ECO 156 HOMEWORK 2 PREVIEW
SUPPLY AND DEMAND

INSTRUCTIONS: Print this file and read the textbook and the lecture notes to find the answers to these questions. When you have done all the questions, go to the Learning Modules in Angel and do Homework # 1 there using the answers that you have here. Do it all at one time.
DO NOT DO PART AND THEN LEAVE. YOU WILL NOT BE ABLE TO ACCESS THE ASSIGNMENT AGAIN AND YOU WILL ONLY GET CREDIT FOR THE ANSWERS YOU DID.

MULTIPLE CHOICE

Identify the letter of the choice that best completes the statement or answers the question.

1. The law of demand indicates that as the price of a good increases:
a. suppliers wish to sell less of it.
b. buyers desire to purchase less of it.
c. more of it produced.
d. more of it is desired.

2. The law of demand asserts that:
a. output prices are more important than input prices.
b. when people want a good badly enough they will find a way to pay for it.
c. people want to buy more of goods that are priced very high because of their prestige.
d. the quantity of a good that people will buy is inversely related to the product's price.

3. In economics, the demand for a good refers to the amount of the good people:
a. would like to have if the good were free.
b. will buy at various prices.
c. need to achieve a minimum standard of living.
d. will buy at alternative income levels.

4. When the price of a good falls relative to other goods and the consumer consequently buys more of this good, it is called the:
a. income effect.
b. substitution effect.
c. complement effect.
d. net effect.
e. demand effect.

5. The demand schedule for a good:
a. indicates the quantity that people will buy at the prevailing price.
b. indicates the quantities that suppliers will sell at various market prices.
c. indicates the quantities that will be purchased at alternative market prices.
d. is determined primarily by the cost of producing the good.

6. A downward-sloping demand curve shows:
a. the direct relationship between price and quantity supplied; as price increases, the quantity supplied increases.
b. the inverse relationship between price and quantity supplied; as price increases, the quantity supplied decreases.
c. the direct relationship between price and quantity demanded; as price increases, the quantity demanded increases.

d. the inverse relationship between price and quantity demanded; as price increases, the quantity demanded decreases.
e. how supply varies with demand.

7. If the demand for milk is downward sloping, then an increase in the price of milk will result in a(n):
a. increase in the demand for milk.
b. decrease in the demand for milk.
c. increase in the quantity of milk demanded.
d. decrease in the quantity of milk demanded.
e. decrease in the supply of milk.

Table 4-1

Price per lb. of ice cream	**Sven**	**Larry**	**Rest of Market**	**Market**
$8	**5**	**0**	**7**	
$6	**8**	**5**	**9**	
$5	**11**	**9**	**11**	
$4	**14**	**11**	**14**	
$3	**17**	**14**	**20**	

8. **Refer to Table 4-1**. Shown are the demand schedules for gourmet ice cream of two individuals and the rest of the market. At a price of $8 the quantity demanded in the market would be:
a. 12.
b. 22.
c. 31.
d. 39.
e. 51.

9. **Refer to Table 4-1.** At $4 the quantity demanded in the market would be:
a. 12.
b. 22.
c. 31.
d. 39.
e. 51.

10. Which of the following explains why the quantity of a good demanded decreases when its price increases?
a. Consumer preferences change when the price of a good changes.
b. The nominal income of consumers falls when the price of a good increases.
c. Substitutes become relatively cheaper when the price of a good increases.
d. Complements become relatively cheaper when the price of a good increases.
e. None of the above provides a reasonable explanation.

11. If consumers are less willing and able to pay for each level of output than they were previously, then apparently:
a. demand has increased.
b. supply has increased.
c. demand has decreased.

d. there has been a movement down along the demand curve.
e. there has been a movement up along the demand curve.

12. A demand curve shows the relationship between price and quantity demanded, "other things remaining constant." The other things that remain constant include all of the following except the:
a. price of the product.
b. price of complementary products.
c. price of substitute products.
d. number of consumers in the demographic group purchasing the product.
e. preferences of consumers.

13. If the price of tennis rackets were to increase, we would expect:
a. the demand for tennis balls to increase.
b. the demand for tennis balls to decrease.
c. the supply of tennis balls to increase, leading to a movement along the demand curve for tennis balls.
d. the supply of tennis balls to decrease.
e. both b. and d. to occur.

FIGURE 4-1 MUST BE DOWNLOADED AND PRINTED.

14. **Refer to Figure 4-1.** Using the graph and beginning on D1, a shift to Do would indicate a(n):
a. increase in demand.
b. decrease in demand.
c. increase in quantity demanded.
d. decrease in quantity demanded.
e. increase in supply.

15. **Refer to Figure 4-1.** Using the graph and beginning on D1, a shift to D2 would indicate a(n):
a. increase in demand.
b. decrease in demand.
c. increase in quantity demanded.
d. decrease in quantity demanded.
e. increase in supply.

16. Assuming that Chinese food and Thai food are substitutes, if P.F. Chang's Chinese Restaurant reduced its prices:
a. the sales of the nearby Bahn Thai restaurant will increase.
b. demand for meals at P.F. Chang's will increase
c. the demand for meals at the Bahn Thai restaurant will decrease.
d. the quantity of food demanded from P.F. Chang's will decrease.

17. The difference between a change in quantity demanded and a change in demand is that a change in:
a. quantity demanded is caused by a change in a good's own price, while a change in demand is caused by a change in some other variable, such as income, tastes, or expectations.
b. demand is caused by a change in a good's own price, while a change in quantity demanded is caused by a change in some other variable, such as income, tastes, or expectations.

c. quantity demanded is a change in the amount people actually buy, while a change in demand is a change in the amount they want to buy.
d. This is a trick question. A change in demand and a change in quantity demanded are the same thing.

18. Andy views beer and pizza as complements to one another. If the price of pizza decreases, economists would expect:
a. Andy's demand for pizza to increase.
b. Andy's demand for pizzas to decrease.
c. Andy's quantity of pizza demanded to decrease.
d. Andy's demand for beer to increase.
e. Andy's demand for beer to decrease.

19. Vodka and whiskey are considered by consumers to be substitutes. The likely economic impact of a decrease in the price of whiskey is a:
a. movement up along the demand curve for vodka.
b. movement down along the demand curve of vodka.
c. decrease in the supply of whiskey.
d. rightward shift of the demand curve for vodka.
e. leftward shift of the demand curve for vodka.

20. Roxanne views movie tickets and DVD rentals to be substitute forms of entertainment. An increase in the price of a DVD rental will probably result in an increase in the:
a. supply of movie tickets.
b. quantity of movie tickets demanded.
c. quantity of DVD rentals demanded.
d. demand for movie tickets.

21. The supply curve shows:
a. the same basic information as a demand curve.
b. how the average cost of production varies with price.
c. how the quantity produced varies with price.
d. how the quantity demanded varies with price.

22. A supply schedule shows:
a. projected sales as ad spending varies.
b. how many units producers are willing and able to sell at various prices.
c. possible combinations of output as input prices vary.
d. how many units consumers would like to buy at various prices.
e. all of the above.

23. According to the law of supply, when the price of a good increases we would predict that:
a. less will be produced.
b. less will be consumed.
c. more will be produced.
d. more will be consumed.

24. The difference between a change in quantity supplied and a change in supply is that a change in:

a. quantity supplied is caused by a change in a good's own price, while a change in supply is caused by a change in some other variable, such as input prices, prices of related goods, expectations, or taxes.
b. supply is caused by a change in a good's own price, while a change in the quantity supplied is caused by a change in some other variable, such as input prices, prices of related goods, expectations, or taxes.
c. quantity supplied is a change in the amount people want to sell, while a change in supply is a change in the amount they actually sell.
d. supply and a change in the quantity supplied are the same thing.

25. All of the following factors will affect the supply of shoes except one. Which will not affect the supply of shoes?
a. higher wages for shoe factory workers
b. higher prices for leather
c. a technological improvement that reduces waste of leather and other raw materials in shoe production
d. an increase in consumer income

26. According to the law of supply:
a. there is an inverse relationship between price and quantity demanded.
b. there is a direct relationship between price and quantity demanded.
c. there is an inverse relationship between price and the quantity supplied.
d. there is a direct relationship between price and the quantity supplied.
e. there is a direct relationship between quantity demanded and quantity supplied.

27. Which of the following would be most likely to cause a reduction in the supply of Nintendo video games?
a. a decrease in the price of Nintendo video games
b. a decrease in the price of computer chips used to make Nintendo games
c. an increase in the demand for Nintendo video games
d. a decrease in the demand for Nintendo video games
e. an increase in the price of computer chips used to make Nintendo games

28. How do orange growers react to the news of medical research findings that suggest that eating oranges leads to greater health benefits than were previously known?
a. They increase the supply of oranges.
b. They increase the quantity of oranges supplied.
c. They decrease the supply of oranges.
d. They decrease the quantity of oranges supplied.

29. In a competitive market,
a. there are a number of buyers and sellers.
b. sellers, but not buyers, have significant control over the market price.
c. no single buyer or seller can appreciably affect the market price.
d. both a. and c. are true.

30. Which of the following is true?
a. Because personal tastes differ, substitutes for one person may not be substitutes for another person.
b. Two goods are substitutes if an increase in the price of one good causes an increase in the demand for the other good.
c. Those goods for which rising income leads to decreased demand are called inferior goods.

d. Either an increase in the number of buyers or an increase in tastes or preferences for a good or service will increase the market demand for a good or service.
e. All of the above are true.

31. Which of the following is not a determinant of supply:
a. input prices
b. technology
c. tastes
d. expectations
e. the prices of related products

32. Suppose the United States steps up efforts to combat drug trafficking and, with the aid of the Colombian military, destroys a significant percentage of cocaine crops. Predict the impact of increased drug interdiction on the market for cocaine in Los Angeles.
a. The supply of cocaine will increase causing the price of cocaine to increase.
b. The demand for cocaine will increase causing the price of cocaine to increase.
c. The supply of cocaine will decrease causing the price of cocaine to increase.
d. There will be a movement up along the supply curve of cocaine.
e. The demand for cocaine will decrease causing the price of cocaine to decrease.

33. Assume that coffee and tea are substitutes for each other. If weather conditions cause a substantial portion of the available coffee crop to be destroyed, then most probably:
a. the price of tea will decrease.
b. the price of coffee will decrease.
c. the demand for tea will increase.
d. the supply of tea will increase.
e. both c. and d. are correct.

34. Which of the following is the correct way to describe equilibrium in a market?
a. At equilibrium, demand equals supply.
b. At equilibrium, quantity demanded equals quantity supplied.
c. At equilibrium, market forces no longer apply.
d. Equilibrium is a tendency for price to change, a state of perpetual motion.
e. At equilibrium, the "fairest" price for output is achieved.

35. At the equilibrium price for gasoline:
a. everyone with the desire and the income to buy gasoline at that price can do so.
b. surpluses are inevitable.
c. quantity demanded exceeds the quantity supplied.
d. all sellers willing and able to sell gasoline at that price can do so.
e. both a. and d. are correct.

TABLE 5-1

PRICE per large pepperoni pizza	QUANTITY DEMANDED of large pepperoni pizzas	QUANTITY SUPPLIED of large pepperoni pizzas
$10	1,000 units	5,500 units
9	2,000 units	5,000 units
8	3,000 units	4,500 units
7	4,000 units	4,000 units
6	5,000 units	3,500 units
5	6,000 units	3,000 units
4	7,000 units	2,500 units
3	8,000 units	2,000 units
2	9,000 units	1,500 units
1	10,000 units	1,000 units

36. **Refer to Table 5-1.** What is the equilibrium price in the example?
a. $9
b. $8
c. $7
d. $6
e. $5

37. **Refer to Table 5-1**. At a price of $10, there is a _____ of _____ pizzas.
a. shortage; 4,500
b. surplus; 4,500
c. shortage; 6,500
d. surplus; 6,500
e. surplus; 5,500

38. **Refer to Table 5-1.** At a price of $4, there is a _____ of _____ pizzas.
a. shortage; 4,500
b. surplus; 4,500
c. shortage; 6,500
d. surplus; 6,500
e. shortage; 9.500

FIGURE 5-1 was downloaded and printed with FIGURE 4-1.

39. **Refer to Figure 5-1**. The equilibrium price of butter is:
a. $5.
b. $3.
c. $2.

d. $1.
e. 50 cents.

40. **Refer to Figure 5-1.** If the current price of butter equals $5, you would expect to find:
a. the market in equilibrium at 2,000 pounds per year.
b. the market in equilibrium at 8,000 pounds per year.
c. that the market is not in equilibrium, and that the quantity supplied is greater than the quantity demanded.
d. that the market is not in equilibrium, and that the quantity demanded is greater than the quantity supplied.

41. **Refer to Figure 5-1.** If the current price of butter equals $2, you would expect to find:
a. the market in equilibrium at 3,000 pounds per year.
b. the market in equilibrium at 8,000 pounds per year.
c. that the market is not in equilibrium and that the quantity supplied is greater than the quantity demanded.
d. that the market is not in equilibrium, and that the quantity demanded is greater than the quantity supplied.

42. **Refer to Figure 5-1.** At the market price of $4, there exists a:
a. shortage equal to 4,000 pounds of butter.
b. surplus equal to 4,000 pounds of butter.
c. shortage equal to 7,000 pounds of butter.
d. surplus equal to 7,000 pounds of butter.
e. market equilibrium.

43. **Refer to Figure 5-1.** At a market price of $1, there exists a:
a. shortage equal to 5,000 pounds of butter.
b. surplus equal to 5,000 pounds of butter.
c. shortage equal to 11,000 pounds of butter.
d. surplus equal to 11,000 pounds of butter.
e. market equilibrium.

44. **Refer to Figure 5-1.** If a price floor of $4 is imposed, _____ units of butter will be sold.
a. 7,000
b. 5,000
c. 4,000
d. 3,000
e. 2,000

45. **Refer to Figure 5-1.** If a price ceiling of $2 is imposed, _____ units of butter will be sold.
a. 8,000
b. 5,000
c. 4,000
d. 3,000

e. 2,000

46. **Refer to Figure 5-1.** If a price ceiling of $4 is imposed, we would expect that _____ units of butter will be sold.
a. 7,000
b. 5,000
c. 4,000
d. 3,000
e. 2,000

Table 5-5

Price Per Gallon	Gallons Demanded Per Month	Gallons Supplied Per Month
$4.00	400	1,400
$3.50	600	1,100
$3.00	800	800
$2.50	1,000	500
$2.00	1,200	200
$1.50	1,400	50
$1.00	1,600	0

47. **Refer to Table 5-5.** If the government intervenes in the market for milk and sets a price floor of $3.50, the result is:
a. a shortage of 500 gallons of milk.
b. a surplus of 500 gallons of milk.
c. that some consumers will not be able to buy milk who wish to purchase it at that price.
d. both a. and c. are correct.

48. **Refer to Table 5-5.** If the government were to remove a $3.50 price floor in the milk market, the result would be:
a. a decrease in price and increase in the quantity of milk supplied.
b. a decrease in price and increase in the quantity of milk demanded.
c. an increase in both price and the quantity of milk supplied.
d. an increase in both price and the quantity of milk demanded.
e. no change in price, and the quantity of milk supplied would equal the quantity demanded.

49. **Refer to Table 5-5.** If the government intervenes in the market for milk and sets a price ceiling of $2.00 per gallon, the result is:
a. a shortage of exactly 1,200 gallons of milk.
b. a surplus of exactly 1,000 gallons of milk.
c. that some consumers will not be able to buy milk at that price.
d. that some sellers will not be able to sell available milk at that price.
e. Both a. and c. are correct.

50. **Refer to Table 5-5.** If the government were to remove a price ceiling of $2.00 per gallon in the milk market, the result would be:
a. a decrease in price and increase in the quantity of milk supplied.
b. a decrease in price and increase in the quantity of milk demanded.
c. an increase in both price and the quantity of milk supplied.
d. an increase in both price and the quantity of milk demanded.
e. the market price of milk would remain constant and the quantity of milk supplied would equal the quantity demanded.