Chapter 4 (Multiple Choice)—The Market Forces of Supply and Demand

MULTIPLE CHOICE

1. A competitive market is one in which
   a. there is only one seller of the product.
   b. each seller of the product is free to set the price of his product.
   c. each seller attempts to compete with other sellers, causing fewer sellers in the market.
   d. there are so many buyers and many sellers that each has a negligible impact on price.

   ANS: D DIF: Average REF: 66

2. In a competitive market, each seller has limited control over the price of his product because
   a. other sellers are offering similar products.
   b. in competitive markets, buyers have more influence over price than sellers.
   c. the products sold in competitive markets are generally in abundant supply.
   d. sellers in competitive markets prefer to meet and set a price that each will profit from.

   ANS: A DIF: Average REF: 66

3. For a competitive market, which of the following is true?
   a. A seller who charges more than the going price can increase her profit.
   b. If a seller charges more than the going price, buyers will go elsewhere.
   c. A seller often charges less than the going price to increase sales and profit.
   d. A buyer can influence the price of the product, but only when purchasing from several sellers.

   ANS: B DIF: Average REF: 66

4. Price takers refer to buyers and sellers in
   a. a perfectly competitive market.
   b. a monopolisticly competitive market.
   c. an oligopolistic market.
   d. a monopolistic market.

   ANS: A DIF: Average REF: 66

5. Buyers and sellers who have no influence on market price are referred to as
   a. price makers.
   b. market pawns.
   c. price takers.
   d. powerless.

   ANS: C DIF: Easy REF: 66

6. Price takers have no influence over market prices because there are
   a. numerous buyers.
   b. numerous sellers.
   c. distinctive products.
   d. Both a and b are correct.

   ANS: D DIF: Easy REF: 66

7. If a seller in a competitive market chooses to charge more than the market price, then

a. buyers would tend to buy more from this seller.
b. the owners of the raw materials used in production would raise the prices for the raw materials.
c. other sellers would also raise their price.
d. buyers will tend to make purchases from other sellers.

ANS: D DIF: Average REF: 66

8. If buyers and/or sellers are price takers, then individually
a. they have no influence on market price.
b. they have ultimate control over market price.
c. buyers will be able to find prices lower than those determined in the market.
d. they can somewhat influence the market price.

ANS: A DIF: Average REF: 66

9. Which of the following would NOT be a determinant of demand?
a. the price of related goods
b. income
c. tastes
d. the prices of the inputs used to produce the good

ANS: D DIF: Easy REF: 68

10. Each of the following are determinants of demand EXCEPT
a. tastes.
b. technology.
c. income.
d. the price of related goods.

ANS: B DIF: Easy REF: 68

11. The amount of the good buyers are willing and able to purchase is the
a. demand.
b. quantity supplied.
c. quantity demanded.
d. supply.

ANS: C DIF: Average REF: 67

12. If a good is "normal," then an increase in income will result in
a. no change in the demand for the good.
b. an increase in the demand for the good.
c. a decrease in the demand for the good.
d. a lower market price.

ANS: B DIF: Average REF: 70

13. If Francis receives a decrease in his pay, we would expect
a. Francis's demand for each good he purchases to remain unchanged.
b. Francis's demand for normal goods to increase.
c. Francis's demand for luxury goods to increase.
d. Francis's demand for inferior goods to increase.

ANS: D DIF: Average REF: 70

14. A good is considered either a normal good or an inferior good based on
    a. the quality of the good.
    b. the price of the good.
    c. personal preference toward the good.
    d. the amount of a person's income.

    ANS: C DIF: Average REF: 70

15. You lose your job and as a result, you buy fewer mystery books. This shows that you consider mystery books to be a/an
    a. normal good.
    b. inferior good.
    c. luxury good.
    d. complementary good.

    ANS: A DIF: Average REF: 70

16. Currently you purchase 6 packages of hot dogs a month. You will be graduating in December and will start your new job January 2nd. You have no plans to purchase hot dogs in January. For you, hot dogs are
    a. a "college-only" good.
    b. a normal good.
    c. an inferior good.
    d. a consumer good.

    ANS: C DIF: Average REF: 70

17. An example of an inferior good might be
    a. neckties.
    b. Ramen noodles.
    c. cloth napkins.
    d. cut flowers.

    ANS: B DIF: Easy REF: 70

18. If the price of a substitute to good X increases, then the
    a. demand for good X will decrease.
    b. market price of good X will decrease.
    c. demand for good X will increase.
    d. quantity demanded for good X will increase.

    ANS: C DIF: Average REF: 71

19. Suppose that a decrease in the price of X results in less of good Y sold. This would mean that X and Y are
    a. complementary goods.
    b. normal goods.
    c. inferior goods.
    d. substitute goods.

    ANS: D DIF: Challenging REF: 71

20. Two goods are substitutes if a decrease in the price of one good
    a. increases the demand for the other good.
    b. reduces the demand for the other good.
    c. reduces the quantity demanded of the other good.

d. increases the quantity demanded of the other good.

ANS: B DIF: Challenging REF: 71

21. Two goods are complements if a decrease in the price of one good
    a. increases the quantity demanded of the other good.
    b. reduces the demand for the other good.
    c. reduces the quantity demanded of the other good.
    d. raises the demand for the other good.

    ANS: D DIF: Challenging REF: 71

22. An example of complementary goods would be
    a. hamburgers and hot dogs.
    b. lawnmowers and automobiles.
    c. hamburgers and fries.
    d. Coke and Pepsi.

    ANS: C DIF: Average REF: 71

23. An example of substitute goods would be
    a. butter and margarine.
    b. tennis balls and tennis rackets.
    c. televisions and tractors.
    d. peanut butter and jelly.

    ANS: A DIF: Average REF: 71

24. You love peanut butter. You hear on the news that 50 % of the peanut crop in the South has been wiped out, which will cause the price to double by the end of the year. As a result,
    a. your demand for peanut butter will increase by the end of the year.
    b. your demand for peanut butter increases today.
    c. your demand for peanut butter falls as you look for a substitute good.
    d. you decide to give up peanut butter completely.

    ANS: B DIF: Average REF: 71

25. You have decided to purchase a new Mustang convertible. A friend tells you that Ford will be offering a $3000 rebate on Mustangs starting next month. As a result of this information your demand
    a. could shift either right or left.
    b. for Mustangs shifts right today.
    c. curve will be unaffected.
    d. for Mustangs shifts left today.

    ANS: D DIF: Average REF: 71

26. Suppose you like banana cream pie made with vanilla pudding. Assuming all other things are constant, you notice that the price of bananas is higher. How would your demand for vanilla pudding be affected by this?
    a. It would decrease.
    b. It would increase.
    c. It would be unaffected.
    d. There is insufficient information given to answer the question.

    ANS: A DIF: Average REF: 71

27. Alyssa rents 5 movies per month when the price is $3.00 each and 7 movies per month when the price is $2.50. Alyssa has demonstrated the
    a. law of price.
    b. law of supply.
    c. actions of an irrational consumer.
    d. law of demand.

    ANS: D DIF: Average REF: 68

28. Which of the following demonstrates the law of demand?
    a. Jon buys more pretzels at $1.50 each since he got a $1 raise at work.
    b. Melissa buys fewer muffins at $0.75 each than at $1 each.
    c. Dave buys more donuts at $0.25 each than at $0.50 each.
    d. Kendra buys fewer Snickers at $0.60 each since the price of Milky Ways fell to $0.50 each.

    ANS: C DIF: Average REF: 68

29. A higher price for batteries would tend to
    a. increase the demand for flashlights.
    b. increase the demand for electricity.
    c. decrease the demand for electricity.
    d. increase the demand for batteries.

    ANS: B DIF: Average REF: 68

30. If a decrease in income increases the demand for a good, then the good is
    a. a substitute good.
    b. a complement good.
    c. a normal good.
    d. an inferior good.

    ANS: D DIF: Average REF: 71

31. What will happen in the rice market if buyers are expecting higher prices in the near future?
    a. The demand for rice will increase.
    b. The demand for rice will decrease.
    c. The demand for rice will be unaffected.
    d. The supply of rice will increase.

    ANS: A DIF: Average REF: 71

32. Holding all else constant, a higher price for ski lift tickets would be expected to
    a. increase the number of skiers.
    b. decrease the supply of ski resorts.
    c. decrease the demand for other winter recreational activities.
    d. decrease ski sales.

    ANS: D DIF: Average REF: 71

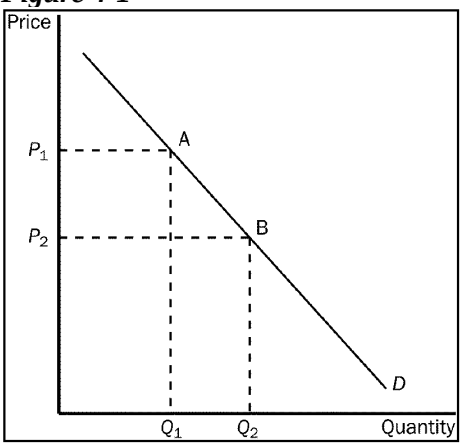
33. A demand schedule is a table showing the relationship between
    a. the price of a good and the quantity supplied.
    b. income and the quantity of the good demanded.
    c. the price of a good and the quantity buyers are willing and able to purchase.
    d. the determinants of demand and the quantity demanded.

ANS: C DIF: Easy REF: 68

34. When referring to the variables price and quantity demanded, price
    a. and quantity demanded are independent of each other.
    b. is the dependent variable and quantity demanded is the independent variable.
    c. is the independent variable and quantity demanded is the dependent variable.
    d. and quantity demanded are both dependent variables, since both depend on the actions of buyers and sellers.

ANS: C DIF: Challenging REF: 69

Figure 4-1



35. **Refer to Figure 4-1**. The movement from point A to point B on the graph would be caused by
    a. an increase in price.
    b. a decrease in price.
    c. a decrease in the price of a substitute good.
    d. an increase in income.

ANS: B DIF: Average REF: 69

36. **Refer to Figure 4-1**. The movement from point A to point B on the graph shows
    a. a decrease in demand.
    b. an increase in demand.
    c. a decrease in quantity demanded.
    d. an increase in quantity demanded.

ANS: D DIF: Average REF: 69

37. When we move up or down a given demand curve,
    a. only price is held constant.
    b. income and the price of the good are held constant.
    c. all nonprice determinants of demand are assumed to be constant.
    d. all determinants of quantity demanded are held constant.

ANS: C DIF: Challenging REF: 69

38. Which of the following would NOT shift the demand curve for a good or service?
    a. a change in income
    b. a change in the price of the good or service
    c. a change in expectations about the price of the good or service
    d. a change in the price of a related good

ANS: B DIF: Average REF: 70

39. Which of the following would NOT affect an individual's demand curve?
    a. expectations
    b. income
    c. price of related goods
    d. the number of buyers

    ANS: D DIF: Easy REF: 70

40. Morgan tells you that the price of DVDs at the video store will be going up next week. You will probably respond by
    a. decreasing your current demand for DVDs.
    b. increasing your current demand for DVDs.
    c. not changing your current demand for DVDs.
    d. refusing to ever buy anymore DVDs at that store.

    ANS: B DIF: Average REF: 70

41. If the number of buyers in the market decreases, the
    a. demand in the market will increase.
    b. demand in the market will decrease.
    c. supply in the market will increase.
    d. supply in the market will decrease.

    ANS: B DIF: Average REF: 69

42. Ryan tells you that he thinks the price of potato chips, his favorite food, will decrease in the near future. He will probably respond by
    a. decreasing his current demand for chips.
    b. not changing his current demand for chips.
    c. increasing his current demand for chips.
    d. currently refusing to buy anymore chips.

    ANS: A DIF: Average REF: 69

43. To find the market demand for a product, individual demand curves are summed
    a. vertically.
    b. diagonally.
    c. horizontally.
    d. and then averaged.

    ANS: C DIF: Easy REF: 69

44. A market demand curve reflects
    a. how much all buyers are willing and able to buy at each possible price.
    b. how quantity demanded changes when the number of buyers changes.
    c. the fact that the level of income is inversely related to quantity demanded.
    d. when the buyers are willing to buy the most.

    ANS: A DIF: Average REF: 69

Table 4-1

The table shows individual demand schedules for a market.

Price of the Good	Aaron	Angela	Austin	Alyssa

$0.00	20	16	10	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

45. **Refer to Table 4-1**. When the price of the good is $1.00, the quantity demanded in this market would be
    a. 42 units.
    b. 31 units.
    c. 24 units.
    d. 14 units.

    ANS: B DIF: Average REF: 69

46. **Refer to Table 4-1**. If the price increases from $1.00 to $1.50,
    a. the market demand increases by 20 units.
    b. the quantity demanded in the market decreases by 2 units.
    c. individual demands will increase.
    d. the quantity demanded in the market decreases by 7 units.

    ANS: D DIF: Average REF: 69

47. Suppose that scientists find evidence that proves chocolate pudding lowers cholesterol. We would expect to see
    a. no change in the demand for chocolate pudding.
    b. a decrease in the demand for chocolate pudding.
    c. an increase in the demand for chocolate pudding.
    d. a decrease in the supply of chocolate pudding.

    ANS: C DIF: Average REF: 70

48. If buyers now wanted to purchase larger quantities of Vanilla Coke,
    a. the demand curve for Vanilla Coke would shift to the left.
    b. we would move down the demand curve for Vanilla Coke.
    c. the demand curve for Vanilla Coke would shift to the right.
    d. we would move up the demand curve for Vanilla Coke.

    ANS: C DIF: Average REF: 70

49. A very hot summer in Atlanta will cause the demand for lemonade to
    a. shift to the left.
    b. shift to the right.
    c. remain stable but we would move down the curve.
    d. remain stable but we would move up the curve.

    ANS: B DIF: Average REF: 70

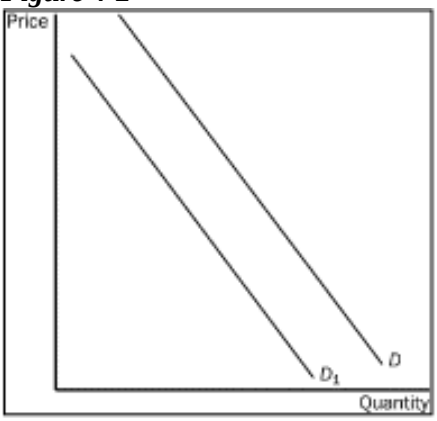
50. If a study by the AMA found that brown sugar caused weight loss while white sugar caused weight gain we would see
    a. an increase in demand for brown sugar and a decrease in demand for white sugar.
    b. no change in either demand because weight loss is not a nonprice determinant of demand.
    c. an increase in demand for brown sugar, but no change in the demand for white sugar.
    d. a decrease in the demand for white sugar, but no change in the demand for brown sugar.

ANS: A DIF: Challenging REF: 70

51. A country with an aging population will generally experience
    a. no change in either market demand or individual demand for prescription drugs.
    b. a decrease in the market demand for prescription drugs.
    c. an increase in individual demand for prescription drugs, but no change in market demand.
    d. an increase in the market demand for prescription drugs.

    ANS: D DIF: Average REF: 70

Figure 4-2



52. **Refer to Figure 4-2**. The movement from D to D_1 is called
    a. an increase in demand.
    b. a decrease in demand.
    c. a decrease in quantity demanded.
    d. an increase in quantity demanded.

    ANS: B DIF: Average REF: 70

53. **Refer to Figure 4-2**. The movement from D to D_1 could be caused by
    a. an increase in price.
    b. a decrease in the price of a complement.
    c. an increase in technology.
    d. a decrease in the price of a substitute.

    ANS: D DIF: Challenging REF: 70

54. **Refer to Figure 4-2**. If the demand curve shifts from D_1 to D, then
    a. firms would be willing to supply less than before.
    b. people are less willing to buy the product at any price than before.
    c. people are now more willing to buy the product at any price than before.
    d. the price of the product has decreased, causing consumers to buy more of the product.

    ANS: C DIF: Average REF: 70

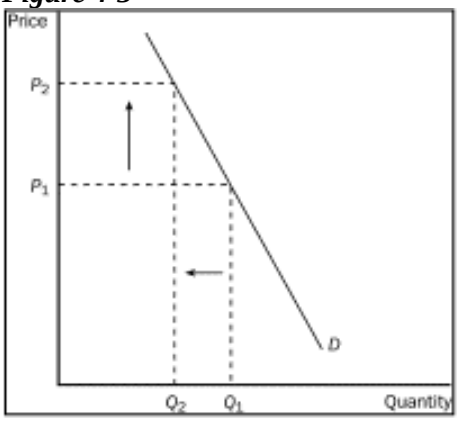
55. When quantity demanded decreases at every price we know that the demand curve has
    a. shifted to the left.
    b. shifted to the right.
    c. not changed, but we have moved down the curve to a new point.
    d. not changed, but we have moved up the curve to a new point.

ANS: A DIF: Average REF: 70

56. When quantity demanded has increased at every price, it might be because
    a. the number of buyers in the market has decreased.
    b. income has increased and this good is an inferior good.
    c. the consumer prefers another good more than this good.
    d. the price of a substitute good has increased.

ANS: D DIF: Challenging REF: 70

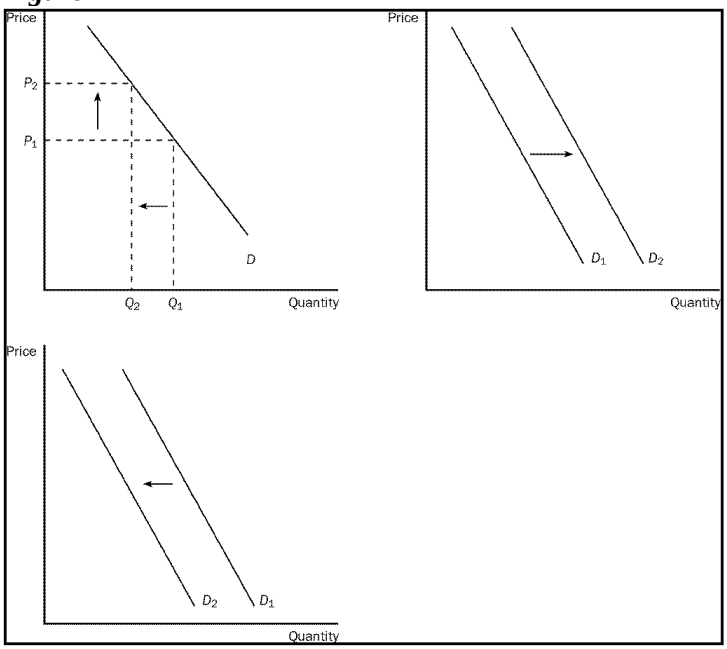
Figure 4-3



57. **Refer to Figure 4-3**. The graph shows the demand for cigarettes. Which most likely happened?
    a. The price of marijuana, a complement to cigarettes, rose.
    b. Mandatory health warnings were placed on cigarette packages.
    c. Several foreign countries banned U.S. cigarettes in their countries.
    d. A tax was placed on cigarettes.

ANS: D DIF: Challenging REF: 70

Figure 4-4



58. **Refer to Figure 4-4**. Which graph could be used to show the result of 5 percent of the country's smokers deciding to stop smoking?
    a. A
    b. B
    c. C
    d. Each graph could be used to show the result.

    ANS: C DIF: Challenging REF: 73

59. If cigarettes and marijuana had been found to be substitutes, a tax placed on cigarettes would
    a. decrease the demand for marijuana.
    b. increase the demand for marijuana.
    c. decrease the quantity demanded of marijuana.
    d. increase the quantity demanded of marijuana.

    ANS: B DIF: Challenging REF: 73

60. The market supply curve shows
    a. the total quantity supplied at any price.
    b. the average quantity supplied at any price.
    c. a ratio between price and quantity supplied for the market.
    d. a supply curve representing the 10 largest firms in the market.

    ANS: A DIF: Easy REF: 75

61. For a seller, which of the following is NOT positively related?
    a. the price of the good and the seller's profit
    b. the price of the good and quantity supplied
    c. the seller's profit and product cost
    d. the seller's profit and quantity supplied

    ANS: C DIF: Average REF: 75

62. Which of the following cause and effect events is in order for a seller?
    a. Technology improves, profit falls, the supply curve shifts left.
    b. An input price falls, profit increases, the supply curve shifts right.
    c. An input price rises, profit falls, the supply curve shifts right.
    d. An input price rises, profit rises, the supply curve shifts left.

    ANS: B DIF: Challenging REF: 75

63. The supply of a good is negatively related to the
    a. price of inputs used to make the good.
    b. demand for the good by consumers.
    c. price of the good itself.
    d. amount of profit a firm can expect to receive from sale of the good.

    ANS: A DIF: Average REF: 73

64. Fewer sellers in the market causes
    a. the supply curve to shift to the left.
    b. the supply curve to shift to the right.
    c. a movement up a stationary supply curve.
    d. a movement down a stationary supply curve.

    ANS: A DIF: Average REF: 76

65. Which of the following determines a market supply curve but not an individual supply curve?
    a. number of sellers
    b. expectations
    c. input prices
    d. technology

    ANS: A DIF: Average REF: 76

66. A movement along the supply curve might be caused by a change in
    a. technology.
    b. input prices.
    c. expectations about future prices.
    d. the price of the good or service.

    ANS: D DIF: Average REF: 76

67. Lead is an important input in the production of crystal. If the price of lead decreases, all else equal, we would expect the supply of
    a. crystal to be unaffected.
    b. crystal to decrease.
    c. crystal to increase.
    d. lead to increase.

    ANS: C DIF: Challenging REF: 76

68. Suppose you make jewelry. If the price of gold falls, we would expect you to
    a. be willing and able to produce less jewelry than before at each possible price.
    b. be willing and able to produce more jewelry than before at each possible price.
    c. face a greater demand for your jewelry.
    d. face a weaker demand for your jewelry.

    ANS: B DIF: Average REF: 76

69. An advance in production technology will
    a. increase a firm's costs.
    b. allow firms to raise the price of their product.
    c. shift the supply curve to the right.
    d. Both a and b are correct.

    ANS: C DIF: Average REF: 76

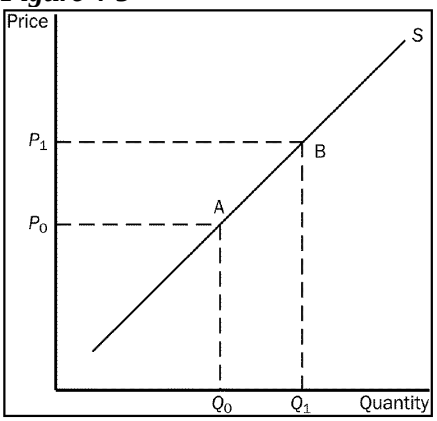
70. A dress manufacturer is expecting higher prices for dresses in the near future. We would expect
    a. the dress manufacturer to supply more dresses now.
    b. the dress manufacturer to supply fewer dresses now.
    c. the demand for this manufacturer's dresses to fall.
    d. no change in the dress manufacturer's current supply.

    ANS: B DIF: Average REF: 76

71. Holding the non-price determinants of supply constant, a change in price would
    a. result in a change in supply.
    b. have no effect on the quantity supplied.
    c. result in a shift of demand.
    d. result in a movement along a stable supply curve.

ANS: D DIF: Average REF: 76

Figure 4-5



72. **Refer to Figure 4-5**. The movement from point A to point B on the graph would be caused by
    a. a decrease in the price of the good.
    b. an increase in the price of the good.
    c. an increase in technology.
    d. a decrease in input prices.

    ANS: B DIF: Average REF: 73

73. **Refer to Figure 4-5**. The movement from point A to point B on the graph is called
    a. a decrease in supply.
    b. an increase in supply.
    c. an increase in the quantity supplied.
    d. a decrease in the quantity supplied.

    ANS: C DIF: Average REF: 73

74. Workers at a bicycle assembly plant currently make minimum wage. If the federal government increases the minimum wage by $1.00 an hour it is likely that the
    a. demand for bicycle assembly workers will increase.
    b. supply of bicycles will shift to the right.
    c. supply of bicycles will shift to the left.
    d. firm must increase output to maintain profit levels.

    ANS: C DIF: Average REF: 76

75. If a car manufacturer purchases new labour-saving technology for its assembly line, we would NOT expect
    a. less labour to be used.
    b. the supply of cars produced to increase.
    c. costs to the firm to fall.
    d. the price of cars to be increased by the firm.

    ANS: D DIF: Average REF: 76

76. Recent forest fires in the western states are expected to cause the price of lumber to rise in the next 6 months. As a result we can expect the supply of lumber to
    a. fall in 6 months, but not now.
    b. increase in 6 months when the price goes up.

c. fall now.
d. increase now to meet as much demand as possible.

ANS: C DIF: Challenging REF: 76

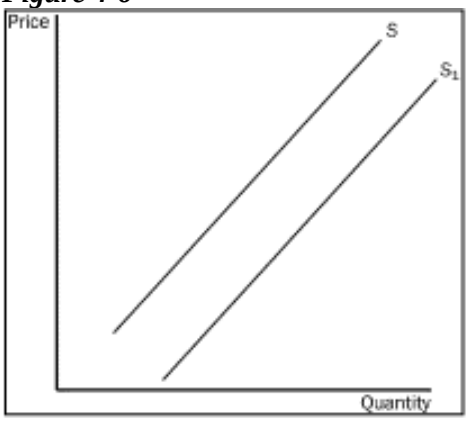
77. If suppliers expect the price of their product to fall in the future they will
a. decrease supply now.
b. increase supply now.
c. increase supply in the future but not now.
d. do nothing, since there is nothing they can do to affect the price in the future.

ANS: B DIF: Average REF: 76

78. Funsters, Inc., the largest toy company in the country, sells its most popular doll for $15. It has just learned that its leading competitor Toysorama is mass producing an excellent copy and plans to flood the market with their $5 doll in 6 weeks. Funsters should
a. increase the supply of their doll now before the other doll hits the market.
b. fight fire with fire and decrease supply for 6 weeks and then increase the supply of its doll too.
c. continue business as usual, since consumers will not buy the cheaper imitation.
d. discontinue this doll.

ANS: A DIF: Challenging REF: 76

Figure 4-6



79. **Refer to Figure 4-6**. The movement from S to S_1 is called
a. a decrease in supply.
b. a decrease in quantity supplied.
c. an increase in supply.
d. an increase in quantity supplied.

ANS: C DIF: Average REF: 76

80. **Refer to Figure 4-6**. The movement from S to S_1 could be caused by
a. a decrease in the price of the good.
b. an improvement in technology.
c. an increase in income.
d. an increase in input prices.

ANS: B DIF: Average REF: 76

81. Another term for equilibrium price is

a. balancing price.
b. market-clearing price.
c. constant price.
d. satisfactory price.

ANS: B DIF: Easy REF: 78

82. If, at the current price, there is a shortage of a good,
a. sellers are producing more than buyers wish to buy.
b. the market must be in equilibrium.
c. the price is below the equilibrium price.
d. quantity demanded equals quantity supplied.

ANS: C DIF: Average REF: 79

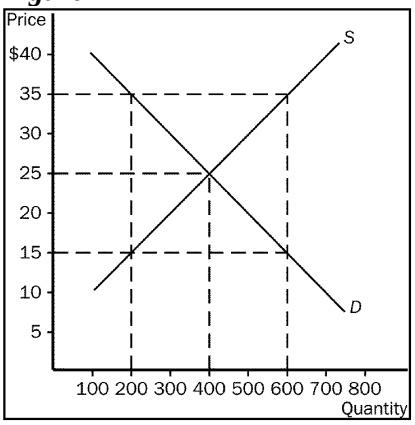
83. At the equilibrium price,
a. buyers have an incentive to buy more.
b. it is possible for there to be a shortage.
c. firms have an incentive to increase production.
d. everyone in the market has been satisfied.

ANS: D DIF: Average REF: 78

84. A decrease in resource costs to firms in a market will result in
a. a decrease in equilibrium price and an increase in equilibrium quantity.
b. a decrease in equilibrium price and a decrease in equilibrium quantity.
c. an increase in equilibrium price and no change in equilibrium quantity.
d. an increase in equilibrium price and an increase in equilibrium quantity.

ANS: A DIF: Challenging REF: 76

Figure 4-7



85. **Refer to Figure 4-7**. Equilibrium price and quantity are
a. $35,200.
b. $35,600.
c. $25,400.
d. $15,200.

ANS: C DIF: Average REF: 78

86. **Refer to Figure 4-7**. At a price of $35,
a. there would be a shortage of 400 units.

b. there would be a surplus of 200 units.
c. there would be a surplus of 400 units.
d. the market would be in equilibrium.

ANS: C DIF: Average REF: 79

87. **Refer to Figure 4-7**. At a price of $15,
a. there would be a shortage of 400 units.
b. there would be a surplus of 400 units.
c. there would be a shortage of 200 units.
d. the market would be in equilibrium.

ANS: A DIF: Average REF: 79

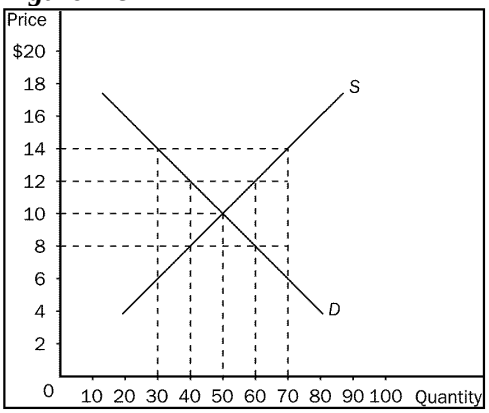
88. **Refer to Figure 4-7**. At the equilibrium price,
a. 200 units would be supplied and demanded.
b. 400 units would be supplied and demanded.
c. 600 units would be supplied and demanded.
d. 600 units would be supplied, but only 200 would be demanded.

ANS: B DIF: Average REF: 79

89. **Refer to Figure 4-7**. At a price of $35,
a. a shortage would exist and the price would tend to fall.
b. a surplus would exist and the price would tend to rise.
c. a surplus would exist and the price would tend to fall.
d. the market would be in equilibrium.

ANS: C DIF: Average REF: 79

Figure 4-8



90. **Refer to Figure 4-8**. In this market, equilibrium price and quantity would be
a. $14.70.
b. $12.40.
c. $10.50.
d. $8.50.

ANS: C DIF: Average REF: 79

91. **Refer to Figure 4-8**. If price in this market is currently $14, there would be a
a. shortage of 20 units and price would tend to rise.
b. surplus of 20 units and price would tend to fall.

c. shortage of 40 units and price would tend to rise.
d. surplus of 40 units and price would tend to fall.

ANS: D DIF: Challenging REF: 79

92. **Refer to Figure 4-8**. If price in this market is currently $8, quantity supplied would be
a. 40 and quantity demanded would be 60.
b. 60 and quantity demanded would be 40.
c. 50 and quantity demanded would be 50.
d. 70 and quantity demanded would be 30.

ANS: A DIF: Challenging REF: 79

Table 4-2

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
$10	10	60
$ 8	20	45
$ 6	30	30
$ 4	40	15
$ 2	50	0

93. **Refer to Table 4-2**. The equilibrium price and quantity would be
a. $4.40.
b. $6.30.
c. $8.30.
d. $10.35.

ANS: B DIF: Average REF: 79

94. **Refer to Table 4-2**. If the price were $8, a
a. surplus of 50 units would exist and price would tend to fall.
b. surplus of 10 units would exist and price would tend to fall.
c. surplus of 25 units would exist and price would tend to fall.
d. shortage of 25 units would exist and price would tend to rise.

ANS: C DIF: Average REF: 79

95. **Refer to Table 4-2**. If the price were $2, a
a. shortage of 25 units would exist and price would tend to fall.
b. surplus of 50 units would exist and price would tend to rise.
c. surplus of 25 units would exist and price would tend to fall.
d. shortage of 50 units would exist and price would tend to rise.

ANS: D DIF: Average REF: 79

96. **Refer to Figure 4-9**. At a price of $15
a. quantity demanded > quantity supplied.
b. quantity demanded = quantity supplied.
c. quantity demanded < quantity supplied.
d. None of the above are correct.

ANS: A DIF: Average REF: 79

97. **Refer to Figure 4-9**. At a price of $20, which would NOT be true?
a. The market would be in equilibrium.

b. Equilibrium price would be equal to equilibrium quantity.
c. There would be no pressure for price to change.
d. 600 units would be bought and sold.

ANS: B DIF: Average REF: 79

98. Markets move toward equilibrium of supply and demand because of
a. the actions of buyers and sellers.
b. government regulations placed on market participants.
c. increased competition among sellers.
d. buyers' ability to affect market decisions.

ANS: A DIF: Average REF: 79

99. When the price is higher than the equilibrium price,
a. a shortage will exist.
b. buyers desire to purchase more than is produced.
c. sellers desire to produce and sell more than buyers wish to purchase.
d. quantity demanded equals quantity supplied.

ANS: C DIF: Average REF: 79

100. Suppose roses are currently selling for $40.00 per dozen. The equilibrium price of roses is $30.00 per dozen. We would expect a
a. shortage to exist and the market price of roses to increase.
b. shortage to exist and the market price of roses to decrease.
c. surplus to exist and the market price of roses to increase.
d. surplus to exist and the market price of roses to decrease.

ANS: D DIF: Challenging REF: 79

101. When there is a surplus in a market,
a. there is upward pressure on price.
b. there is downward pressure on price.
c. the market could still be in equilibrium.
d. there are too many buyers chasing too few goods.

ANS: B DIF: Average REF: 79

102. A surplus exists in a market if the actual price is
a. equal to equilibrium price.
b. below equilibrium price.
c. above equilibrium price.
d. All of the above are correct.

ANS: C DIF: Average REF: 79

103. If a surplus exists in a market we know that the actual price is
a. above equilibrium price and quantity supplied is greater than quantity demanded.
b. above equilibrium price and quantity demanded is greater than quantity supplied.
c. below equilibrium price and quantity demanded is greater than quantity supplied.
d. below equilibrium price and quantity supplied is greater than quantity demanded.

ANS: A DIF: Challenging REF: 79

104. When there is a shortage in a market,

a. there is downward pressure on price.
b. there is upward pressure on price.
c. the market could still be in equilibrium.
d. the price must be above equilibrium.

ANS: B DIF: Average REF: 79

105. If a shortage exists in a market we know that the actual price is
a. below equilibrium price and quantity demanded is greater than quantity supplied.
b. above equilibrium price and quantity demanded is greater than quantity supplied.
c. above equilibrium price and quantity supplied is greater than quantity demanded.
d. below equilibrium price and quantity supplied is greater than quantity demanded.

ANS: A DIF: Challenging REF: 79

106. At the equilibrium price
a. there can still be upward or downward pressure on price.
b. there will be no pressure on price to rise or fall.
c. sellers would eventually require a higher price.
d. buyers would not be willing to purchase the output sellers desire to sell.

ANS: B DIF: Average REF: 79

107. Comparative statics involves
a. comparisons of varying prices.
b. evaluation of buyers' reluctance to pay the market price.
c. comparing the old equilibrium and the new equilibrium.
d. evaluating the friction that develops between buyers and sellers.

ANS: C DIF: Average REF: 80

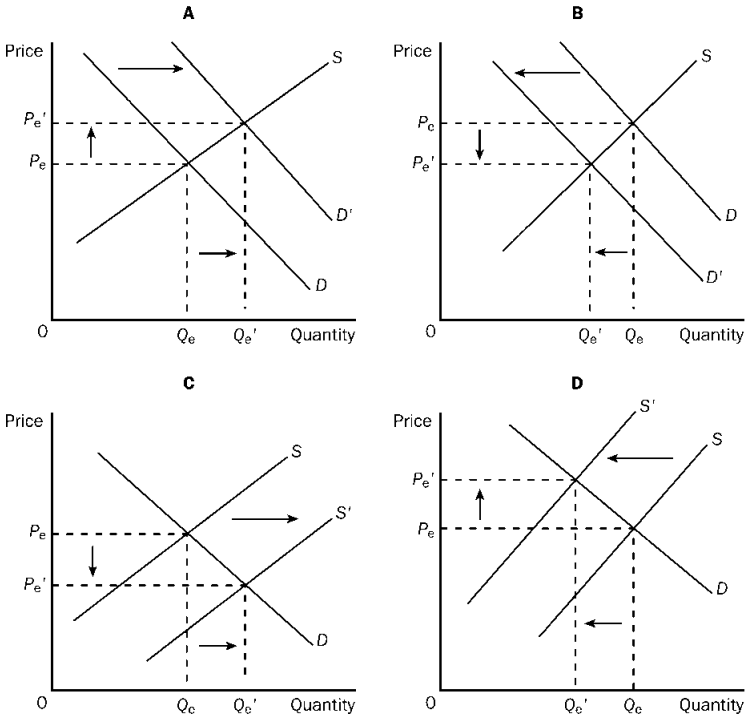
108. Step one in the Three-Step program for analyzing changes in equilibrium is
a. Decide which direction the curve shifts.
b. Decide whether the event shifts the supply or demand curve.
c. Use the supply-and-demand diagram to see how the shift changes the equilibrium.
d. Any of these could be used first.

ANS: B DIF: Easy REF: 80

109. You have been asked by your economics professor to graph the market for lumber and then to analyze the change that would occur in equilibrium price as a result of recent forest fires in the west. Your first step would be to
a. decide which direction to shift the curve.
b. decide whether the fires affected demand or supply.
c. graph the shift to see the affect on equilibrium.
d. None of the above are correct.

ANS: D DIF: Average REF: 83

Figure 4-10



110. **Refer to Figure 4-10**. Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing south?
   a. A
   b. B
   c. C
   d. D

   ANS: D DIF: Average REF: 80

111. **Refer to Figure 4-10**. Which of the four graphs represents the market for winter boots in June?
   a. A
   b. B
   c. C
   d. D

   ANS: B DIF: Average REF: 80

112. **Refer to Figure 4-10**. Which of the four graphs represents the market for pizza delivery in a college town in September?
   a. A
   b. B
   c. C
   d. D

   ANS: A DIF: Average REF: 83

113. **Refer to Figure 4-10**. Which of the four graphs represents the market for cars after new technology was installed on assembly lines?
   a. A
   b. B
   c. C
   d. D

ANS: C DIF: Average REF: 81

114. **Refer to Figure 4-10**. Graph A shows which of the following?
    a. an increase in demand
    b. an increase in quantity demanded
    c. an increase in quantity supplied
    d. All of the above are correct.
    e. Both a and c are correct.

    ANS: E DIF: Challenging REF: 81

115. **Refer to Figure 4-10**. Graph C shows which of the following?
    a. an increase in demand
    b. an increase in quantity demanded
    c. an increase in supply
    d. All of the above are correct.
    e. Both b and c are correct.

    ANS: E DIF: Challenging REF: 81

116. **Refer to Figure 4-10**. Which of the four graphs shown illustrates an increase in quantity supplied?
    a. A
    b. B
    c. C
    d. D

    ANS: A DIF: Challenging REF: 81

117. **Refer to Figure 4-10**. Which of the four graphs shown illustrates a decrease in quantity demanded?
    a. A
    b. B
    c. C
    d. D

    ANS: D DIF: Challenging REF: 81

118. Which chain of events occurs in the correct order?
    a. Quantity supplied increases, price increases, demand increases.
    b. Price increases, demand increases, quantity supplied increases.
    c. Demand increases, price increases, quantity supplied increases.
    d. Any of the above could be correct.

    ANS: C DIF: Challenging REF: 80

119. Whenever the price of a good changes, there
    a. is a change in supply and demand.
    b. would be a movement along a supply curve and/or demand curve.
    c. is only a change in supply.
    d. would be no effect in the market.

    ANS: B DIF: Average REF: 80

120. Suppose there is an earthquake that destroys several corn canneries. Which of the following would NOT occur as a direct result of this event?
    a. Sellers would not be willing to produce and sell as much as before at each relevant price.

b. The supply would decrease.
c. Buyers would not be willing to buy as much as before at each relevant price.
d. The equilibrium price would rise.

ANS: C DIF: Average REF: 80

121. Which of the following will definitely cause equilibrium quantity to fall?
a. demand increases and supply decreases
b. demand and supply both decrease
c. demand decreases and supply increases
d. demand and supply both increase

ANS: B DIF: Challenging REF: 82

122. If the demand for a product decreases, we would expect equilibrium price
a. to increase and equilibrium quantity to decrease.
b. to decrease and equilibrium quantity to increase.
c. and equilibrium quantity to both increase.
d. and equilibrium quantity to both decrease.

ANS: D DIF: Average REF: 82

123. If the supply of a product increases, we would expect equilibrium price
a. to increase and equilibrium quantity to decrease.
b. to decrease and equilibrium quantity to increase.
c. and equilibrium quantity to both increase.
d. and equilibrium quantity to both decrease.

ANS: B DIF: Average REF: 81

124. Suppose that the number of buyers in a market increases and a technological advancement occurs. What would we expect to happen in the market?
a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
c. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
d. Both equilibrium price and equilibrium quantity would increase.

ANS: C DIF: Challenging REF: 82

125. Suppose that the incomes of buyers in a particular market for a normal good decline and there is also a reduction in input prices. What would we expect to occur in this market?
a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
c. Both equilibrium price and equilibrium quantity would increase.
d. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.

ANS: B DIF: Challenging REF: 82

126. Suppose that demand decreases AND supply decreases. What would you expect to occur in the market for the good?

a. Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
b. Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
c. Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
d. Both equilibrium price and equilibrium quantity would increase.

ANS: C DIF: Challenging REF: 82

127. Suppose that demand increases AND supply decreases. What would happen in the market for the good?
a. Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
b. Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
c. Both equilibrium price and quantity would increase.
d. Both equilibrium price and quantity would decrease.

ANS: B DIF: Challenging REF: 82

128. Which of the following would result in an increase in equilibrium price and an ambiguous change in equilibrium quantity?
a. an increase in supply and demand
b. an increase in supply and a decrease in demand
c. a decrease in supply and an increase in demand
d. a decrease in supply and demand

ANS: C DIF: Challenging REF: 82

129. When supply and demand both increase, equilibrium
a. price will increase.
b. price will decrease.
c. quantity may increase, decrease, or remain unchanged.
d. price may increase, decrease, or remain unchanged.

ANS: D DIF: Challenging REF: 82

130. A weaker demand together with a stronger supply would necessarily result in
a. a lower price.
b. a higher price.
c. an increase in equilibrium quantity.
d. a decrease in equilibrium quantity.

ANS: A DIF: Challenging REF: 82

Table 4-3

	An Increase in Supply	A Decrease in Supply
An Increase in Demand	A	B
A Decrease in Demand	C	D

131. **Refer to Table 4-3.** The space that would represent an increase in equilibrium quantity and an indeterminate change in equilibrium price would be
a. A
b. B

c. C
d. D

ANS: A DIF: Challenging REF: 82

132. **Refer to Table 4-3.** The space that would represent an increase in equilibrium price and an indeterminate change in equilibrium quantity would be
a. A
b. B
c. C
d. D

ANS: B DIF: Challenging REF: 82

133. **Refer to Table 4-3**. The space that would represent a decrease in equilibrium price and an indeterminate change in equilibrium quantity would be
a. A
b. B
c. C
d. D

ANS: C DIF: Challenging REF: 82

134. **Refer to Table 4-3.**. The space that would represent a decrease in equilibrium quantity and an indeterminate change in equilibrium price would be
a. A
b. B
c. C
d. D

ANS: D DIF: Challenging REF: 82

135. Which of the following would cause both the equilibrium price and equilibrium quantity of number two grade potatoes (an inferior good) to increase?
a. an increase in consumer income
b. a decrease in consumer income
c. greater government restrictions on agricultural chemicals
d. fewer government restrictions on agricultural chemicals

ANS: B DIF: Challenging REF: 82

136. Which of the following would unambiguously cause a decrease in the equilibrium price of cotton shirts?
a. an increase in the price of wool shirts and a decrease in the price of raw cotton
b. a decrease in the price of wool shirts and a decrease in the price of raw cotton
c. an increase in the price of wool shirts and an increase in the price of raw cotton
d. a decrease in the price of wool shirts and an increase in the price of raw cotton

ANS: B DIF: Challenging REF: 82

137. What would happen to the equilibrium price and quantity of coffee if the wages of coffee-bean pickers fell and the price of tea fell?
a. Price will fall and the effect on quantity is ambiguous.
b. Price will rise and the effect on quantity is ambiguous.
c. Quantity will fall and the effect on price is ambiguous.
d. Quantity will rise and the effect on price is ambiguous.

ANS: A DIF: Challenging REF: 82

138. New oak tables are normal goods. What would happen to the equilibrium price and quantity in the market for oak tables if the price of maple tables rises, the price of oak wood rises, more buyers enter the market for oak tables and the price of wood saws increased?
a. Price will fall and the effect on quantity is ambiguous.
b. Price will rise and the effect on quantity is ambiguous.
c. Quantity will fall and the effect on price is ambiguous.
d. Quantity will rise and the effect on price is ambiguous.

ANS: B DIF: Challenging REF: 71

139. What will happen to the equilibrium price and quantity of new cars if the price of gasoline rises, the price of steel rises, public transportation becomes cheaper and more comfortable, and auto-workers negotiate higher wages?
a. Price will fall and the effect on quantity is ambiguous.
b. Price will rise and the effect on quantity is ambiguous.
c. Quantity will fall and the effect on price is ambiguous.
d. Quantity will rise and the effect on price is ambiguous.

ANS: C DIF: Challenging REF: 82

140. Music compact discs are normal goods. What will happen to the equilibrium price and quantity of music compact discs if musicians accept lower royalties, compact disc players become cheaper, more firms start producing music compact discs and music lovers experience an increase in income?
a. Price will fall and the effect on quantity is ambiguous.
b. Price will rise and the effect on quantity is ambiguous.
c. Quantity will fall and the effect on price is ambiguous.
d. Quantity will rise and the effect on price is ambiguous.

ANS: D DIF: Challenging REF: 71

141. New cars are normal goods. What will happen to the equilibrium price of new cars if the price of gasoline rises, the price of steel falls, public transportation becomes cheaper and more comfortable, auto-workers accept lower wages and automobile insurance becomes more expensive?
a. Price will rise.
b. Price will fall.
c. Price will stay exactly the same.
d. The price change will be ambiguous.

ANS: B DIF: Challenging REF: 71

142. What will happen to the equilibrium price of new textbooks if more students attend college, paper becomes cheaper, textbook authors accept lower royalties and fewer used textbooks are sold?
a. Price will rise.
b. Price will fall.
c. Price will stay exactly the same.
d. The price change will be ambiguous.

ANS: D DIF: Challenging REF: 82

143. Consider the market for new DVDs. If DVD players became cheaper, buyers expected DVD prices to fall next year, used DVDs became more expensive, and DVD production technology improved, then we could safely conclude that the equilibrium price of a new DVD would
a. rise.

b. fall.
c. stay the same.
d. We couldn't be sure what it might do.

ANS: D DIF: Challenging REF: 82

144. What would happen to the equilibrium price and quantity of peanut butter if the price of peanuts went up, the price of jelly (a complementary good) fell, fewer firms decided to produce peanut butter, and health officials announced that eating peanut butter was good for you?
a. Price will fall and the effect on quantity is ambiguous.
b. Price will rise and the effect on quantity is ambiguous.
c. Quantity will fall and the effect on price is ambiguous.
d. The effect on both price and quantity is ambiguous.

ANS: B DIF: Challenging REF: 82

145. Pens are normal goods. What will happen to the equilibrium price of pens if the price of pencils rises, consumers experience an increase in income, writing in ink becomes fashionable, people expect the price of pens to rise in the near future, the population increases, fewer firms manufacture pens, and the wages of pen-makers increase?
a. Price will rise.
b. Price will fall.
c. Price will stay exactly the same.
d. The price change will be ambiguous.

ANS: A DIF: Challenging REF: 71

146. Pens are normal goods. What will happen to the equilibrium price of pens if the price of pencils falls, consumers experience an increase in income, writing in ink becomes fashionable, people expect the price of pens to fall in the near future, the population increases, fewer firms manufacture pens, and the wages of pen-makers decrease?
a. Price will rise.
b. Price will fall.
c. Price will stay exactly the same.
d. The price change will be ambiguous.

ANS: D DIF: Challenging REF: 71

147. Beef is a normal good. You observe that both the equilibrium price and quantity of beef has fallen over time. Which of the following would be most consistent with this observation?
a. Consumers have experienced an increase in income and beef-production technology has improved.
b. The price of chicken has risen and the price of steak sauce has fallen.
c. Consumer tastes have changed so as to prefer beef less than before.
d. The demand curve for beef must be positively sloped.

ANS: C DIF: Challenging REF: 71

148. Which of the following would be most likely to increase the price of a new house?
a. Higher wages for carpenters, higher wood prices, increases in consumer incomes, higher apartment rents, increases in population and expectations of higher house prices in the future.
b. Lower wages for carpenters, lower wood prices, increases in consumer incomes, higher apartment rents, increases in population and expectations of higher house prices in the future.

c. Lower wages for carpenters, higher wood prices, decreases in consumer incomes, higher apartment rents, decreases in population and expectations of higher house prices in the future.
d. Lower wages for carpenters, lower wood prices, decreases in consumer incomes, lower apartment rents, decreases in population and expectations of lower house prices in the future.

ANS: A DIF: Challenging REF: 82

149. What will happen to the equilibrium price and quantity of traditional camera film if traditional cameras become more expensive, digital cameras become cheaper, the cost of the resources needed to manufacture traditional film falls and more firms decide to manufacture traditional film?
a. Price will fall and the effect on quantity is ambiguous.
b. Price will rise and the effect on quantity is ambiguous.
c. Quantity will fall and the effect on price is ambiguous.
d. The effect on both price and quantity is ambiguous.

ANS: A DIF: Challenging REF: 82

150. During the last few decades in the United States, health officials have argued that eating too much beef might be harmful to human health. As a result, there has been a significant decrease in the amount of beef produced. Which of the following best explains the decrease in production?
a. Beef producers, concerned about the health of their customers, decided to produce relatively less beef.
b. Government officials, concerned about consumer health, ordered beef producers to produce relatively less beef.
c. Individual consumers, concerned about their own health, decreased their demand for beef, which lowered the relative price of beef, making it less attractive to produce.
d. Anti-beef protesters have made it difficult for both buyers and sellers of beef to meet in the marketplace.

ANS: C DIF: Challenging REF: 82