

Supply & Demand

Quiz 3

1. The law of demand illustrates that
 - a. as price decreases, demand increases.
 - b. as price decreases, quantity supplied increases.
 - c. **as price decreases, quantity demanded increases.**
 - d. as price increases, quantity demanded increases.
 - e. price changes are always in the same direction as demand changes.

2. According to the law of demand, when the price of a BMW or a Gucci purse increases, the quantity demanded for these goods will also increase because the goods have become more prestigious.
 - a. T
 - b. **F**

3. An individual demand schedule or curve shows the various quantities of a good that a person
 - a. **wants and is able to purchase at alternative prices, everything else the same.**
 - b. is able to purchase at alternative income levels, everything else the same.
 - c. has purchased at alternative income levels, everything else the same.
 - d. is able to purchase at alternative prices, everything else the same.
 - e. has purchased at alternative prices, everything else the same.

Combination	Price per DVD Rental	Quantity Rented per Year
A	\$5	10
B	4	20
C	3	30
D	2	40
E	1	50

Figure 1: DVD Demand Schedule

4. According to the table in Figure 1 above:
 - a. **there is an inverse relationship between price per DVD Rental and the Quantity Rented per Year.**
 - b. if the quantity demanded is 40, price per DVD Rental must be \$2.
 - c. price is the dependent variable.
 - d. there is a direct relationship between price per DVD Rental and the Quantity Rented per Year.
 - e. if the price is \$4 then the quantity demanded is 10.

5. All demand curves slope down because
- incomes can decline quickly and significantly.
 - substitute goods are very often not readily available.
 - consumers often cannot afford complementary goods.
 - tastes and preferences change over time.
 - as the price of the good falls, the quantity demanded increases.**
6. A boycott of lettuce would, if effective, cause
- an increase in the price of lettuce.
 - a decrease in the demand for lettuce.**
 - a decrease in the demand for and the supply of lettuce.
 - an increase in the equilibrium quantity of lettuce bought and sold.
 - a decrease in the supply of lettuce.
7. A change in the quantity demanded of skis is a movement along the demand curve for skis. In contrast, a change in demand for skis
- is a movement along the demand curve for skis.
 - is not related to the price of a lift ticket.
 - is a movement along the demand curve for ski boots.
 - reflects a change in the price of skis.
 - can be caused by an increase in the popularity of the sport.**
8. If everyone expects the price of almonds to rise in the near future, what will happen to the market for almonds?
- People will buy less now, causing a decrease in demand.
 - People will buy the same amount now.
 - The supply will increase today.
 - The amount bought and sold today will decrease.
 - The amount bought and sold today will increase.**
9. According to the text, the price of hotel accommodations is higher in Phoenix in the winter than in the summer, the price of beef is higher in Japan than in the United States, and the price of the dollar in terms of the Japanese yen is higher now than ten years ago because
- quantity demanded is higher.
 - demand is higher.
 - quantity supplied is higher.
 - supply is higher.
 - demand and supply interact to determine the price.**
10. The law of supply
- while valid, is almost always ignored in a market-based economy.
 - asserts that as the price of a good or service rises, the quantity supplied declines.
 - asserts that as the price of a good or service rises, the demand curve shifts inward.
 - has very little to do with how prices in a market-based economy are determined.
 - asserts that as the price of a good or service rises, the quantity supplied rises.**

11. If resources are used more efficiently in the production of electricity,
- less electricity can be produced for the same cost.
 - more electricity can be produced for the same cost.**
 - the quantity supplied of electricity will always increase.
 - efficient resource utilization is not a factor in the production of electricity.
 - there will be no impact on the production costs of electricity.
12. According to the law of supply, if the price of electric ranges increased, everything else held constant,
- the supply of electric ranges would decrease.
 - the demand for electric ranges would increase.
 - the supply of electric ranges would increase.
 - the demand for gas ranges would decrease.
 - the **quantity supplied of electric ranges would increase.**
13. The supply curve slopes upward because
- resources are not scarce.
 - suppliers of a good or service are likely to increase the quantity they are willing and able to supply as the price of the good or service increases, everything else held constant.**
 - price doesn't matter.
 - suppliers of a good or service are not likely to change the quantity they are willing and able to supply as the price of the good or service increases, everything else held constant.
 - suppliers of a good or service are likely to decrease the quantity they are willing and able to supply as the price of the good or service increases, everything else held constant.
14. Assume a revolutionary technological advance is discovered in the production process of automobiles by Ford Motor Company engineers. Which of the following events would you expect to happen?
- A shift outward of the supply curve for Ford automobiles.**
 - A movement down along an existing supply curve for Ford automobiles.
 - A shift inward of the supply curve for Ford automobiles.
 - A movement up along an existing supply curve for Ford automobiles.
 - No change in supply.
15. The expectations of the producers of natural gas could cause a shift in or out of the supply curve for natural gas because
- sellers would never choose to alter the quantity of natural gas offered on the market.
 - if suppliers expect something to occur to resource supplies or technology in the production of natural gas, then suppliers may alter the quantities they are willing and able to supply at every possible price.**
 - buyers expectations are much more important in determining supply.
 - buyers always anticipate ahead of time the changes that are coming in the supply curve.
 - expectations are not one of the determinants of supply.

16. A market is in equilibrium when
- equilibrium price equals equilibrium quantity.
 - the price is low.
 - government imposes price controls.
 - the price is high.
 - the demand and supply curves intersect.**

Price per Loaf	Quantity Demanded	Quantity Supplied
\$5	30	102
4	48	84
3	66	66
2	84	48
1	102	30

Figure 2: Demand & Supply in Bread Market

17. Equilibrium in the bread market, according to the table in Figure 2 above, occurs at
- \$5, 72.
 - \$4, 36.
 - \$3, 66.**
 - \$2, 36.
 - \$1, 72.

Price per DVD	Quantity Demanded per Year	Quantity Supplied per Year
\$5	30	102
4	48	84
3	66	66
2	84	48
1	102	30

Figure 3: Demand & Supply DVD Market

18. Beginning with equilibrium in the table depicted in Figure 3 above, a decrease in price of \$1 would
- cause a shortage of 36.**
 - cause a surplus of 36.
 - cause a shortage of 72.
 - cause a surplus of 72.
 - lead to an increase in demand.

19. When a shortage exists in a market,
- suppliers will quit producing until the shortage disappears.
 - the actual price is lower than the equilibrium price.**
 - consumers increase the quantities they are willing and able to purchase.
 - there is an excess quantity supplied.
 - the actual price is greater than the equilibrium price.

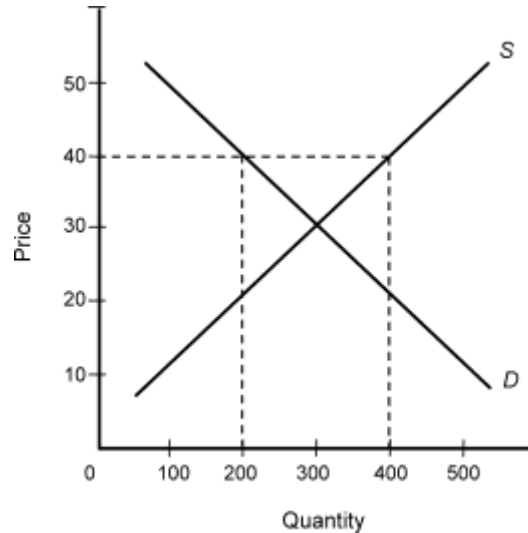


Figure 4: Supply Demand Equilibrium

20. Consider the market described by the demand and supply curves in the Figure 4 above. Which of the following is true if the current market price is \$40 per unit?
- The quantity supplied is 200 units.
 - The quantity sold is 400 units.
 - The quantity demanded is 200 units.**
 - There is a shortage of 200 units.
 - There is an excess demand of 200.
21. Assume that the market described by the demand and supply curves in the figure 4 above is originally in equilibrium. What is the most likely consequence of a government-imposed price ceiling of \$10 per unit?
- There will be a surplus of the good.
 - Supply will increase.
 - Quantity supplied will decrease.**
 - There will be no consequence at all.
 - Demand will increase.



Figure 5: Supply Demand Equilibrium

22. A price of \$10 in Figure 5 above will result in
- equilibrium.
 - a surplus of 100 units.**
 - a surplus of 150 units.
 - a shortage of 100 units.
 - a shortage of 50 units.
23. See figure 5 above. The highest price consumers would be willing and able to pay for 50 units of this product is
- \$8.
 - \$6.
 - \$10.**
 - They wouldn't pay any positive price for 50 units.
 - \$2.
24. See Figure 5 above. Assume this is a market with no restrictions. Price and quantity will move toward
- \$6 and 100.**
 - \$2 and 150.
 - \$10 and 150.
 - \$10 and 50.
 - None of these

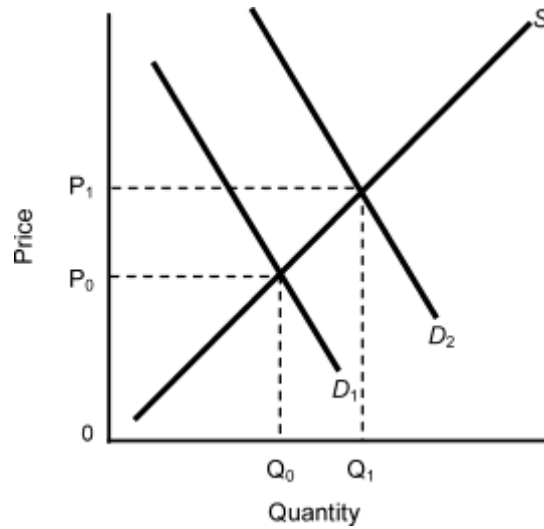


Figure 6: Supply Demand Equilibrium

25. In the Figure 6 above, which of the following is false?
- a. Equilibrium price and quantity have increased.
 - b. Demand has increased.
 - c. **Supply has increased.**
 - d. The new equilibrium price is P_1 .
 - e. The new equilibrium quantity is Q_1 .

- [1] [C]
- [2] [B]
- [3] [A]
- [4] [A]
- [5] [E]
- [6] [B]
- [7] [E]
- [8] [E]
- [9] [E]
- [10] [E]
- [11] [B]
- [12] [E]
- [13] [B]
- [14] [A]
- [15] [B]
- [16] [E]
- [17] [C]
- [18] [A]
- [19] [B]
- [20] [C]
- [21] [C]
- [22] [B]
- [23] [C]
- [24] [A]
- [25] [C]