

Chapter 3—Market demand and supply

MULTIPLE CHOICE

1. Demand for goods and services reflects:

| | |
|---|---|
| A | the principle that there is a positive relationship between the price and the quantity. |
| . | |
| B | the government's choices of taxes. |
| . | |
| C | the freedom of consumers to make their own choices about which goods and services to buy for a given price. |
| . | |
| D | the uncertainty of the need for a good as the price of the good increases. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: The law of demand

2. Consumer sovereignty means:

| | |
|---|---|
| A | sellers are able to sell the product of their choice. |
| . | |
| B | supply follows the demand. |
| . | |
| C | less freedom of consumers to make their own choices. |
| . | |
| D | noregulation from the government. |
| . | |

ANS: D PTS: 1 DIF: Difficult REF: The law of demand

3. The fact that price and quantity demanded are related negatively illustrates the:

| | |
|---|---------------------------|
| A | law of supply. |
| . | |
| B | law of quantity supplied. |
| . | |
| C | law of demand. |
| . | |
| D | law of quantity demanded. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: The law of demand

4. A demand curve for The Steel Porcupines' concert tickets would show the:

| | |
|---|--|
| A | number of tickets the box office is willing to sell at various prices. |
| . | |
| B | number of people who need tickets. |
| . | |
| C | quality of people who want to buy these concert tickets. |
| . | |
| D | number of tickets that will be purchased at various prices. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: The law of demand

5. A demand curve:

| | |
|---|--|
| A | has a positive slope. |
| . | |
| B | has a negative slope. |
| . | |
| C | is constant regardless of price. |
| . | |
| D | is based on the assumption of a stable supply curve. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: The law of demand

6. At a price of \$5, Sam buys 10 units of a product. When the price increases to \$6, Sam buys eight units. Martha says Sam's demand has decreased. Is Martha correct?

| | |
|---|---|
| A | Yes, Martha is correct. Sam's demand has decreased. |
| . | |
| B | No, Martha is incorrect. Sam's demand has increased. |
| . | |
| C | No, Martha is incorrect. Sam's quantity demanded has decreased, and his demand has not changed. |
| . | |
| D | No, Martha is incorrect. Sam's quantity demanded has increased, and his demand has increased. |
| . | |

ANS: C PTS: 1 DIF: Difficult REF: The law of demand

7. Demand is a relationship between two economic variables:

| | |
|---|---|
| A | the cost of a particular good and the quantity of the good produced. |
| . | |
| B | the cost of a particular good and the quantity of the good consumers are willing to buy. |
| . | |
| C | the price of a particular good and the price consumers are willing to pay. |
| . | |
| D | the price of a particular good and the quantity of the good consumers are willing to buy. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: The law of demand

8. The relationship between price and quantity demanded:

| | |
|---|---|
| A | can only be presented in a tabular form. |
| . | |
| B | is always illustrated by a graph. |
| . | |
| C | can be represented either numerically or graphically. |
| . | |
| D | must be presented using a graph. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: The law of demand

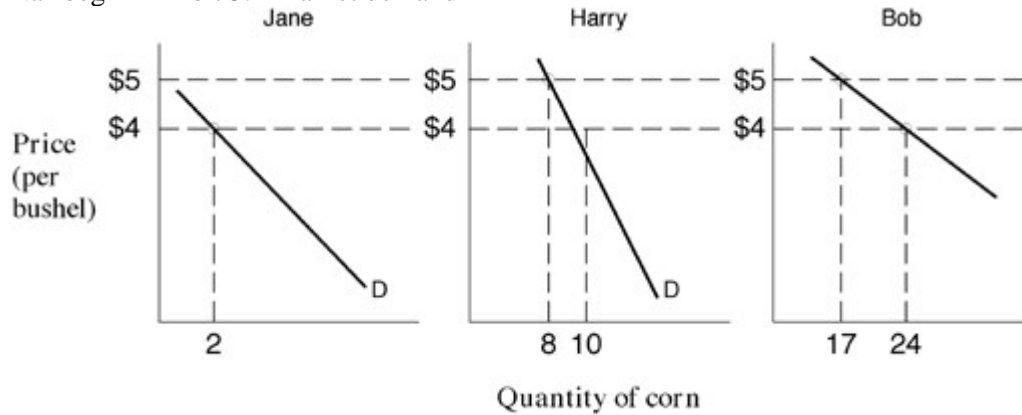
9. According to the law of demand:

| | |
|---|---|
| A | as the price of a good increases, less units are demanded and everything else remains the same. |
| . | |
| B | as the price of a good increases, the same number of units is demanded. |

| | |
|---|---|
| . | |
| C | as the price of a good declines, less units are demanded. |
| . | |
| D | the price of a good does not correspond to the quantity demanded. |
| . | |

ANS: A PTS: 1 DIF: Moderate REF: The law of demand

Narrbegin Exhibit 3.1 Market demand



Narrend

10. Suppose there are only three people in the economy: Jane, Harry and Bob. The individual demand for corn for each of these consumers is given in Exhibit 3.1. The total quantity of corn demanded if the market price is \$5 is _____.

| | |
|---|-------|
| A | three |
| . | |
| B | 25 |
| . | |
| C | 17 |
| . | |
| D | eight |
| . | |
| E | 26 |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: Market demand
 NAR: Exhibit 3.1 Market demand

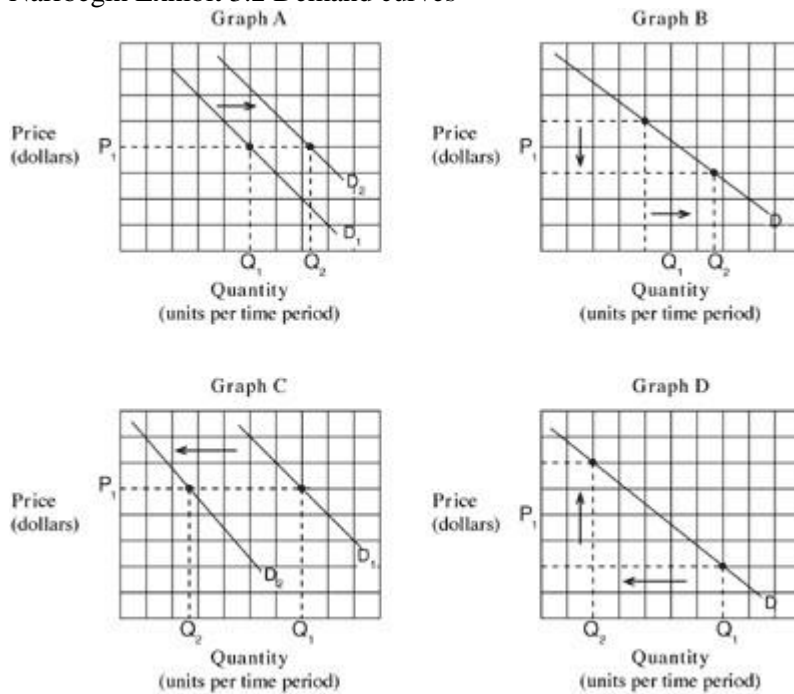
11. Suppose there are only three people in the economy: Jane, Harry and Bob. The individual demand for corn for each of these consumers is given in Exhibit 3.1. The total quantity of corn demanded if the market price is \$4 is _____.

| | |
|---|-------|
| A | three |
| . | |
| B | eight |
| . | |
| C | 17 |
| . | |
| D | 25 |
| . | |
| E | 36 |
| . | |

ANS: E PTS: 1
 NAR: Exhibit 3.1 Market demand

DIF: Moderate REF: Market demand

Narrbegin Exhibit 3.2 Demand curves



Narrend

12. Which of the graphs in Exhibit 3.2 depicts the effect of an increase in income on the demand for luxury cars?

| | |
|---|----------|
| A | Graph A. |
| . | |
| B | Graph B. |
| . | |
| C | Graph C. |
| . | |
| D | Graph D. |
| . | |

ANS: A PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand
 NAR: Exhibit 3.2 Demand curves

13. Which of the graphs in Exhibit 3.2 depicts the effect of new information about healing properties of honey on the demand curve for sugar?

| | |
|---|----------|
| A | Graph A. |
| . | |
| B | Graph B. |
| . | |
| C | Graph C. |
| . | |
| D | Graph D. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand
NAR: Exhibit 3.2 Demand curves

14. Which of the graphs in Exhibit 3.2 depicts the effect of a reduction in the price of iPhones on the demand for the iPhones?

| | |
|---|----------|
| A | Graph A. |
| . | |
| B | Graph B. |
| . | |
| C | Graph C. |
| . | |
| D | Graph D. |
| . | |

ANS: A PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand
NAR: Exhibit 3.2 Demand curves

15. Suppose that X and Y are substitute goods. If the price of good X increases, we can expect:

| | |
|---|--|
| A | the demand for good X to shift to the left. |
| . | |
| B | an upward movement along the demand curve for good Y. |
| . | |
| C | the demand curve for good Y to shift to the right. |
| . | |
| D | a downward movement along the demand curve for good Y. |
| . | |

ANS: C PTS: 1 DIF: Difficult REF: Non-price determinants of demand

16. Assuming that hamburgers and hot dogs are substitutes, an increase in the price of hamburgers, other things being equal, results in a:

| | |
|---|---|
| A | rightward shift in the demand curve for hot dogs. |
| . | |
| B | leftward shift in the demand curve for hamburgers. |
| . | |
| C | rightward shift in the demand curve for hamburgers. |
| . | |
| D | leftward shift in the demand curve for hot dogs. |
| . | |

ANS: A PTS: 1 DIF: Easy REF: Non-price determinants of demand

17. Which of the following pairs is the best example of substitutes?

| | |
|---|----------------------|
| A | Coffee and cream. |
| . | |
| B | Videotapes and VCRs. |
| . | |
| C | Honey and biscuits. |
| . | |

| | |
|---|----------------------------------|
| D | Hiking boots and athletic shoes. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: Non-price determinants of demand

18. Other things being equal, the effect of a decrease in the price of compact discs on the market for compact disc players is a/an:

| | |
|---|--|
| A | leftward shift in the demand curve for compact disc players. |
| . | |
| B | upward movement along the demand curve for compact disc players. |
| . | |
| C | rightward shift in the demand curve for compact disc players. |
| . | |
| D | downward movement along the demand curve for compact disc players. |
| . | |

ANS: C PTS: 1 DIF: Difficult REF: Non-price determinants of demand

19. Assume that croutons and soup are complementary goods. The effect on the soup market of a decrease in the price of croutons (other things being equal) would best be described as a/an:

| | |
|---|--|
| A | decrease in the quantity of soup demanded. |
| . | |
| B | decrease in the demand for soup. |
| . | |
| C | increase in the quantity of soup demanded. |
| . | |
| D | increase in the demand for soup. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: Non-price determinants of demand

20. If the price of potato chips increases, other things being equal, demand for potato-chip dip will:

| | |
|---|---|
| A | not change, only the quantity demanded will change. |
| . | |
| B | increase, because the goods are substitutes. |
| . | |
| C | decrease, because the goods are substitutes. |
| . | |
| D | decrease, because the goods are complements. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: Non-price determinants of demand

21. If physical fitness becomes fashionable, what will happen in the market for sport outfits?

| | |
|---|----------------------------------|
| A | Demand will increase. |
| . | |
| B | Quantity demanded will increase. |
| . | |
| C | Demand will decrease. |

| | |
|---|----------------------------------|
| . | |
| D | Quantity demanded will decrease. |
| . | |

ANS: A PTS: 1 DIF: Easy REF: Non-price determinants of demand

22. Suppose that X and Y are complementary goods. If the price of good X decreases, we can expect the:

| | |
|---|--|
| A | demand for good X to increase. |
| . | |
| B | quantity demanded of good Y to decrease. |
| . | |
| C | quantity demanded of good Y to increase. |
| . | |
| D | demand for good Y to increase. |
| . | |
| | |

ANS: D PTS: 1 DIF: Difficult REF: Non-price determinants of demand

23. Complementary goods are goods:

| | |
|---|---|
| A | that are consumed jointly. |
| . | |
| B | that are consumed one in place of the other. |
| . | |
| C | for which demand increases when the price of its complementary goods increases. |
| . | |
| D | for which demand decreases when the price of its complementary goods decreases. |
| . | |

ANS: A PTS: 1 DIF: Moderate REF: Non-price determinants of demand

24. Assuming that new cars are a normal good, a decrease in consumer income, other things being equal, will:

| | |
|---|---|
| A | decrease the quantity demanded of new cars. |
| . | |
| B | increase the demand for new cars. |
| . | |
| C | decrease the demand for new cars. |
| . | |
| D | increase the quantity of new cars demanded. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: Non-price determinants of demand

25. Assume that a computer is a normal good. An increase in consumer income, other things being equal, would:

| | |
|---|---|
| A | cause an upward movement along the demand curve for computers. |
| . | |
| B | cause a downward movement along the demand curve for computers. |
| . | |

| | |
|---|--|
| C | shift the demand curve for computers to the left. |
| . | |
| D | shift the demand curve for computers to the right. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: Non-price determinants of demand
 OBJ: TYPE: SA TOP: Non-price determinants of demand

26. If an individual's income increases, then the demand for a normal good will:

| | |
|---|------------------|
| A | decrease. |
| . | |
| B | increase. |
| . | |
| C | remain constant. |
| . | |
| D | rotate. |
| . | |

ANS: B PTS: 1 DIF: Easy REF: Non-price determinants of demand

27. An increase in the demand for a good quality steak, a normal good, can be caused by a/an:

| | |
|---|--|
| A | decrease in consumer income. |
| . | |
| B | increase in the price of steak. |
| . | |
| C | increase in the price of tomato sauce. |
| . | |
| D | increase in consumer income. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: Non-price determinants of demand

28. If consumer incomes go up and laptops are a normal good, the effect on the demand for laptops, ceteris paribus, will be a/an:

| | |
|---|---|
| A | upward movement along the demand curve for laptops. |
| . | |
| B | downward movement along the demand curve for laptops. |
| . | |
| C | rightward shift in the demand curve for laptops. |
| . | |
| D | leftward shift in the demand curve for laptops. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: Non-price determinants of demand

29. Which of the following must be true if good X is a normal good and income increases?

| | |
|---|--|
| A | The demand for X will increase, and thus the price and quantity sold and bought will decrease. |
| . | |
| B | The demand for X will decrease, and thus the price and quantity sold and bought will decrease. |
| . | |

| | |
|---|--|
| C | The demand for X will increase, and thus the price and quantity sold and bought may increase. |
| D | The demand for X will decrease, and thus the price and quantity sold and bought will increase. |

ANS: C PTS: 1 DIF: Difficult REF: Non-price determinants of demand

30. Assuming that bus travel is an inferior good, a decrease in consumer income, other things being equal, will cause:

| | |
|---|--|
| A | a downward movement along the demand curve for bus travel. |
| B | no change in the demand curve for bus travel. |
| C | an upward movement along the demand curve for air travel. |
| D | a rightward shift in the demand curve for bus travel. |

ANS: D PTS: 1 DIF: Moderate REF: Non-price determinants of demand

31. If good X is an inferior good, a decrease in consumer income, other things being equal, will shift the:

| | |
|---|---------------------------------------|
| A | demand curve for good X to the right. |
| B | demand curve for good X to the left. |
| C | supply curve for good X to the right. |
| D | supply curve for good X to the left. |

ANS: A PTS: 1 DIF: Moderate REF: Non-price determinants of demand

32. Assuming that day-old bread is an inferior good, an increase in consumer income, other things being equal, will cause a/an:

| | |
|---|---|
| A | rightward shift in the demand curve for day-old bread. |
| B | downward movement along the demand curve for day-old bread. |
| C | leftward shift in the demand curve for day-old bread. |
| D | upward movement along the demand curve for day-old bread. |

ANS: C PTS: 1 DIF: Easy REF: Non-price determinants of demand

33. Assume that brand X is an inferior good and name brand Y is a normal good. An increase in consumer income, other things being equal, will cause a/an:

| | |
|---|--|
| A | upward movement along the demand curve for name brand Y. |
|---|--|

41. Which of the following states the definition of the law of supply?

| | |
|---|--|
| A | More of a good is supplied at a lower price. |
| . | |
| B | There is a positive relationship between the price of a good and the quantity that buyers purchase. |
| . | |
| C | There is a positive relationship between the price of a good and the quantity offered for sale by suppliers. |
| . | |
| D | There is a negative relationship between the price of a good and the quantity offered for sale by suppliers. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: The law of supply

42. Supply is:

| | |
|---|---|
| A | the number of units available. |
| . | |
| B | the cost of resources. |
| . | |
| C | the relationship between the number of units available and demand. |
| . | |
| D | the relationship between a range of prices and quantities supplied. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: The law of supply

43. The law of supply states that everything remains the same when:

| | |
|---|--|
| A | there is a negative relationship between the price of a good and the quantity of it purchased by suppliers. |
| . | |
| B | there is a positive relationship between the price of a good and the quantity that buyers choose to purchase. |
| . | |
| C | there is a positive relationship between the price of a good and the quantity of it offered for sale by suppliers. |
| . | |
| D | at a lower price, a greater quantity will be supplied. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: The law of supply

44. A supply schedule shows the relationship between:

| | |
|---|------------------------------|
| A | demand and supply. |
| . | |
| B | supply and income. |
| . | |
| C | price and income. |
| . | |
| D | quantity supplied and price. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: The law of supply

45. The supply curve reflects the:

| | |
|---|--|
| A | inverse relationship between price and quantity offered. |
| . | |
| B | positive relationship between demand and supply. |

| | |
|---|--|
| . | |
| C | negative relationship between price and quantity bought. |
| . | |
| D | positive relationship between price and quantity supplied. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: The law of supply

46. Supply is a relationship between:

| | |
|---|--|
| A | price of a particular good and quantity of this good that buyers are willing to buy. |
| . | |
| B | cost of a particular good and quantity of this good that sellers are willing to buy. |
| . | |
| C | price of a particular good and quantity of this good that sellers are willing to sell. |
| . | |
| D | cost of a particular good and price that buyers are willing to pay. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: The law of supply

47. The law of supply states that everything remains the same:

| | |
|---|---|
| A | there is a negative relationship between the quantity supplied and the price. |
| . | |
| B | the demand follows the supply. |
| . | |
| C | the price of the good is determined by the demand not by supply. |
| . | |
| D | the higher the price the more quantity will be supplied to the market. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: The law of supply

48. Which of the following will cause a downward movement along a supply curve?

| | |
|---|--|
| A | Decreases in raw-material costs. |
| . | |
| B | Decreases in labour costs. |
| . | |
| C | Decreases in the cost of machinery. |
| . | |
| D | Decreases in the market price of a good, other things being equal. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: The distinction between changes in quantity supplied and changes in supply

49. Which of the following will cause a movement along the supply curve?

| | |
|---|---|
| A | An increase or decrease in the cost of raw materials. |
| . | |
| B | An increase in labour costs. |
| . | |
| C | Changes in the cost of the machinery used to make a good. |
| . | |
| D | Changes in the market price of a good, other things being constant. |

| | |
|---|--|
| . | |
|---|--|

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

50. A decrease in supply means that:

| | |
|---|--|
| A | demand will increase by the same amount. |
| . | |
| B | the quantity demanded will increase. |
| . | |
| C | there is a movement down and to the left along the supply curve. |
| . | |
| D | the quantity supplied at every price will decrease. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

51. A leftward shift of a supply curve is called a/an:

| | |
|---|--------------------------------|
| A | decrease in demand. |
| . | |
| B | increase in supply. |
| . | |
| C | decrease in supply. |
| . | |
| D | increase in quantity supplied. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

52. A change in supply *cannot* be caused by a change in:

| | |
|---|----------------------------|
| A | resource prices. |
| . | |
| B | technology. |
| . | |
| C | expectations of consumers. |
| . | |
| D | prices of other goods. |
| . | |

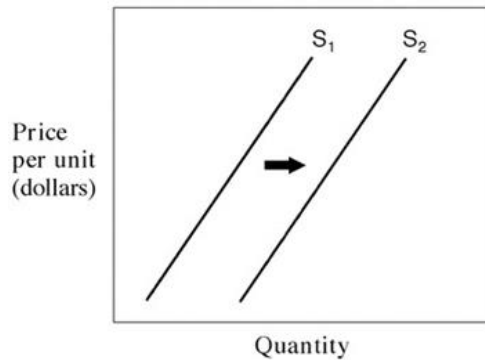
ANS: C PTS: 1 DIF: Difficult REF: The distinction between changes in quantity supplied and changes in supply

53. Which of the following factors do not shift supply curves?

| | |
|---|--------------------|
| A | Number of sellers. |
| . | |
| B | Number of buyers. |
| . | |
| C | Technology. |
| . | |
| D | Input prices. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

Narrbegin Exhibit 3.3 Supply curves



Narrend

54. In Exhibit 3.3, a shift in the supply curve from S_1 to S_2 is possible because of:

| | |
|---|------------------------------------|
| A | subsidies to consumers. |
| . | |
| B | higher taxes imposed on producers. |
| . | |
| C | changes in consumer preferences. |
| . | |
| D | technological innovation. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply
NAR: Exhibit 3.3 Supply curves

55. In Exhibit 3.3, which of the following could have caused the shift in the supply curve from S_1 to S_2 ?

| | |
|---|--|
| A | Increase in demand. |
| . | |
| B | Decrease in demand. |
| . | |
| C | Decrease in the number of suppliers in the market. |
| . | |
| D | Increase in the number of sellers. |
| . | |
| E | Increase in the cost of materials. |
| . | |

ANS: D PTS: 1 DIF: Difficult REF: The distinction between changes in quantity supplied and changes in supply
AR: Exhibit 3.3 Supply curves

56. In Exhibit 3.3, a shift in the supply curve from S_1 to S_2 represents a/an:

| | |
|---|------------------------------------|
| A | decrease in supply. |
| . | |
| B | decrease in the quantity supplied. |
| . | |

| | |
|---|------------------------------------|
| C | increase in supply. |
| . | |
| D | increase in the quantity supplied. |
| . | |
| E | increase in demand. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply
 NAR: Exhibit 3.3 Supply curves

57. What happens when a cyclone destroys the banana plantation?

| | |
|---|--|
| A | The damaging effect of the cyclone means that farmers are only able to supply fewer bananas at each possible price and supply decreases. |
| . | |
| B | There is no effect of a cyclone on market prices. |
| . | |
| C | The damaging effect of the cyclone means that farmers are able to produce apples instead of bananas with no effect on the supply of bananas. |
| . | |
| D | The prices for bananas will increase permanently. |
| . | |

ANS: A PTS: 1 DIF: Moderate REF: Non-price determinants of supply OBJ:

58. Farmers can choose to produce eggs and/or milk. If there is a successful advertising campaign for people to 'drink milk', then what will be the effect on the egg market?

| | |
|---|--|
| A | None, since consumers do not see eggs and milk as related goods. |
| . | |
| B | Egg demand will increase. |
| . | |
| C | Egg demand will decrease. |
| . | |
| D | Egg supply will decrease. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: Non-price determinants of supply

59. If more people enter medical school, we can expect:

| | |
|---|-------------------------------------|
| A | the demand for doctors to increase. |
| . | |
| B | the supply of doctors to increase. |
| . | |
| C | the demand for doctors to decrease. |
| . | |
| D | the supply of doctors to decrease. |
| . | |

ANS: B PTS: 1 DIF: Easy REF: Non-price determinants of supply

60. The introduction of the carbon trading scheme which requires polluters to purchase permits will:

| | |
|---|-------------------------------------|
| A | shift the supply curve to the left. |
|---|-------------------------------------|

| | |
|---|--------------------------------------|
| . | |
| B | shift the supply curve to the right. |
| . | |
| C | increase the quantity supplied. |
| . | |
| D | decrease the quantity supplied. |
| . | |

ANS: A PTS: 1 DIF: Moderate REF: Non-price determinants of supply

61. If apple growers expect the price of apples to increase, they would:

| | |
|---|--|
| A | increase the current supply. |
| . | |
| B | supply regardless of future prices. |
| . | |
| C | respond to the expected price of apples. |
| . | |
| D | start growing tomatoes. |
| . | |

ANS: C PTS: 1 DIF: Difficult REF: Non-price determinants of supply

62. Which of the following could cause the supply of carrots to decrease?

| | |
|---|--|
| A | Consumers' incomes decrease. |
| . | |
| B | There is a technological advance in carrot production. |
| . | |
| C | Fertiliser costs increase. |
| . | |
| D | The number of farmers growing carrots increases. |
| . | |
| E | The price of carrots decreases. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: Non-price determinants of supply

63. The most plausible reason why changes in the price of cotton can cause shifts in the supply curve for tobacco is:

| | |
|---|---|
| A | cigarette smokers often wear cotton shirts. |
| . | |
| B | when incomes rise, people consume more cotton and tobacco. |
| . | |
| C | firms can switch from growing tobacco to cotton and vice versa. |
| . | |
| D | tobacco is an input in the production of cotton. |
| . | |
| E | cotton and tobacco are unrelated markets in all ways. |
| . | |

ANS: C PTS: 1 DIF: Difficult REF: Non-price determinants of

supply

64. There is a technological advance in the production of digital watches. This will cause:

| | |
|---|------------------------|
| A | demand to increase. |
| . | |
| B | supply to increase. |
| . | |
| C | demand to decrease. |
| . | |
| D | supply to decrease. |
| . | |
| E | the price to increase. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: Non-price determinants of supply

65. A shift occurs in the supply curve for salt when:

| | |
|---|---|
| A | the price of salt increases. |
| . | |
| B | improvements are made in the production process. |
| . | |
| C | salt is found to be associated with high blood pressure. |
| . | |
| D | consumers expect the price of salt to increase in the future. |
| . | |

ANS: B PTS: 1 DIF: Difficult REF: Non-price determinants of supply

66. The relationship between changes in the non-price determinants of supply and the supply curve:

| | |
|---|---|
| A | is positive and significant. |
| . | |
| B | depends on the nature of the non-price determinant of supply. |
| . | |
| C | always results in an increase in supply. |
| . | |
| D | indicates a rightward shift of the supply curve for all goods and services. |
| . | |

ANS: B PTS: 1 DIF: Difficult REF: Non-price determinants of supply

67. 'Coal mining companies anticipate an additional tax.' This statement indicates that the:

| | |
|---|---|
| A | price of coal will fall. |
| . | |
| B | quantity of coal that will be available at any given price has decreased. |
| . | |
| C | demand for coal will shift to the left. |
| . | |
| D | quantity of coal that will be available at any given price has increased. |
| . | |

ANS: B
supply

PTS: 1

DIF: Easy

REF: Non-price determinants of

68. Which of the following will increase the supply of a good?

| | |
|---|--|
| A | An increase in the price of another good that producers could produce. |
| . | . |
| B | A lower price paid for resources used in the production of the good. |
| . | . |
| C | A decrease in the number of sellers. |
| . | . |
| D | An increase in taxes paid to the government by producers. |
| . | . |

ANS: B
supply

PTS: 1

DIF: Moderate

REF: Non-price determinants of

69. Assuming that oranges and apples can both be grown on the same type of land, a decrease in the price of apples, other things being equal, will cause a/an:

| | |
|---|---|
| A | upward movement along the supply curve for oranges. |
| . | . |
| B | downward movement along the supply curve for oranges. |
| . | . |
| C | rightward shift of the supply curve for oranges. |
| . | . |
| D | leftward shift of the supply curve for oranges. |
| . | . |

ANS: C
supply

PTS: 1

DIF: Moderate

REF: Non-price determinants of

70. Consider the following statement: 'Due to the drought the quantity of water available for consumption reduced dramatically'. This will cause a/an:

| | |
|---|---|
| A | downward movement along the supply curve for water. |
| . | . |
| B | upward movement along the supply curve for water. |
| . | . |
| C | rightward shift in the supply curve for water. |
| . | . |
| D | leftward shift in the supply curve for water. |
| . | . |

ANS: D
supply

PTS: 1

DIF: Difficult

REF: Non-price determinants of

71. Which of the following would decrease the supply of airline travel?

| | |
|---|---|
| A | Reduced numbers of airline travellers. |
| . | . |
| B | New airline companies beginning operations. |
| . | . |
| C | Higher fuel costs. |
| . | . |
| D | Lower prices for airline tickets. |
| . | . |

supply

76. Equilibrium occurs:

| | |
|---|--|
| A | at any price for which quantity demanded is less than the quantity supplied. |
| . | |
| B | at the highest possible price the seller can offer the product. |
| . | |
| C | at the lowest price consumers are willing to pay. |
| . | |
| D | at any price for which quantity demand is equal to quantity supply. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis
OBJ: TYPE: RE TOP: A market supply and demand analysis

77. If the current price of a good is the same as that found at the intersection of the market supply and demand curves, then:

| | |
|---|-------------------------------|
| A | excess demand exists. |
| . | |
| B | excess supply exists. |
| . | |
| C | the price will tend to rise. |
| . | |
| D | the market is in equilibrium. |
| . | |

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis

78. The equilibrium price is best defined as the price at which:

| | |
|---|--|
| A | quality demanded is equal to quantity supplied. |
| . | |
| B | suppliers want to supply more goods. |
| . | |
| C | demanders want to buy more goods. |
| . | |
| D | quantity demanded is equal to quantity supplied. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

79. In a market, competitive forces guarantee that any price other than the equilibrium price is:

| | |
|---|------------------|
| A | market-clearing. |
| . | |
| B | stable. |
| . | |
| C | temporary. |
| . | |
| D | unaffordable. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: A market supply and de-

mand analysis

80. When the price of a good is above its equilibrium price, a:

| | |
|---|---|
| A | surplus puts upward pressure on the price. |
| . | |
| B | surplus puts downward pressure on the price. |
| . | |
| C | shortage puts upward pressure on the price. |
| . | |
| D | shortage puts downward pressure on the price. |
| . | |

ANS: B PTS: 1 DIF: Easy REF: A market supply and demand analysis

81. Which of the following is true about the market equilibrium?

| | |
|---|--|
| A | As the price increases, the quantity demanded and the quantity supplied increases. |
| . | |
| B | As the price increases, the quantity demanded and the quantity supplied decreases. |
| . | |
| C | As the price increases, the quantity demanded increases and the quantity supplied decreases. |
| . | |
| D | As the price increases, the quantity demanded decreases and the quantity supplied increases. |
| . | |
| | |

ANS: D PTS: 1 DIF: Difficult REF: A market supply and demand analysis

82. A shortage of wheat:

| | |
|---|--|
| A | is impossible if people are hungry. |
| . | |
| B | is impossible if the price of wheat is higher than the market equilibrium. |
| . | |
| C | will result when the quantity supplied exceeds the quantity demanded at the current price. |
| . | |
| D | is unlikely to cause any change in the price of wheat. |
| . | |

ANS: B PTS: 1 DIF: Difficult REF: A market supply and demand analysis

83. If the quantity demanded is less than the quantity supplied, then:

| | |
|---|--|
| A | the price will have to increase to establish equilibrium. |
| . | |
| B | there will be an excess supply of goods. |
| . | |
| C | the quantity supplied will be less than the quantity demanded. |
| . | |
| D | the demand will shift to the right. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: A market supply and de-

mand analysis

84. How do retailers react to a surplus?

| | |
|---|--|
| A | The surplus has no effect on retailers. |
| . | . |
| B | Competition forces sellers to reduce their prices. |
| . | . |
| C | Competition forces retailers to offer more goods. |
| . | . |
| D | The surplus will force sellers to increase their prices. |
| . | . |

ANS: B PTS: 1 DIF: Moderate REF: A market supply and demand analysis

85. A shortage of a product means a/an:

| | |
|---|---|
| A | excess supply of the product. |
| . | . |
| B | excess demand of the product. |
| . | . |
| C | situation where the quantity demanded is less than the quantity supplied. |
| . | . |
| D | situation where the quantity supplied exceeds the quantity demanded. |
| . | . |

ANS: B PTS: 1 DIF: Easy REF: A market supply and demand analysis

86. If the market price is below the equilibrium price, then:

| | |
|---|--|
| A | a surplus of product will result. |
| . | . |
| B | the quantity supplied will exceed the quantity demanded. |
| . | . |
| C | the market supply curve will shift to the right. |
| . | . |
| D | the quantity demanded will exceed the quantity supplied. |
| . | . |

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis

87. If quantity supplied is greater than the quantity demanded, then according to the market process:

| | |
|---|---|
| A | the shortage exists and the price will increase to the equilibrium level. |
| . | . |
| B | the surplus exists and the price will increase to the equilibrium level. |
| . | . |
| C | the shortage exists and the price will decrease to the equilibrium level. |
| . | . |
| D | the surplus exists and the price will decrease to the equilibrium level. |
| . | . |

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis

88. Assume Q_s represents the quantity supplied at a given price and Q_d represents quantity demanded at a given price. Which of the following market conditions produces an upward movement of the price?

| | |
|---|----------------------|
| A | $Q_s = 10, Q_d = 5.$ |
| . | |
| B | $Q_s = 5, Q_d = 5.$ |
| . | |
| C | $Q_s = 5, Q_d = 10.$ |
| . | |
| D | $Q_s = 5, Q_d = 3.$ |
| . | |

ANS: C PTS: 1 DIF: Difficult REF: A market supply and demand analysis

89. If a shortage exists in a market then:

| | |
|---|---|
| A | the price cannot be determined. |
| . | |
| B | the quantity demanded is less than the quantity supplied. |
| . | |
| C | the price will fall in the near future. |
| . | |
| D | the price will increase in the near future. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

90. Assume that the equilibrium price for a good is \$5. If the market price is \$10, a:

| | |
|---|---|
| A | shortage causes the price to decline towards \$5. |
| . | |
| B | surplus causes the price to rise above \$10. |
| . | |
| C | shortage causes the price to rise above \$10. |
| . | |
| D | surplus causes the price to decline towards \$5. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

91. When the price of a good in a market is above equilibrium:

| | |
|---|--|
| A | the quantity supplied exceeds the quantity demanded. |
| . | |
| B | a surplus is observed. |
| . | |
| C | the price will fall in the near future. |
| . | |
| D | all of these factors apply. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

92. Surplus (of a good) is a situation in which:

| | |
|---|--|
| A | the quantity supplied is undetermined. |
| . | |
| B | the quantity supplied is equal to the quantity demanded. |
| . | |
| C | the quantity supplied is less than the quantity demanded. |
| . | |
| D | the quantity supplied is greater than the quantity demanded. |
| . | |

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

93. A market:

| | |
|---|---|
| A | is defined as a local market such as a farmers market . |
| . | |
| B | is any arrangement in which buyers and sellers determine the prices of goods and services exchanged. |
| . | |
| C | is a hypothetical arrangement in which buyers and sellers determine the prices of goods and services exchanged. |
| . | |
| D | can only be for goods but not for services. |
| . | |

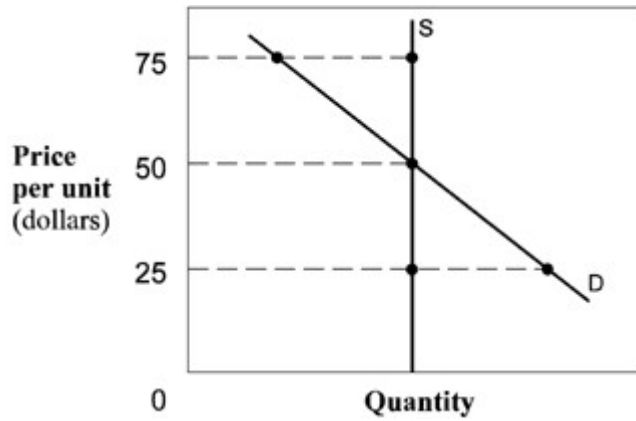
ANS: B PTS: 1 DIF: Moderate REF: A market supply and demand analysis

94. If the price is lower than the equilibrium price, which of the following will occur?

| | |
|---|--|
| A | The price will remain low. |
| . | |
| B | The price will reduce even more. |
| . | |
| C | The price will raise to the equilibrium price. |
| . | |
| D | Demand will shift. |
| . | |

ANS: C PTS: 1 DIF: Easy REF: A market supply and demand analysis

Narrbegin Exhibit 3.4 Demand and supply curves



95. In Exhibit 3.4, if price happened to currently be \$25 in this market, a _____ would result, causing a/an _____ in price.

| | |
|---|--------------------|
| A | shortage; increase |
| B | surplus; decrease |
| C | surplus; increase |
| D | shortage; decrease |

ANS: A PTS: 1 DIF: Moderate REF: A market supply and demand analysis

NAR: Exhibit 3.4 Demand and supply curves

Narrbegin Exhibit 3.5 Demand and supply data for radios

| Price (\$) | Quantity demanded of radios | Quantity supplied of radios |
|------------|-----------------------------|-----------------------------|
| 75 | 400 | 800 |
| 70 | 450 | 750 |
| 65 | 500 | 700 |
| 60 | 550 | 650 |
| 55 | 600 | 600 |
| 50 | 650 | 550 |
| 45 | 700 | 500 |
| 40 | 750 | 450 |

Narrend

96. In Exhibit 3.5, at any market price of radios below \$55, an _____ would result, causing the price to _____.

| | |
|---|---------------------|
| A | excess demand; rise |
| B | excess supply; rise |

| | |
|---|---------------------|
| . | |
| C | excess demand; fall |
| . | |
| D | excess supply; fall |
| . | |
| | |

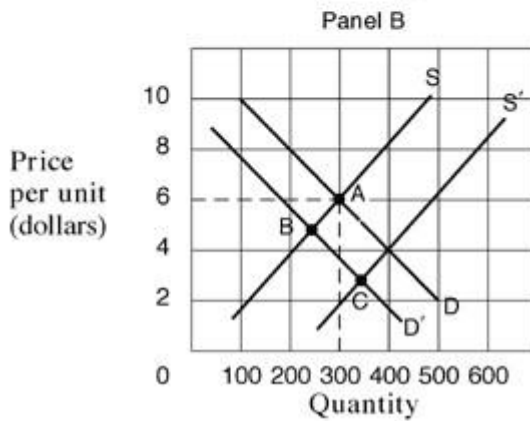
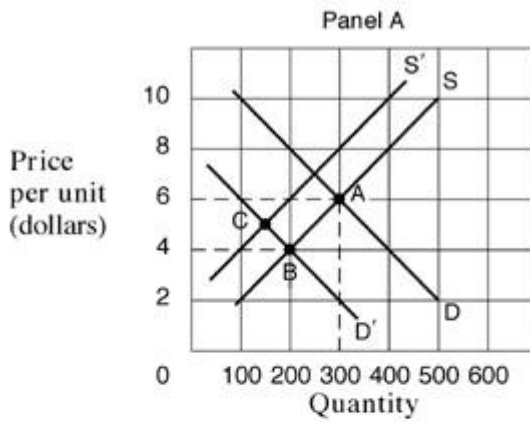
ANS: A PTS: 1 DIF: Moderate REF: A market supply and demand analysis
 NAR: Exhibit 3.5 Demand and supply curves

97. In Exhibit 3.5, if there is a surplus of radios of 300 units, the current price of radios must be:

| | |
|---|-------|
| A | \$60. |
| . | |
| B | \$55. |
| . | |
| C | \$70. |
| . | |
| D | \$45. |
| . | |

ANS: C PTS: 1 DIF: Moderate REF: A market supply and demand analysis
 NAR: Exhibit 3.5 Demand and supply curves

Narrbegin Exhibit 3.6 Demand and supply curves



Narrend

98. In Exhibit 3.6, Panel A, the movement from A to B describes a/an:

| | |
|---|--|
| A | increase in demand and an increase in the quantity supplied. |
| B | increase in the quantity demanded and an increase in supply. |
| C | decrease in demand and a decrease in the quantity supplied. |
| D | decrease in the quantity demanded and a decrease in supply. |

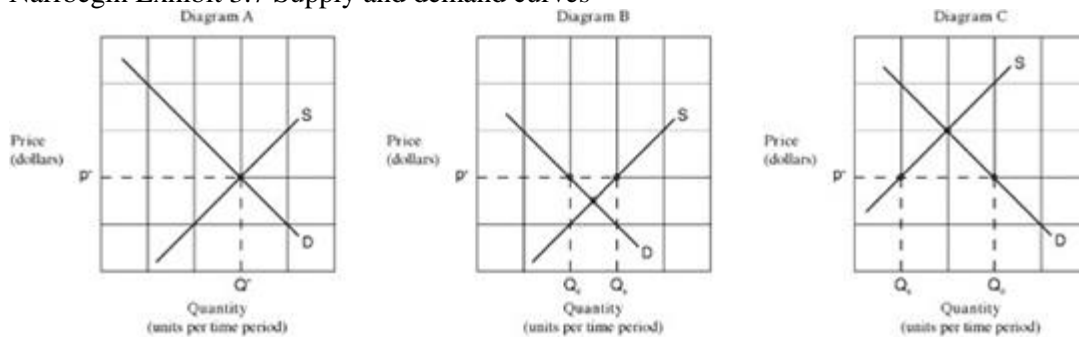
ANS: C PTS: 1 DIF: Difficult REF: A market supply and demand analysis
 NAR: Exhibit 3.6 Demand and supply curves

99. In Exhibit 3.6, Panel A, the movement from A to C describes a/an:

| | |
|---|--|
| A | ambiguous change in price and a decrease in quantity. |
| B | increase in price and an ambiguous change in quantity. |
| C | increase in both price and quantity. |
| D | decrease in both price and quantity. |

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis
 NAR: Exhibit 3.6 Demand and supply curves

Narrend Exhibit 3.7 Supply and demand curves



100. Which of the graphs in Exhibit 3.7 illustrates a surplus existing at the indicated market price?

| | |
|---|-----------------|
| A | Graph A. |
| B | Graph B. |
| C | Graph C. |
| D | Graphs A and C. |

ANS: B PTS: 1 DIF: Moderate REF: A market supply and demand analysis

quantity demanded and changes in demand

105. Which of the following will *not* cause a shift in the demand curve for good X?

| | |
|---|---|
| A | A change in the price of a complementary good. |
| . | . |
| B | A change in the price of good X. |
| . | . |
| C | A change in consumer tastes and preferences for good X. |
| . | . |
| D | An increase in consumer income. |
| . | . |

ANS: B PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand

106. Which of the following would shift the demand curve for chicken to the right?

| | |
|---|--|
| A | Lower inputs for chicken producers. |
| . | . |
| B | Higher subsidies to chicken producers. |
| . | . |
| C | Higher price for beef. |
| . | . |
| D | Lower price for lamb. |
| . | . |

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

107. Which of the following will *not* shift the demand curve for televisions?

| | |
|---|--|
| A | An increase in the price of televisions. |
| . | . |
| B | An increase in consumer income. |
| . | . |
| C | An increase in the price of radios (a substitute). |
| . | . |
| D | An increase in the price of cable services (a complement). |
| . | . |

ANS: A PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand

108. When firms advertise their products, they are attempting to:

| | |
|---|---|
| A | shift the supply curve of the product to the right. |
| . | . |
| B | shift the supply curve of the product to the left. |
| . | . |
| C | create a surplus of the product. |
| . | . |
| D | shift the demand for the product to the right. |
| . | . |

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

109. If people expect the price of packaged coffee to rise next week, coffee demand will:

| | |
|---|---|
| A | decrease now. |
| . | |
| B | increase now. |
| . | |
| C | stay the same now and increase next week. |
| . | |
| D | stay the same now and decrease next week. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

110. A shift of the demand curve occurs if there is:

| | |
|---|--|
| A | an increase in price. |
| . | |
| B | a change due to any factor except price. |
| . | |
| C | a decrease in price. |
| . | |
| D | a shift of the supply curve to the left. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

111. The major non-price determinants of demand for good A are:

| | |
|---|-------------------------|
| A | supply of the good A. |
| . | |
| B | tastes and preferences. |
| . | |
| C | number of sellers. |
| . | |
| D | price of the good A. |
| . | |

ANS: B PTS: 1 DIF: Moderate REF: Non-price determinants of demand

TRUE/FALSE

1. If goods X and Y are complements, then a reduction in the price of good X decreases the demand for good Y.

ANS: F PTS: 1 DIF: Moderate REF: Non-price determinants of demand

2. If X is a normal good, an increase in consumers' income will result in an increase in the demand for good X.

ANS: T PTS: 1 DIF: Moderate REF: Non-price determinants of demand

3. Suppose A and B are complementary goods. Other things being equal, the demand curve for A will shift to the right when the price of B goes up.

ANS: F PTS: 1 DIF: Moderate REF: Non-price determinants of demand

4. The law of supply indicates that a decrease in price will cause a decrease in supply, which is reflected graphically as a leftward shift of the supply curve.

ANS: F PTS: 1 DIF: Difficult REF: The law of supply

5. Anything that changes the amount a firm can produce with a given amount of resources will result in a shift of the supply curve.

ANS: T PTS: 1 DIF: Moderate REF: Non-price determinants of supply
OBJ: TYPE: SA TOP: Non-price determinants of supply

6. The supply curve for chicken will shift to the right if production costs increase.

ANS: F PTS: 1 DIF: Moderate REF: Non-price determinants of supply

7. A shortage is a market condition existing at any price where the quantity demanded is less than the quantity supplied.

ANS: F PTS: 1 DIF: Moderate REF: A market supply and demand analysis

8. A surplus means that the quantity supplied is greater than the quantity demanded at the prevailing price.

ANS: T PTS: 1 DIF: Easy REF: A market supply and demand analysis

9. A shortage occurs when a good is in great demand.

ANS: F PTS: 1 DIF: Difficult REF: A market supply and demand analysis

10. Other things being equal, a fall in the price of Coca-Cola will increase the quantity of Coca-Cola produced.

ANS: F PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

11. An increase in supply is reflected as a rightward (outward) shift of the supply curve and is caused by an increase in price.

ANS: F PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

12. An increase in income increases the supply of all goods.

ANS: F PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply