

# Quiz-Supply & Demand

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1. Economics can be best defined as the study of
  - a. Resource allocation in a competitive market driven system.
  - b. How government, households and firms influence business decision making.
  - c. How limited resources affect the efficiency of government households and firms.
  - d. How scarce resources are allocated to their most efficient uses in government, households and firms.
  
2. The economic problem accurately implies that
  - a. limited needs and wants and scarce resources require rational choices to be made.
  - b. while many resources are absolutely abundant they may be relatively scarce when compared to the insatiable demands of society.
  - c. since scarce resources have any number of alternatives used it is essential to maximize opportunity cost
  - d. because of relative scarcity, resources should be allocated so as to satisfy all needs and wants in society
  
3. The real cost or opportunity cost refers to the
  - a. underlying value of the resources used in production
  - b. dollar cost of the factors used in production
  - c. transfer value of an alternative combination of output
  - d. value of the next best alternative that is forgone in production
  
4. Scarcity in the economic sense means that
  - a. commodities can only be purchased by paying high prices
  - b. shortages occur due to production bottlenecks
  - c. resources are insufficient to satisfy all needs and wants
  - d. some consumers cannot buy all that they need and want
  
5. A production possibilities (opportunity cost) curve is used to demonstrate that
  - a. more of one good can only be achieved by diverting resources away from the production of another good
  - b. an economy will operate at any combination of output along the curve
  - c. more of one good can only be achieved with an improvement in technology for that good
  - d. resources are allocated using price signals indicated at a number of trade-off points along the curve

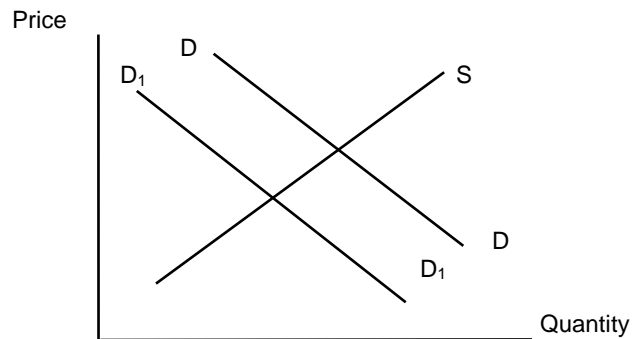
Questions 6-7 refer to the following production possibilities schedule

<b>Combo</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
Food	0	10	20	30	40
Textiles	11	75	45	20	0

6. Assuming the economy is operating at Combination B, the opportunity cost of producing an extra 10 units of food is
  - a. 75 units of textiles
  - b. 30 units of textiles
  - c. 10 units of textiles
  - d. 45 units of textiles
  
7. The government builds a new local hospital worth \$4 million as opposed to two new primary schools costing \$2 million each. The opportunity cost of the hospital was
  - a. the \$4 million lost from government consolidated revenue
  - b. the capital outlay plus any other ongoing medical expenses
  - c. the two primary schools
  - d. indeterminant since insufficient cost information is given
  
8. Market economies are sometimes referred to as
  - a. capitalist, planned or laissez-faire economics
  - b. free enterprise, unplanned or command economies
  - c. free enterprise, unplanned or laissez-faire economics
  - d. free enterprise, command or laissez-faire economics
  
9. Adam Smith said, "It is not from the benevolence of the butcher or baker that we get our dinner, but from their own self-interest..." What is the "cause" for getting our dinner?
  - a. If the producers of goods do their job well, consumers will continue to buy their products and services and they will profit in a market economy.
  - b. Consumers of products will buy from those producers that service them well
  - c. Butchers and bakers want us to be fat
  - d. Both A and B

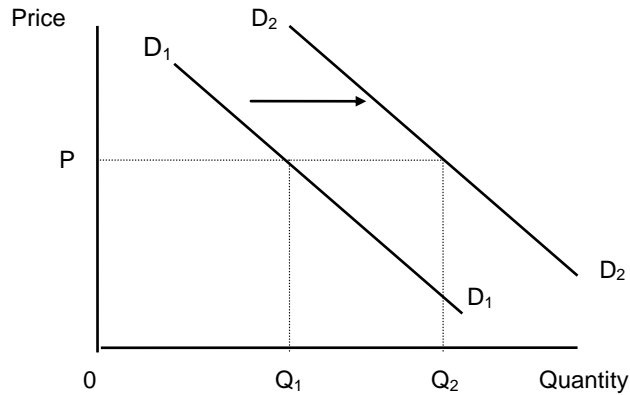
10. The statement: “The lower the price—the larger the quantity demanded” is an expression commonly known as the \_\_\_\_\_.
- Law of Demand
  - Law of Supply
  - Paradox of Value
  - Equilibrium Point
11. Price is always displayed along the vertical or “Y” axis in a demand/supply curve presentation. The value for the horizontal or “X” axis is:
- Labor
  - Demand
  - Supply
  - Quantity
12. As long as the marginal benefit of an activity exceeds the marginal cost, people are better off doing \_\_\_\_ of it; when the marginal cost exceeds the marginal benefit, they are better off doing \_\_\_\_ of it.
- less | more
  - more | less
  - none | all
  - all | none
13. You have the opportunity to attend the University of Illinois for \$20,000 per year. You have also have been offered a job paying \$30,000 per year. You choose to go to school; the opportunity cost you face for this year if you attend U of I is:
- \$20,000
  - \$30,000
  - \$50,000
  - Cannot be determined from the information given.
14. The demand for any particular commodity is the quantity which buyers
- are willing to offer for purchase at any given price
  - will purchase in response to a change in their disposable income
  - are willing to purchase at any given price at a given period of time
  - will require firms to produce in order to satisfy consumers.
15. Which of the following would cause an increase in demand for microwave ovens?
- a decrease in the price of microwave ovens
  - an anticipated price fall for microwave ovens
  - a lowering of production costs or cheaper resource prices
  - a rise in household disposable income

16. The following diagram illustrates the market for child-care services. A shift in demand from D to D<sub>1</sub> is best explained by:



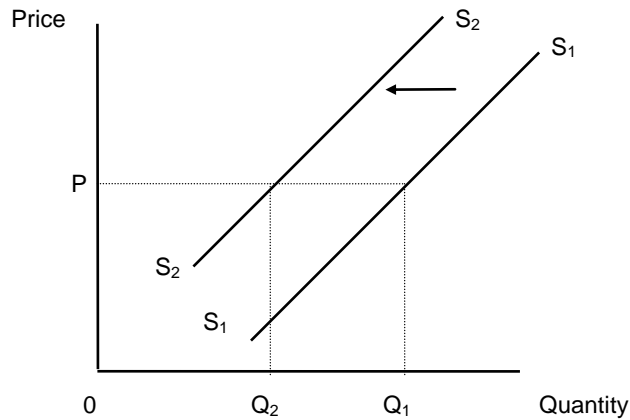
- a. a decrease in the number of young families
  - b. an increase in child-care subsidies offered by the government
  - c. a reduction in available staff and facilities for child-care
  - d. an increase in the price of child-care
17. If brands J and K are substitutes then an increase in the price of J will
- a. decrease the demand for K
  - b. increase the demand for J
  - c. increase the demand for K
  - d. have little effect on the demand for J
18. A good is inferior if
- a. demand for it falls as income rises
  - b. demand for it falls as price rises
  - c. it is replaced by other goods as its price rises
  - d. less of it is demanded when resources are unavailable

19. The following shift in demand may be caused by these factors EXCEPT



- a. an increase in credit availability
- b. a successful advertising campaign
- c. a fall in the price of a substitute
- d. the anticipated introduction of a consumption tax

20. The direction of the arrow on the graph indicates:



- a. an increase in supply
- b. a decrease in supply
- c. an extension of supply
- d. a contraction of supply

21. Given competitive market conditions, all of the following would result in a shift to the right of the supply curve except for

- a. a reduction in the firms' costs of production
- b. lower indirect taxes on the sale of the commodity
- c. a change in consumer sentiment in favor of the commodity
- d. a removal of restrictions allowing greater access to foreign markets

22. The discovery of a major new offshore oil deposit would result in
- a. a movement upwards along the supply curve for oil
  - b. a movement downwards along the supply curve for oil
  - c. a shift to the right to a new supply curve for oil
  - d. a shift to the left to a new supply curve for oil
23. The 'law of supply' suggests that
- a. price and quantity supplied are directly related, i.e., they move in the same direction.
  - b. price and quantity supplied are inversely related, i.e., they move in the opposite direction.
  - c. movements along the supply curve are caused by a price fall only.
  - d. supply will expand until market equilibrium is reached
24. Price is determined by:
- a. what suppliers are willing to provide
  - b. what buyers are willing to buy
  - c. what buyers are willing to buy in a market where goods are provided by willing suppliers
  - d. prices are mandated by governments