouraging people to use cloth napkins?

- a) Point A to Point B
- b) Point C to Point B
- c) Point C to Point D
- d) Point A to Point D

The graph below pertains to the supply of paper to colleges and universities.

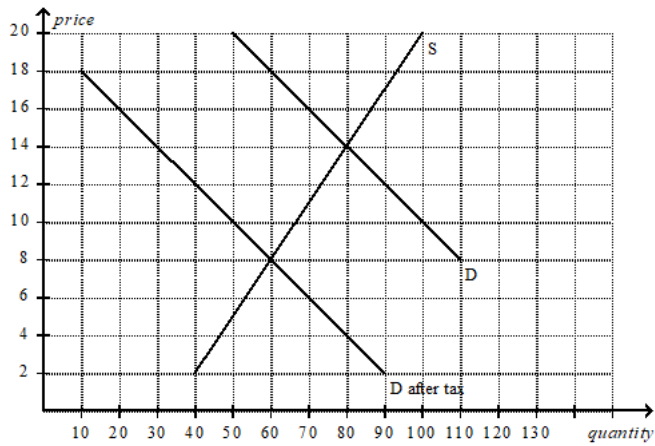


22. Refer to the figure above. All else equal, buyers expecting paper to be more expensive in the future would cause a current move from

- a) x to y.
- b) y to x.
- c) S_A to S_B.
- d) S_B to S_A.

23. Suppose the price of potato chips decreases from \$1.45 to \$1.25 and, as a result, the quantity of potato chips demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for potato chips in the given price range is

- a) 2.00
- b) 1.55
- c) 1.00
- d) 0.64



24. Refer to the figure above. The price paid by buyers after the tax is imposed is

- a) \$8
- b) \$10
- c) \$14
- d) \$18

Answers

- 1) a
- 2) a
- 3) c
- 4) c
- 5) a
- 6) d
- 7) a
- 8) a
- 9) b
- 10) c
- 11) b
- 12) d
- 13) d
- 14) d
- 15) d
- 16) a
- 17) a
- 18) d
- 19) c
- 20) a
- 21) b
- 22) a
- 23) d
- 24) d