MULTIPLE CHOICE

1. The law of demand states that price and quantity demanded are
   a. directly related, ceteris paribus.
   b. inversely related, ceteris paribus.
   c. independent.
   d. positively related, ceteris paribus.

   ANS: B  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

2. Which of the following illustrates the law of demand?
   a. Jorge buys fewer pencils at $2 per pencil than at $1 per pencil, ceteris paribus.
   b. Chen buys more ice cream at $4 per half-gallon than at $3 per half gallon, ceteris paribus.
   c. Karissa buys fewer sweaters at $50 each than at $35 each, ceteris paribus.
   d. a, b, and c
   e. a and c

   ANS: E  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

3. At a price of $15 each, Marta buys 4 books per month. When the price increases to $20, Marta buys 3 books per month. Luz says that Marta's demand for books has decreased. Is Luz correct?
   a. Yes, Luz is correct.
   b. No, Luz is incorrect. Marta's demand has increased.
   c. No, Luz is incorrect. Marta's quantity demanded has decreased, but her demand has stayed the same.
   d. No, Luz is incorrect. Marta's quantity demanded has increased, but her demand has stayed the same.
   e. No, Luz is incorrect. Marta's quantity demanded has decreased and her demand has increased.

   ANS: C  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

4. One major reason for the law of demand is that
   a. one price changing requires at least one other price to change in the opposite direction.
   b. people substitute relatively lower-priced goods for relatively higher-priced goods.
   c. a higher price never reduces quantity demanded by enough to lower total revenue.
   d. people are willing to produce more units at a higher price.

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

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5. A demand schedule is a numerical tabulation of
   a. prices and quantities supplied.
   b. costs and quantities demanded.
   c. prices and quantities demanded.
   d. incomes and quantities demanded.

   ANS: C   PTS: 1   DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

6. If Max's demand for hot dogs falls as his income rises, then for Max hot dogs are
   a. a bad good.
   b. an inferior good.
   c. a preferential good.
   d. a normal good.
   e. a neutral good.

   ANS: B   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

7. An increase in the number of buyers in a particular market will result in a
   a. movement up the demand curve.
   b. movement down the demand curve.
   c. leftward shift in the demand curve.
   d. rightward shift in the demand curve.

   ANS: D   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

8. If the demand curve for a good shifts leftward,
   a. quantity demanded is less at each price.
   b. quantity demanded remains constant at each price.
   c. quantity demanded is greater at each price.
   d. demand is greater at each price.

   ANS: A   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

9. If people begin to favor science fiction novels to a greater degree than previously, the demand curve
   for science fiction novels
   a. shifts rightward.
   b. shifts leftward.
   c. stays constant.
   d. can shift either rightward or leftward.

   ANS: A   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

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website, in whole or in part.
10. As the price of good X rises, the demand for good Y falls. Therefore, goods X and Y are
   a. substitutes.
   b. normal goods.
   c. complements.
   d. inferior goods.
   e. none of the above

   ANS: C        PTS: 1     DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

11. As the price of good A rises, the demand for good B rises. Therefore, goods A and B are
   a. normal goods.
   b. inferior goods.
   c. substitutes.
   d. complements.
   e. none of the above

   ANS: C        PTS: 1     DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

12. "As the price of apples goes up, the demand for apples goes down." The author of this statement
   a. implies that price and demand are unrelated.
   b. uses the word "demand" when he should use the word "supply."
   c. uses the word "demand" when he should use the words "quantity demanded."
   d. implies that demand and price have a direct relationship.

   ANS: C        PTS: 1     DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
   KEY: Bloom's: Application

13. The law of supply states that price and quantity supplied are
   a. inversely related, *ceteris paribus*.
   b. directly related, *ceteris paribus*.
   c. not related.
   d. fixed.

   ANS: B        PTS: 1     DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

14. Which of the following is true about the relationship between price and quantity supplied?
   a. There is *always* a direct relationship.
   b. There is *always* an inverse relationship.
   c. There is *usually* a direct relationship.
   d. There is *usually* an inverse relationship.

   ANS: C        PTS: 1     DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

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15. Resource X is necessary to the production of good Y. If the price of resource X rises,
   a. the supply curve of Y shifts leftward.
   b. the supply curve of Y shifts rightward.
   c. the supply curve of Y is unaffected.
   d. there is a movement down the supply curve of Y.
   e. there is a movement up the supply curve of Y.

   ANS: A  
   PTS: 1  
   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  
   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

16. If the workers of a firm successfully negotiate an increase in wages, which of the following is most likely to happen?
   a. The demand curve for the product the firm produces shifts rightward.
   b. The demand curve for the product the firm produces shifts leftward.
   c. The supply curve of the product the firm produces shifts rightward.
   d. The supply curve of the product the firm produces shifts leftward.

   ANS: D  
   PTS: 1  
   DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  
   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

17. An advance in technology causes
   a. a rightward shift in the supply curve.
   b. a leftward shift in the supply curve.
   c. the supply curve to go from upward sloping to vertical.
   d. the supply curve to go from vertical to upward sloping.

   ANS: A  
   PTS: 1  
   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  
   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

18. The fundamental reason why most supply curves are upward sloping is that
   a. consumers substitute lower-priced goods for higher-priced goods.
   b. the quantity supplied increases as more firms enter the market.
   c. a higher price never reduces quantity supplied by enough to lower total revenue and so higher production is motivated.
   d. higher production raises the opportunity costs of production and so price must rise to induce more output.

   ANS: D  
   PTS: 1  
   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  
   LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

19. Tobacco production is one of the more heavily subsidized industries in the United States. Suppose that as a result of intense lobbying from health-related concerns, Congress repeals the tobacco firms' subsidies. Which of the following scenarios would likely occur?
   a. The tobacco firms' supply curve would shift rightward, as it would now be cheaper to produce each level of output.
   b. The tobacco firms' supply curve would shift leftward, since it would now cost more to produce each level of output.
   c. The tobacco firms would not experience any shift in their supply curves; subsidies don't...
There would be a movement along the supply curve for tobacco, but the supply curve would not shift.

ANS: B  PTS:  1  DIF:  Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC:  DISC: Supply and demand
KEY: Bloom's: Application

20. Suppose the government decides that every family should own its own home. To bring this about, the government decides to subsidize the home-construction industry by giving the home-construction companies $10,000 for every house that they build. As a result of this,
   a. the supply curve of new houses would shift leftward, since it now costs $10,000 more for builders to produce a house.
   b. the demand curve for new houses would shift rightward, since now every family would want to buy a house.
   c. the demand curve for new houses would shift leftward.
   d. the supply curve of new houses would shift rightward, since builders would be willing to produce and sell more houses at each given price.
   e. c and d

ANS: D  PTS:  1  DIF:  Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC:  DISC: Supply and demand
KEY: Bloom's: Application

21. Oil producers expect that oil prices next year will be lower than oil prices this year. As a result, oil producers are most likely to
   a. place more oil on the market this year, thus shifting the present supply curve of oil rightward.
   b. hold some oil off the market this year, thus shifting the present supply curve of oil leftward.
   c. place more oil on the market this year, thus increasing the quantity supplied of oil at lower but not higher prices.
   d. hold some oil off the market this year, thus decreasing the quantity supplied of oil at lower but not higher prices.

ANS: A  PTS:  1  DIF:  Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC:  DISC: Supply and demand
KEY: Bloom's: Application

22. Oil producers expect that oil prices next year will be higher than oil prices this year. As a result, oil producers are most likely to
   a. place more oil on the market this year, thus shifting the present supply curve of oil rightward.
   b. hold some oil off the market this year, thus shifting the present supply curve of oil leftward.
   c. place more oil on the market this year, thus increasing the quantity supplied of oil at lower but not higher prices.
   d. hold some oil off the market this year, thus decreasing the quantity supplied of oil at lower but not higher prices.

ANS: B  PTS:  1  DIF:  Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC:  DISC: Supply and demand

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23. Which of the following will not shift a supply curve?
   a. a change in the price of relevant resources
   b. a change in the good's own price
   c. a change in the number of sellers
   d. a change in per-unit costs brought about by a change in taxes.

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

24. At a price above the equilibrium price, there is
   a. a shortage.
   b. a surplus.
   c. excess demand.
   d. super-equilibrium.
   e. none of the above

   ANS: B  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

25. At a price below the equilibrium price, there is
   a. a surplus.
   b. a shortage.
   c. excess supply.
   d. sub-equilibrium.
   e. none of the above

   ANS: B  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

26. On a supply-and-demand diagram, equilibrium is found
   a. where the supply curve intercepts the vertical axis.
   b. where the demand curve intercepts the horizontal axis.
   c. where the demand and supply curves intersect.
   d. at every point on either curve

   ANS: C  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Equilibrium
   KEY: Bloom's: Knowledge

27. On a supply-and-demand diagram, quantity demanded equals quantity supplied
   a. only at the single equilibrium price.
   b. at every price at or above the equilibrium price.
   c. at every price at or below the equilibrium price.
   d. at every price.

   ANS: A  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Equilibrium

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28. At a price for which quantity demanded exceeds quantity supplied, a __________ is experienced, which pushes the price __________ toward its equilibrium value.
   a. surplus; downward
   b. surplus; upward
   c. shortage; downward
   d. shortage; upward
   ANS: D  PTS: 1  DIF: Difficulty: Challenging  
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand  
   KEY: Bloom's: Application

29. On a supply-and-demand diagram, consider a price for which the horizontal distance to the supply curve exceeds the horizontal distance to the demand curve. There is a __________ at that price and the current price must be __________ the equilibrium price.
   a. shortage; above
   b. shortage; below
   c. surplus; above
   d. surplus; below
   ANS: C  PTS: 1  DIF: Difficulty: Challenging  
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand  
   KEY: Bloom's: Application

30. On a supply-and-demand diagram, consider a price for which the horizontal distance to the supply curve is shorter than the horizontal distance to the demand curve. There is a __________ at that price and the current price must be __________ the equilibrium price.
   a. shortage; above
   b. shortage; below
   c. surplus; above
   d. surplus; below
   ANS: B  PTS: 1  DIF: Difficulty: Challenging  
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand  
   KEY: Bloom's: Application

31. If the supply curve and the demand curve for lettuce both shift to the left by an equal amount, what can we say about the resulting changes in price and quantity?
   a. The price will increase, but the quantity may increase or decrease.
   b. The price will increase, and the quantity will increase.
   c. The price will decrease, and the quantity will increase.
   d. The price will stay the same, but the quantity will increase.
   e. The price will stay the same, but the quantity will decrease.
   ANS: E  PTS: 1  DIF: Difficulty: Moderate  
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand  
   KEY: Bloom's: Application

32. If demand increases by a lesser amount than supply decreases, then equilibrium price _________ and equilibrium quantity _________.
   a. rises; falls

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b. falls; falls

c. rises; rises

d. falls; rises

ANS: A  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

33. If demand increases by a lesser amount than supply increases, then equilibrium price __________ and equilibrium quantity __________.
   a. rises; falls
   b. falls; falls
   c. rises; rises
   d. falls; rises

ANS: D  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

34. If demand decreases by a greater amount than supply decreases, then equilibrium price __________ and equilibrium quantity __________.
   a. rises; rises
   b. rises; falls
   c. falls; rises
   d. falls; falls

ANS: D  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

35. If demand decreases by a greater amount than supply increases, then equilibrium price __________ and equilibrium quantity __________.
   a. rises; rises
   b. rises; falls
   c. falls; rises
   d. falls; falls

ANS: D  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

Exhibit 3-1
36. Refer to Exhibit 3-1. Equilibrium price and quantity are
   a. $2 and 250 units.
   b. $4 and 250 units.
   c. $2 and 150 units.
   d. $6 and 250 units.
   e. none of the above

   ANS: B       PTS: 1       DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic     LOC: DISC: Equilibrium
   KEY: Bloom's: Comprehension

37. Refer to Exhibit 3-1. At a price of $2 there is a
   a. shortage of 100 units.
   b. shortage of 200 units.
   c. shortage of 150 units.
   d. surplus of 200 units.
   e. surplus of 150 units.

   ANS: B       PTS: 1       DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic     LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

38. Refer to Exhibit 3-1. At a price of $6 there is a
   a. surplus of 100 units.
   b. surplus of 150 units.
   c. surplus of 200 units.
   d. shortage of 150 units.
   e. shortage of 200 units.

   ANS: C       PTS: 1       DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic     LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

Exhibit 3-2
39. Refer to Exhibit 3-2. Which of the following would result in a movement from point A on D₁ to point B on D₂?
   a. There was a decrease in the price of a substitute for good X.
   b. There was an increase in the price of a complement to good X.
   c. There was a decline in technology in the production of good X.
   d. There was an increase in the price of a substitute for good X.

   ANS: D  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application  NOT: New

40. Refer to Exhibit 3-2. Which of the following would result in a movement from point B on D₂ to point A on D₁?
   a. There was an increase in income (assuming that good X is an inferior good) and technology remained constant.
   b. There was an increase in income (assuming that good X is a normal good) and technology remained constant.
   c. There was an increase in income (assuming that good X is an inferior good) and technology improved.
   d. There was an increase in income (assuming that good X is a normal good) and technology declined.

   ANS: A  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

41. Refer to Exhibit 3-2. Suppose equilibrium is at point B. Something then changes and equilibrium becomes point C. Which of the following is consistent with the change in equilibrium from point B to C (assuming that good X is a normal good)?
   a. There was an increase in resource prices and income stayed constant.
   b. There was a decrease in resource prices and income stayed constant.
   c. There was an increase in resource prices and income decreased.
   d. There was an increase in resource prices and income increased.

   ANS: B  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application
42. Refer to Exhibit 3-2. Suppose equilibrium is at point A. Something then changes and equilibrium becomes point C. Which of the following is consistent with the change in equilibrium from point A to C (assuming that good X is a normal good)?
   a. There was an increase in income and production technology advanced.
   b. There was a decrease in income and production technology advanced.
   c. There was an increase in the price of a substitute and an increase in wages.
   d. There was a decrease in the price of a complement and an increase in wages.

   ANS: A  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

43. Refer to Exhibit 3-2. Suppose equilibrium is at point A. Something then changes and equilibrium becomes point C. Which of the following is consistent with the change in equilibrium from point A to C (assuming that good X is a normal good)?
   a. There was a decrease in the number of buyers and business taxes increased.
   b. There was an increase in the number of buyers and business taxes decreased.
   c. There was an increase in the number of buyers and business taxes increased.
   d. There was a decrease in the number of buyers and business taxes decreased.

   ANS: B  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application  NOT: New

44. Refer to Exhibit 3-2. Suppose equilibrium is at point C. Something then changes and equilibrium becomes point B. Which of the following is consistent with the change in equilibrium from point C to B (assuming that good X is a normal good)?
   a. There was an increase in resource prices and income stayed constant.
   b. There was a decrease in resource prices and income stayed constant.
   c. There was an increase in resource prices and income decreased.
   d. There was a decrease in resource prices and income increased.

   ANS: A  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application  NOT: New

45. A rightward shift in the demand curve for tennis balls could be caused by
   a. a fall in the price of tennis balls.
   b. a fall in the price of tennis rackets.
   c. a rise in the price of tennis lessons.
   d. a fall in income, assuming tennis balls are a normal good.

   ANS: B  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

46. An increase in the price of good B caused an increase in the demand for good C. This indicates that
   a. B and C are complements.
   b. B and C are substitutes.
   c. B and C are neither substitutes nor complements.
   d. B and C are normal goods.

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Refer to Exhibit 3-3. A movement from point Z to point W would have been the result of
a. a reduction in the price of good Y.
b. an increase in taxes paid by the producers of good Y.
c. a decline in technology in the production of good Y.
d. an increase in the number of buyers of good Y.

ANS: A  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application  NOT: New

Refer to Exhibit 3-3. A movement from point W to point Z would have been the result of
a. a reduction in the price of good Y.
b. an increase in the number of buyers in the area where good Y is being sold.
c. a decrease in business taxes paid by the producers of good Y.
d. a decrease in the number of buyers in the area where good Y is being sold.
e. an increase in the price of good Y.

ANS: E  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application  MSC: New

Refer to Exhibit 3-3. A movement from point V to point W could not have been the result of
a. an increase in the price of good Y.
b. an increase in good Y buyers’ income (assuming that good Y is an inferior good).
c. an increase in the price of a complement to good Y.
d. a decrease in the number of buyers of good Y.
e. a decrease in good Y buyers’ income (assuming that good Y is a normal good).

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50. Refer to Exhibit 3-3. A shift in demand from \( D_1 \) to \( D_2 \) can NOT occur from a change in the
   a. population.
   b. price of a substitute for good Y.
   c. average income of good Y buyers.
   d. price of good Y.

ANS: D   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

51. If the supply of and demand for a product both decrease, then equilibrium
   a. quantity and equilibrium price must both decline.
   b. quantity must decline, but equilibrium price may either rise, fall, or remain unchanged.
   c. price must fall, but equilibrium quantity may either rise, fall, or remain unchanged.
   d. quantity must fall and equilibrium price must rise.

ANS: B   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

Exhibit 3-4

52. Refer to Exhibit 3-4. A price of $6 in the market will result in a
   a. shortage of 10 units.
   b. surplus of 10 units.
   c. surplus of 5 units.
   d. shortage of 5 units.

ANS: B   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

53. Refer to Exhibit 3-4. At a price of $2 _____________ units will be exchanged.
   a. 5
   b. 10

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54. Refer to Exhibit 3-4. At a price of $6 _______________ units will be exchanged.
   a. 5
   b. 10
   c. 15
   d. 20
   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

55. Refer to Exhibit 3-4. A price of $2 in the market will result in a
   a. shortage of 10 units.
   b. surplus of 10 units.
   c. surplus of 5 units.
   d. shortage of 5 units.
   ANS: A  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

56. Refer to Exhibit 3-4. If this is a competitive market, price and quantity will gravitate toward
   a. $6 and 10 units, respectively.
   b. $6 and 20 units, respectively.
   c. $4 and 15 units, respectively.
   d. $2 and 15 units, respectively.
   ANS: C  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Equilibrium
   KEY: Bloom's: Application

57. Refer to Exhibit 3-4. A price of $4 in the market will result in a
   a. shortage of 10 units.
   b. surplus of 10 units.
   c. surplus of 5 units.
   d. shortage of 5 units.
   e. none of the above
   ANS: E  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

58. Given that frozen yogurt and ice cream are substitutes, a shift in preferences in favor of yogurt would
   be predicted to do all of the following EXCEPT
   a. raise the equilibrium price of frozen yogurt.
   b. increase the quantity supplied of frozen yogurt.

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c. increase the supply of ice cream.
d. increase the demand for frozen yogurt.

ANS: C  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

59. A decrease in the expected price of corn would likely do the following to the current supply and demand for corn:
   a. increase both the demand and the supply.
   b. decrease both the demand and the supply.
   c. increase the demand, but decrease the supply.
   d. increase the supply, but decrease the demand.

ANS: D  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

60. An increase in the expected price of corn would likely do the following to the current supply and demand for corn:
   a. increase both the demand and the supply.
   b. decrease both the demand and the supply.
   c. increase the demand, but decrease the supply.
   d. increase the supply, but decrease the demand.

ANS: C  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

61. In moving along a demand curve, which of the following is NOT held constant?
   a. the prices of substitute goods
   b. the prices of complementary goods
   c. consumer incomes
   d. the price of the good for which the demand curve is relevant

ANS: D  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

62. An "increase in the quantity demanded" means that
   a. the demand curve has shifted to the right.
   b. the supply curve has shifted to the left.
   c. price has declined and consumers therefore want to purchase more of the good.
   d. given supply, the price of the good can be expected to rise.

ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

63. A "decrease in the quantity demanded" means that
   a. the demand curve has shifted to the right.
   b. the supply curve has shifted to the left.
64. An "increase in demand" means that
a. the demand curve has shifted to the left.
  b. price has declined and consumers want to purchase more of the good.
  c. the demand curve has shifted to the right.
  d. the price of the good can be expected to decline, assuming supply stays constant.

ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

65. A "decrease in demand" means that
a. the demand curve has shifted to the left.
  b. price has declined and consumers want to purchase more of the good.
  c. the demand curve has shifted to the right.
  d. the price of the good can be expected to decline, assuming supply stays constant.

ANS: A  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

Exhibit 3-5

66. Refer to Exhibit 3-5. In the market shown, if equilibrium was originally at point Z and the new equilibrium is now at point V, this change may have been caused by
a. a decrease in consumers’ income (assuming that this is an inferior good) and a simultaneous decline in technology in the production of this good.
  b. an increase in consumers’ income (assuming that this is an inferior good) and a simultaneous improvement in technology in the production of this good.
  c. a decrease in consumers’ income (assuming that this is an inferior good) and no change in supply.
  d. an increase in consumers’ income (assuming that this is an inferior good) and no change in supply.

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67. Refer to Exhibit 3-5. In the market shown, a rightward shift in supply from \( S_1 \) to \( S_2 \) could have been caused by
   a. a decline in the number of buyers in the market.
   b. a decline in the price of a substitute good.
   c. a decrease in income (assuming the good is a normal good).
   d. the granting of a subsidy to the producer.
   e. none of the above

   ANS: D  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

68. Refer to Exhibit 3-5. In the market shown, a rightward shift in demand from \( D_1 \) to \( D_2 \) could have been caused by
   a. an increase in the number of sellers in the market.
   b. an improvement in technology in the production of this good.
   c. a decrease in buyers’ income (assuming the good is an inferior good).
   d. a decrease in buyers’ income (assuming the good is a normal good).
   e. a and b

   ANS: C  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

69. Refer to Exhibit 3-5. In the market shown, if equilibrium was originally at point W and is now at point X, the new equilibrium price is \( \underline{\qquad} \) it was originally and the new equilibrium quantity is \( \underline{\qquad} \) it was originally.
   a. greater than; greater than
   b. less than; greater than
   c. greater than; less than
   d. less than; less than

   ANS: A  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

70. Refer to Exhibit 3-5. In the market shown, if equilibrium was originally at point V and is now at point Z, the new equilibrium price is \( \underline{\qquad} \) it was originally and the new equilibrium quantity is \( \underline{\qquad} \) it was originally.
   a. greater than; greater than
   b. less than; greater than
   c. greater than; less than
   d. less than; less than

   ANS: D  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand

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71. Refer to Exhibit 3-6. If an increase in income causes the demand for good X to shift from \( D_1 \) to \( D_3 \), then good X is
   a. a normal good.
   b. an inferior good.
   c. a substitute good.
   d. a complementary good.
   e. a neutral good.

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

72. Refer to Exhibit 3-6. If a decrease in income causes the demand for good X to shift from \( D_1 \) to \( D_2 \), then good X is
   a. a normal good.
   b. an inferior good.
   c. a substitute good.
   d. a complementary good.
   e. a neutral good.

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

73. Refer to Exhibit 3-6. If an increase in income causes the demand for good X to shift from \( D_1 \) to \( D_2 \), then good X is
   a. a normal good.
   b. an inferior good.
   c. a substitute good.
   d. a complementary good.
   e. a neutral good.

   ANS: A  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand

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74. Refer to Exhibit 3-6. If an increase in the price of good Y causes the demand for good X to shift from \( D_1 \) to \( D_2 \), goods X and Y are
a. normal goods.
\( \)b. inferior goods.
\( \)c. substitutes.
\( \)d. complements.
\( \)e. neutral goods.
ANS: C  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

75. Refer to Exhibit 3-6. If \( D_1 \) is the relevant demand curve, a decrease in the price of good X may cause
a. demand to shift from \( D_1 \) to \( D_2 \).
\( \)b. demand to shift from \( D_1 \) to \( D_3 \).
\( \)c. a movement along \( D_1 \) from point A to point B.
\( \)d. a movement along \( D_1 \) from point A to point C.
ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

76. Refer to Exhibit 3-6. If \( D_1 \) is the relevant demand curve, an increase in the price of good X may cause
a. demand to shift from \( D_1 \) to \( D_2 \).
\( \)b. demand to shift from \( D_1 \) to \( D_3 \).
\( \)c. a movement along \( D_1 \) from point A to point B.
\( \)d. a movement along \( D_1 \) from point A to point C.
ANS: D  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

**Exhibit 3-7**

77. Refer to Exhibit 3-7. If \( S_1 \) is the relevant supply curve, a decrease in the price of a resource that is necessary for the production of good X causes

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78. Refer to Exhibit 3-7. If $S_1$ is the relevant supply curve, an increase in the price of good X may cause
a. the supply of good X to shift from $S_1$ to $S_2$
   ANS: A
b. the supply of good X to shift from $S_1$ to $S_3$
   c. a movement along $S_1$ perhaps from point A to point B.
   d. a movement along $S_1$ perhaps from point A to point C.
   e. no change in the quantity supplied of good X.
   ANS: D

79. Refer to Exhibit 3-7. If $S_1$ is the relevant supply curve, a decline in technology in the production of good X causes
a. the supply of good X to shift from $S_1$ to $S_2$
   ANS: B
b. the supply of good X to shift from $S_1$ to $S_3$
   c. a movement along $S_1$ perhaps from point A to point B.
   d. a movement along $S_1$ perhaps from point A to point C.
   e. no change in the supply of good X.
   ANS: B

Exhibit 3-8
80. Refer to Exhibit 3-8. Equilibrium price and quantity are
   a. $3 and 25 units.
   b. $3 and 15 units.
   c. $5 and 15 units.
   d. $5 and 25 units.
   e. $1 and 25 units.

   ANS: B  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Equilibrium
   KEY: Bloom's: Comprehension

81. Refer to Exhibit 3-8. A price of $5 will result in a _______________ in this market which will cause the price of the product to gravitate _______________.
   a. shortage; downward.
   b. shortage; upward.
   c. surplus; downward.
   d. surplus; upward.

   ANS: C  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Equilibrium
   KEY: Bloom's: Comprehension

82. Refer to Exhibit 3-8. A price of $1 will result in a _______________ in this market which will cause the price of the product to gravitate _______________.
   a. shortage; downward.
   b. shortage; upward.
   c. surplus; downward.
   d. surplus; upward.

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Equilibrium
   KEY: Bloom's: Comprehension

83. Refer to Exhibit 3-8. A shortage exists at any price below
   a. $5.00.
   b. $4.50.
   c. $4.00.
   d. $3.50.
   e. $3.00.

   ANS: E  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

84. Refer to Exhibit 3-8. A surplus exists at any price above
   a. $2.00.
   b. $4.50.
   c. $4.00.
   d. $3.50.
   e. $3.00.

   ANS: E  PTS: 1  DIF: Difficulty: Easy

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85. Refer to Exhibit 3-9. A severe recession has sharply decreased the incomes of consumers. Knowing that X is a normal good, you expect a movement in the market for X from
   a. A to B.
   b. E to F.
   c. F to E.
   d. B to A.

ANS: D  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

86. Refer to Exhibit 3-9. X is produced using input Z. If the price of Z rises, you expect a movement in the market for X from
   a. E to F.
   b. A to B.
   c. F to E.
   d. B to A.

ANS: C  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

87. Refer to Exhibit 3-9. Consumers view X and Y as substitutes. If the price of Y increases, you expect a movement in the market for X from
   a. F to E.
   b. A to B.
   c. E to F.
   d. B to A.

ANS: B  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application
88. Refer to Exhibit 3-9. A wave of immigrants who love to consume X enters the country. You expect a movement in the market for X from
   a. $S_1$ to $S_2$.
   b. $D_2$ to $D_1$.
   c. $D_1$ to $D_2$.
   d. $S_2$ to $S_1$.

   ANS: C   PTS: 1

89. Refer to Exhibit 3-9. The production of X is more profitable than it used to be. A number of producers enter the business of producing X. You expect a movement in the market for X from
   a. $S_2$ to $S_1$.
   b. $D_2$ to $D_1$.
   c. $D_1$ to $D_2$.
   d. $S_1$ to $S_2$.

   ANS: D   PTS: 1

90. A market is said to be in disequilibrium if
   a. it exhibits either a surplus or a shortage.
   b. the number of units that individuals are willing to buy exceeds the number of units they can afford.
   c. it is a market for an inferior good.
   d. none of the above

   ANS: A   PTS: 1

91. Refer to Exhibit 3-10. $20 is the
a. equilibrium price.
b. market-clearing price.
c. price at which there is neither a surplus nor a shortage.
d. all of the above

ANS: D   PTS: 1   DIF: Difficulty: Easy
NAT: BUSPROG: Analytic   LOC: DISC: Equilibrium
KEY: Bloom's: Comprehension

92. Refer to Exhibit 3-10. 300 units of X will be exchanged in this market if the price is
a. $30.
b. $20.
c. $10.
d. any of the above
e. none of the above

ANS: E   PTS: 1   DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

93. Refer to Exhibit 3-10. At a price of $10 _________ units of the good will be exchanged.
a. 100
b. 300
c. 200
d. none of the above

ANS: A   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

94. Refer to Exhibit 3-10. 100 units of X will be exchanged in this market if the price is
a. $30.
b. $20.
c. $10.
d. a or c
e. none of the above

ANS: D   PTS: 1   DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

95. An economic concept that explains why Disney World charges more for the first day of admission than they do for each additional day is the law of
a. supply.
b. demand and supply.
c. diminishing marginal utility.
d. diminishing returns.
e. none of the above

ANS: C   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Utility and consumer choice
KEY: Bloom's: Comprehension   MSC: Economics 24/7

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96. Which of the following pairs of goods would be most likely to be complements?
   a. butter and margarine.
   b. peanuts and peanut butter.
   c. DVD's and DVD players.
   d. hiking boots and tennis shoes.
   e. All of the above

ANS: C  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

97. Which of the following pairs of goods would be most likely to be substitutes?
   a. pasta and pasta sauce
   b. butter and margarine
   c. chips and salsa
   d. tires and automobiles
   e. all of the above

ANS: B  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

98. An increase in the number of sellers will, ceteris paribus,
   a. increase equilibrium price and quantity.
   b. increase equilibrium price and decrease equilibrium quantity.
   c. decrease equilibrium price and increase equilibrium quantity.
   d. decrease equilibrium price and quantity.
   e. increase demand.

ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

99. A(n) ____________ good is one in which as income rises or falls, there is no change in the demand
    for the good.
   a. normal
   b. inferior
   c. neutral
   d. substitute
   e. complementary

ANS: C  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

Exhibit 3-15

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100. Refer to Exhibit 3-15. In Exhibit 3-15,
   a. there is a shortage of doctors at fee $F_1$.
   b. there is a surplus of doctors at fee $F_1$.
   c. $Q_3$ doctors are employed at fee $F_1$.
   d. $Q_2$ doctors are employed at fee $F_1$.
   e. both a and c

ANS: A   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

101. Refer to Exhibit 3-15. In Exhibit 3-15,
   a. $Q_2$ doctors are employed at fee $F_1$.
   b. $Q_3$ doctors are employed at fee $F_1$.
   c. $Q_1$ doctors are employed at fee $F_1$.
   d. the number of doctors employed cannot be determined at any fee.

ANS: C   PTS: 1   DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

102. Refer to Exhibit 3-15. In Exhibit 3-15, at fee $F_1$ there is a
   a. shortage of $(Q_3 - Q_1)$ doctors.
   b. surplus of $(Q_3 - Q_1)$ doctors.
   c. surplus of $(Q_2 - Q_1)$ doctors.
   d. shortage of $(Q_2 - Q_1)$ doctors.

ANS: A   PTS: 1   DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

Exhibit 3-16

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103. Refer to Exhibit 3-16. Which of the graphs best represents the market for theater tickets that are already sold out on the day of the performance?
   a. (1)  
   b. (2)  
   c. (3)  
   d. (4)  
   ANS: C  
   PTS: 1  
   DIF: Difficulty: Moderate  
   NAT: BUSPROG: Analytic  
   LOC: DISC: Supply and demand  
   KEY: Bloom's: Application

104. Refer to Exhibit 3-16. If there are empty seats for a basketball game at the price $P^*$, the situation is best depicted on graph
   a. (1), with $P^* = P_1$.  
   b. (2), with $P^* = P_1$.  
   c. (3), with $P^* = P_2$.  
   d. (3), with $P^* = P_3$.  
   e. (4), with $P^* = P_1$.  
   ANS: C  
   PTS: 1  
   DIF: Difficulty: Challenging  
   NAT: BUSPROG: Analytic  
   LOC: DISC: Supply and demand  
   KEY: Bloom's: Application

105. Refer to Exhibit 3-16. Which of the following is false?
   a. Graph (1): There is a shortage of this good when the price is equal to $P_3$.  
   b. Graph (2): As supply increases, equilibrium quantity remains constant.

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c. Graph (3): As demand increases, equilibrium price remains constant.
d. Graph (4): As supply changes, equilibrium price stays the same.

ANS: C    PTS: 1    DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
KEY: Bloom's: Application

106. As Jamal's income rises, his demand for DVD rentals does not change. It follows that, for Jamal, DVD rentals are a(n)
   a. normal good.
   b. inferior good.
   c. neutral good.
   d. substitute good.
   e. complementary good.

ANS: C    PTS: 1    DIF: Difficulty: Easy
NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

107. In the supply-and-demand diagram of the market for peanut butter, the equilibrium point has moved down and to the right. What could have caused this?
   a. a fall in the price of peanuts
   b. a rise in the price of peanuts
   c. a rise in income, assuming that peanut butter is an inferior good
   d. a shift in preferences toward peanut butter

ANS: A    PTS: 1    DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
KEY: Bloom's: Application

108. In the supply-and-demand diagram of the market for peanut butter, the equilibrium point has moved up and to the right. What could have caused this?
   a. a fall in the price of peanuts
   b. a rise in the price of peanuts
   c. a rise in income, assuming that peanut butter is an inferior good
   d. a shift in preferences toward peanut butter
   e. none of the above

ANS: D    PTS: 1    DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand
KEY: Bloom's: Application

109. Jerry has $50,000 in his savings account and the average new car price is $23,000. Does Jerry have a demand for a new car?
   a. Yes, since Jerry can afford a new car.
   b. Not necessarily. Jerry has the ability to buy a new car, but we don't know if he also has the willingness to buy a new car.
   c. Yes, since Jerry's savings is more than double the average new car price.
   d. none of the above

ANS: B    PTS: 1    DIF: Difficulty: Easy
NAT: BUSPROG: Analytic    LOC: DISC: Supply and demand

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110. ________ is the number of units that individuals are ________ to buy at a particular price during some time period.
   a. Demand; willing and able
   b. Supply; willing and able
   c. Quantity demanded; willing and able
   d. Demand; able
   e. Quantity demanded; willing

   ANS: C   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

111. Demand refers to
   a. how much of a good people are willing and able to buy at a particular price.
   b. the different quantities of a good people are willing and able to buy at different prices.
   c. the different quantities of a good people are willing and able to buy at a particular price.
   d. how much of a good people are willing to buy at different prices.
   e. none of the above

   ANS: B   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

112. Which of the following is consistent with the law of demand?
   a. People substitute higher-priced goods for higher-quality goods.
   b. People substitute some higher-priced goods for other higher-priced goods.
   c. People substitute lower-priced goods for higher-priced goods.
   d. People substitute some lower-priced goods for other lower-priced goods.

   ANS: C   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

113. If price is on the vertical axis and quantity demanded is on the horizontal axis, why is a demand curve downward sloping (left to right)?
   a. Because a demand curve is the graphical representation of the law of demand, which specifies an inverse relationship between price and supply, ceteris paribus.
   b. Because a demand curve is the graphical representation of the law of demand, which specifies a direct relationship between price and quantity supplied, ceteris paribus.
   c. Because a demand curve is the graphical representation of the law of demand, which specifies an inverse relationship between price and demand, ceteris paribus.
   d. Because a demand curve is the graphical representation of the law of demand, which specifies a direct relationship between price and demand, ceteris paribus.
   e. Because a demand curve is the graphical representation of the law of demand, which specifies an inverse relationship between price and quantity demanded, ceteris paribus.

   ANS: E   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

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114. In the market for good X there are three buyers, Adam, Bill, and Carolyn. Adam buys 3 units of good X at $4, Bill buys 7 units of good X at $4, and Carolyn buys 8 units of good X at $4. A point on the market demand curve consists of the following price-quantity combination:
   a. $4, 10
   b. $4, 18
   c. $4, 15
   d. $5, 8
   e. none of the above

   ANS: B   PTS: 1   DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

115. Which of the following statements is true?
   a. To an economist, demand is different from quantity demanded.
   b. A demand schedule is the numerical tabulation of the law of demand.
   c. A demand curve is the graphical representation of the direct relationship between price and quantity demanded.
   d. a and b
   e. a, b, and c

   ANS: D   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

116. Consider a point on a market demand curve. The point represents
   a. a single price and the quantity demanded by an individual buyer.
   b. a single price and the sum of the quantities demanded by all buyers.
   c. various prices and various quantities demanded.
   d. a single price and the quantity demanded by an individual buyer at that price and all other prices.
   e. a and c

   ANS: B   PTS: 1   DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

117. If the demand for computer software rises as incomes rise, then computer software is a (an)
   a. inferior good
   b. substitute (good) for computers
   c. normal good
   d. complement (good) for computers
   e. c and d

   ANS: C   PTS: 1   DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

118. There are two universities, A and B, in a city. Tuition rises at University A and, as a result, the demand for attending University B rises. It follows that educational services at the two universities are
   a. complements.
   b. normal goods.

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c. inferior goods.
d. substitutes.
e. none of the above

ANS: D  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

119. Which of the following statements is false?
   a. The shift factors for the supply curve are: income, preferences, prices of related goods, the
      number of buyers, and expectations of future price.
   b. A change in (own) price changes the quantity supplied of a good.
   c. A change in demand is graphically represented by a shift in the demand curve.
   d. A change in quantity demanded is represented by a movement along a given demand
      curve.

ANS: A  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension
NOT: New

120. If potential buyers of good X expect the price of good X will soon fall, then the current
   a. demand for good X will rise.
   b. demand for good X will remain unchanged.
   c. demand for good X will fall.
   d. quantity demanded of good X will fall.
   e. quantity demanded of good X will rise.

ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

121. Which of the following statements represents a correct and sequentially accurate economic
   explanation?
   a. X and Y are substitutes. The price of X falls, the quantity demanded of X rises, and the
      demand for Y rises.
   b. X and Y are substitutes. The price of X rises, the demand for X falls, and the demand for Y
      rises.
   c. X and Y are substitutes. The price of X falls, the demand for X rises, and the quantity
      demanded of Y rises.
   d. X and Y are substitutes. The price of X falls, the quantity demanded of X rises, and the
      demand for Y falls.
   e. X and Y are complements. The price of X falls, the quantity demanded of X rises, and the
      demand for Y falls.

ANS: D  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Analysis

122. Which of the following statements represents a correct and sequentially accurate economic
   explanation?
   a. X is an inferior good and Y is a substitute for X. Income rises, the demand for X falls, the
      price of X falls, and the demand for Y rises.

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b. X is an inferior good and Y is a substitute for X. Income rises, the demand for X falls, the price of X falls, and the demand for Y falls.

c. X is an inferior good and Y is a substitute for X. Income falls, the demand for X rises, the price of X rises, and the demand for Y falls.

d. X is an inferior good and Y is a substitute for X. Income rises, the quantity demanded of X rises, the price of X rises, and the demand for Y falls.

e. none of the above

ANS: B  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Analysis

123. In year 1 the average price of X is $10, and in year 2 the average price of X is $23. Still, consumers buy more units of X in year 2 than in year 1. It follows that

a. the law of supply does not hold for good X.

b. demand for good X could be higher in year 2 than in year 1.

c. supply of good X could be less in year 2 than in year 1.

d. good X buyers have received an increase in income between year 1 and year 2, and good X is a normal good.

e. b and d

ANS: E  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

124. Which of the following statements best represents the law of supply?

a. Price and quantity supplied are inversely related.

b. Price and quantity supplied are directly related.

c. Price and quantity supplied are inversely related, ceteris paribus.

d. Price and quantity supplied are directly related, ceteris paribus.

e. Price and supply are directly related, ceteris paribus.

ANS: D  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

125. Which of the following statements is false?

a. An upward-sloping supply curve graphically represents the law of supply.

b. A vertical supply curve graphically represents the law of supply.

c. If income rises and good X is a normal good, then the demand for good X will rise.

d. If income falls and good Y is an inferior good, then the demand for good Y will rise.

ANS: B  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

126. A vertical supply curve represents:

a. an inverse relationship between price and quantity supplied.

b. an independent relationship between price and quantity supplied.

c. an independent relationship between price and supply.

d. a direct relationship between price and quantity supplied.

e. a direct relationship between price and supply.

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127. The government imposes a $2.50 per-unit tax on the production of good X. As a result the
a. supply curve for good X shifts leftward and the price of good X rises.
b. quantity supplied of good X falls and the price of good X rises.
c. demand curve for good X shifts leftward and the price of good X falls.
d. supply curve for good X shifts rightward and the price of good X falls.
e. supply curve for good X shifts leftward and the price of good X falls.

ANS: A     PTS: 1     DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic     LOC: DISC: Supply and demand
KEY: Bloom's: Application

128. Which of the following statements is *false*?
   a. A change in the price of good X will usually change the quantity supplied of good X, *ceteris paribus*.
   b. A change in the number of sellers of a good can change the supply of that good.
   c. Price and quantity supplied are directly related.
   d. A vertical supply curve represents a direct relationship between price and quantity supplied.

ANS: D     PTS: 1     DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic     LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

129. If a supply curve shifts rightward, this means
   a. suppliers are willing and able to offer less of the good for sale at every price.
   b. suppliers are willing and able to offer more of the good for sale at every price.
   c. quantity supplied is greater at every price.
   d. suppliers are willing and able to offer more of the good for sale only at a particular price.
   e. b and c

ANS: E     PTS: 1     DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic     LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

130. If a demand curve shifts rightward, this means
   a. quantity demanded is greater only at one particular price.
   b. quantity demanded is greater at every price.
   c. buyers are willing and able to purchase more of the good at every price.
   d. buyers are willing and able to purchase less of the good at every price.
   e. b and c

ANS: E     PTS: 1     DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic     LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension
131. One reads the following in a newspaper: "Today the president and Congress agreed to impose new restrictive quotas on Japanese cars coming into the country." As a result, an economist would predict that the
a. supply of cars in the country will remain the same and the (average) price of cars will fall.
b. supply of cars in the country will fall and the (average) price of cars will rise.
c. supply of cars in the country will rise and the (average) price of cars will fall.
d. demand for cars in the country will fall and the (average) price of cars will rise.
e. demand for cars in the country will rise and the (average) price of cars will rise.

ANS: B  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

132. An economist says, "Technological advances have the power to lower the prices of many of the goods we buy." Here is how this works:

a. Technological advances lead to lower demand, which leads to lower prices.
b. Technological advances lead to greater supply, which leads to lower prices.
c. Technological advances lead to greater quantity supplied, which leads to lower prices.
d. Technological advances lead to lower taxes, which lead to greater supply, which leads to lower prices.
e. Technological advances lead to higher taxes, which lead to fewer subsidies, which lead to greater supply, which leads to lower prices.

ANS: B  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

133. One point on a market supply curve represents $4 and 100 units quantity supplied. If there are three suppliers, and at a price of $4 one of the suppliers supplies 23 units, then which of the following combinations of price and quantity supplied might hold for the other two suppliers?

a. At $4, quantity supplied could be 40 units for one supplier and 27 for the other.
b. At $4, quantity supplied could be 33 units for one supplier and 27 for the other.
c. At $4, quantity supplied could be 40 units for one supplier and 37 for the other.
d. At $4, quantity supplied could be 77 units for one supplier and 10 for the other.
e. There is not enough information to answer this question.

ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

134. The price of X was $10 in year 1 and $14 in year 2. Which of the following could be the correct reason for the rise in price?

a. The demand for X was higher in year 2 than in year 1, ceteris paribus.
b. The supply of X was lower in year 2 than in year 1, ceteris paribus.
c. The demand was higher, and the supply was lower, in year 2 than in year 1.
d. a and b
e. a, b, and c

ANS: E  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

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135. Labor is a resource that is necessary to produce many goods. "If the price of labor falls," says the economist, "the prices of goods will soon follow." How does this work?  
   a. If the price of labor falls, the supply of goods rises, and the prices of those goods fall.  
   b. If the price of labor falls, the quantity supplied of goods rises, and the prices of those goods fall.  
   c. If the price of labor falls, the demand for goods falls, and the prices of those goods fall.  
   d. If the price of labor falls, the demand for goods rises, and the prices of those goods fall.  
   e. If the price of labor falls, the supply of goods falls, and the prices of those goods fall.  

ANS: A   PTS: 1   DIF: Difficulty: Challenging  
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand  
KEY: Bloom's: Application

136. One reads in the newspaper: "Today the president and Congress enacted a law which adds new requirements that child care providers must meet before they can offer their services for sale." As a result, an economist would predict that  
   a. the supply of child care services will increase, thus lowering the price of child care services.  
   b. the supply of child care services will be unaffected by the stiffer requirements and therefore the price of child care services will not change.  
   c. the demand for child care services will fall because people who buy child care services do not want stiffer requirements placed on child care providers.  
   d. the supply of child care services will decrease, thus raising the price of child care services.  
   e. none of the above  

ANS: D   PTS: 1   DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand  
KEY: Bloom's: Application

137. If the demand for a good increases by more than the supply of the good increases, then the good’s equilibrium price will _______ and its equilibrium quantity will _______.  
   a. rise; fall  
   b. rise; rise  
   c. fall; fall  
   d. fall; rise  

ANS: B   PTS: 1   DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand  
KEY: Bloom's: Comprehension

138. If the demand for a good falls by less than the supply of the good rises, then the good’s equilibrium price will _______ and its equilibrium quantity will _______.  
   a. rise; fall  
   b. rise; rise  
   c. fall; fall  
   d. fall; rise  

ANS: D   PTS: 1   DIF: Difficulty: Moderate  
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand  
KEY: Bloom's: Comprehension
139. If the demand for a good rises by more than the supply of the good falls, then the good’s equilibrium price will __________ and its equilibrium quantity will __________.
   a. rise; fall
   b. rise; rise
   c. fall; fall
   d. fall; rise
   ANS: B     PTS: 1     DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic      LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

140. A change in price will lead to a change in __________ and to a change in __________, while a change in preferences will lead to a change in __________ and a change in the prices of relevant resources will lead to a change in __________.
   a. quantity supplied; demand; income; supply
   b. demand; quantity supplied; supply; quantity demanded
   c. quantity supplied; supply; quantity supplied; demand
   d. quantity supplied; quantity demanded; demand; supply
   e. quantity supplied; quantity demanded; supply; demand
   ANS: D     PTS: 1     DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic      LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

141. The equilibrium price in market A is $24. The current price in market A is $21. At this price, a(n) __________ exists in market A.
   a. surplus
   b. shortage
   c. excess supply
   d. excess demand
   e. b and d
   ANS: E     PTS: 1     DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic      LOC: DISC: Supply and demand
   KEY: Bloom's: Application

142. Which of the following statements is false?
   a. At equilibrium in a market, scarcity does not exist.
   b. If there is a shortage of 100 units at a price of $2 per unit, the shortage will be greater than 100 units at a price of $1 per unit.
   c. If there is a surplus of 30 units at a price of $3, the surplus will be less than 30 units (or even nonexistent) at a price of $2.
   d. If there is a surplus, suppliers will not be able to sell all they had hoped to sell at a particular price.
   ANS: A     PTS: 1     DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic      LOC: DISC: Supply and demand
   KEY: Bloom's: Application

143. In year 1 the price of good X is $10 and 100 units are bought and sold. In year 2 the price of good X is $13 and 230 units are bought and sold. What can explain this?
   a. The supply of good X was higher in year 2 than in year 1 and the demand for good X was
the same in year 2 as in year 1.
b. The demand for good X was higher in year 2 than in year 1 and the supply of good X was the same in year 2 as in year 1.
c. Both the demand for, and supply of, good X were higher in year 2 than in year 1.
d. b or c
e. a, b, or c

ANS: D  PTS:  1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

144. If computers and software are complements, then
a. a fall in the price of computers will increase the demand for software and, ceteris paribus, the price of software will rise.
b. a rise in the price of computers will decrease the demand for software and, ceteris paribus, the price of software will rise.
c. a fall in the price of computers will decrease the demand for software and, ceteris paribus, the price of software will fall.
d. a rise in the price of software will increase the demand for computers and, ceteris paribus, the price of computers will rise.
e. a fall in the price of software will decrease the demand for computers and, ceteris paribus, the price of computers will fall.

ANS: A  PTS:  1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

145. Which of the following is descriptive of the law of diminishing marginal utility?
a. The third hamburger consumed provides less utility than the second hamburger consumed.
b. The third hamburger is priced higher than the first hamburger.
c. As price falls, quantity demanded rises, ceteris paribus.
d. The price of a good rises as the costs of producing that good rise.
e. none of the above

ANS: A  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application  NOT: New

146. Economists state that the __________ utility a person receives from a unit of a good, the __________ the price he or she is willing to pay for it.
a. more; lower
b. more; higher
c. less; higher
d. less; lower
e. b and d

ANS: E  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension  NOT: New

147. If the U.S. government imposes a more restrictive import quota on Japanese video gaming systems, the __________ curve for Japanese video gaming systems in the U.S. will shift __________.
a. supply; leftward  
b. supply; rightward  
c. demand; leftward  
d. demand; rightward

ANS: A  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

148. Which economic concept is the reason behind Disney World’s pricing policy involving discounts for multiple-day passes?
   a. the law of supply  
   b. the law of increasing opportunity cost  
   c. the law of diminishing marginal returns  
   d. the law of diminishing marginal utility

ANS: D  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension  MSC: Economics 24/7

149. If the price a buyer pays for a good is $50 and the maximum price she would be willing and able to pay is $53, then ___________ is _______________.
   a. producers’ surplus; $103  
   b. consumers’ surplus; $103  
   c. consumers’ surplus; $3  
   d. producers’ surplus; $3  
   e. consumers’ surplus; $40

ANS: C  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

150. If consumers’ surplus is $30 and the price paid for the good is $50, then the maximum price a buyer is willing and able to pay for the good is
   a. $80.  
   b. $30.  
   c. $50.  
   d. $20.  
   e. There is not enough information to answer the question.

ANS: A  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

151. If the maximum price a person is willing and able to pay for a good is $50, and consumers’ surplus is $20, then it follows that the price the buyer paid for the good is
   a. $20  
   b. $70  
   c. $50  
   d. $30  
   e. There is not enough information to answer the question.

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152. What is the definition of producers’ surplus?
   a. price received minus maximum selling price
   b. maximum selling price minus price received
   c. price received minus minimum selling price
   d. highest price minus lowest price
   e. none of the above

   ANS: C  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

153. If the producers’ surplus is $50, and the consumers’ surplus is $40, then what is the minimum selling price of the good?
   a. $10
   b. $40
   c. $50
   d. $90
   e. There is not enough information to answer the question.

   ANS: E  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

154. One can determine producers’ surplus if the minimum selling price and the _____________ is known.
   a. price received
   b. price paid
   c. tax paid
   d. tax received
   e. a and c

   ANS: A  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

155. One can determine the consumers’ surplus if the _____________ is known
   a. tax paid
   b. maximum buying price
   c. price paid
   d. b and c
   e. a and b

   ANS: D  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

156. At a price of $9.99, Danielle buys 3 digital books per month. When the price decreases to $7.99, Danielle buys 4 digital books per month. Jason says that Danielle's demand for digital books has increased. Is Jason correct?

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a. Yes, Jason is correct.
b. No, Jason is incorrect. Danielle's demand has decreased.
c. No, Jason is incorrect. Danielle's quantity demanded has decreased, but her demand has stayed the same.
d. No, Jason is incorrect. Danielle's quantity demanded has increased, but her demand has stayed the same.
e. No, Jason is incorrect. Danielle's quantity demanded has increased and her demand has decreased.

ANS: D       PTS:  1       DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

157. Resource X is necessary to the production of good Y. If the price of resource X falls,
   a. the supply curve of Y shifts leftward.
   b. the supply curve of Y shifts rightward.
   c. the supply curve of Y is unaffected.
   d. there is a movement down the supply curve of Y.
   e. there is a movement up the supply curve of Y.

ANS: B       PTS:  1       DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Application

158. At a price for which the quantity supplied exceeds the quantity demanded, a __________ is experienced, which pushes the price __________ toward its equilibrium value.
   a. surplus; downward
   b. surplus; upward
   c. shortage; downward
   d. shortage; upward

ANS: A       PTS:  1       DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

159. The “voluntary bumping plan” used by airlines to resolve the problem of overbooked flights was developed by economist
   a. Adam Smith.
   b. John Maynard Keynes.
   c. Alan Greenspan.
   d. Julian Simon.

ANS: D       PTS:  1       DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge   MSC: Economics 24/7

160. Suppose Smith wants one iPod no matter what the price is between $0 and $150, Jones wants one iPod no matter what the price is between $0 and $200, and Young wants one iPod no matter what the price is between $0 and $250. In this case, each individual buyer’s demand curve will be __________ and the market demand curve will be __________.
   a. downward sloping; vertical
   b. vertical; downward sloping
c. vertical; vertical
d. downward sloping; downward sloping

ANS: B  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application  MSC: Economics 24/7

161. One reason that helps to explain the law of demand is the law of
a. diminishing marginal utility.
b. diminishing marginal returns.
c. increasing opportunity costs.
d. supply.

ANS: A  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

162. Supply curves are ______________ upward sloping.
a. always
b. usually
c. rarely
d. never

ANS: B  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge

163. Resource X is necessary to the production of good Y. If the price of resource X falls, the equilibrium
price of Y will ____________ and the equilibrium quantity of Y will
a. rise; rise.
b. fall; fall.
c. fall; rise.
d. rise; fall.

ANS: C  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

164. Resource X is necessary to the production of good Y. If the price of resource X rises, the
____________ curve for good Y will shift ____________ resulting in a(n) ____________ in the
equilibrium price of Y and a(n) ____________ in the equilibrium quantity of Y.
a. supply; rightward; decrease; increase.
b. demand; leftward; decrease; decrease
c. demand; rightward; increase; increase
d. supply; leftward; increase; decrease
e. supply; leftward; increase; increase

ANS: D  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

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165. Good Y is an inferior good. If the average income of those who buy good Y rises, the _______ curve for good Y will shift _______ resulting in a(n) _______ in the equilibrium price of Y and a(n) _______ in the equilibrium quantity of Y.
   a. supply; rightward; decrease; increase.
   b. demand; leftward; decrease; decrease
   c. demand; rightward; increase; increase
   d. supply; leftward; increase; decrease
   e. supply; leftward; increase; increase

   ANS: B  PTS: 1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

166. Good X is a normal good. If the average income of those who buy good X rises, the _______ curve for good X will shift _______ resulting in a(n) _______ in the equilibrium price of X and a(n) _______ in the equilibrium quantity of X.
   a. supply; rightward; decrease; increase.
   b. demand; leftward; decrease; decrease
   c. demand; rightward; increase; increase
   d. supply; leftward; increase; decrease
   e. supply; leftward; increase; increase

   ANS: C  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

167. There is a technological improvement in the production of good X. As a result, the _______ curve for good X will shift _______ resulting in a(n) _______ in the equilibrium price of X and a(n) _______ in the equilibrium quantity of X.
   a. supply; rightward; decrease; increase.
   b. demand; leftward; decrease; decrease
   c. demand; rightward; increase; increase
   d. supply; leftward; increase; decrease
   e. supply; leftward; increase; increase

   ANS: A  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

168. One reason that helps to explain the law of supply is the law of
   a. diminishing marginal utility.
   b. diminishing marginal returns.
   c. decreasing opportunity costs.
   d. demand.

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension
169. When P = $5, the quantity demanded of a good is 30 units, and the quantity supplied of the good is 50 units. For every $1 decrease in the price of this good, quantity demanded rises by 5 units and quantity supplied falls by 5 units. The equilibrium price of this good is _________ and the equilibrium quantity of this good is ________ units.
   a. $3; 40
   b. $4; 35
   c. $2; 45
   d. $2; 35
   e. $3; 35

   ANS: A  PTS:  1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

170. When P = $65, the quantity demanded of a good is 80 units, and the quantity supplied of the good is 40 units. For every $10 increase in the price of this good, quantity demanded falls by 10 units and quantity supplied rises by 10 units. The equilibrium price of this good is _________ and the equilibrium quantity of this good is ________ units.
   a. $55; 30
   b. $75; 50
   c. $75; 70
   d. $85; 50
   e. $85; 60

   ANS: E  PTS:  1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

171. When income rises for the buyers of good X, the ____________ curve for good X will shift ____________.
   a. demand; rightward
   b. demand; leftward
   c. supply; rightward
   d. supply; leftward
   e. This question cannot be answered unless we know whether good X is a normal good, a neutral good, or an inferior good.

   ANS: E  PTS:  1  DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

Exhibit 3-11

<table>
<thead>
<tr>
<th>Units of Good X</th>
<th>Maximum Buying Price</th>
<th>Minimum Selling Price</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>$12</td>
<td>$6</td>
<td>(A)</td>
</tr>
<tr>
<td>2nd</td>
<td>11</td>
<td>7</td>
<td>(B)</td>
</tr>
<tr>
<td>3rd</td>
<td>10</td>
<td>8</td>
<td>(C)</td>
</tr>
<tr>
<td>4th</td>
<td>9</td>
<td>9</td>
<td>(D)</td>
</tr>
<tr>
<td>5th</td>
<td>8</td>
<td>10</td>
<td>(E)</td>
</tr>
</tbody>
</table>

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172. Refer to Exhibit 3-11. Fill in blanks (A) and (B) respectively with “Exchange” or “No Exchange” to indicate whether or not exchange would take place at the given prices.
   a. Exchange; Exchange
   b. Exchange; No Exchange
   c. No Exchange; Exchange
   d. No Exchange; No Exchange

   ANS: A   PTS: 1   DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

173. Refer to Exhibit 3-11. Fill in blanks (C) and (D) respectively with “Exchange” or “No Exchange” to indicate whether or not exchange would take place at the given prices.
   a. Exchange; Exchange
   b. Exchange; No Exchange
   c. No Exchange; Exchange
   d. No Exchange; No Exchange

   ANS: A   PTS: 1   DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

174. Refer to Exhibit 3-11. Fill in blanks (E) and (F) respectively with “Exchange” or “No Exchange” to indicate whether or not exchange would take place at the given prices.
   a. Exchange; Exchange
   b. Exchange; No Exchange
   c. No Exchange; Exchange
   d. No Exchange; No Exchange

   ANS: D   PTS: 1   DIF: Difficulty: Challenging
   NAT: BUSPROG: Analytic   LOC: DISC: Supply and demand
   KEY: Bloom's: Application

Exhibit 3-12

<table>
<thead>
<tr>
<th>Price</th>
<th>Aline</th>
<th>Bentley</th>
<th>Calvin</th>
<th>Daniel</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6</td>
<td>20</td>
<td>21</td>
<td>8</td>
<td>0</td>
<td>(A)</td>
</tr>
<tr>
<td>7</td>
<td>22</td>
<td>23</td>
<td>10</td>
<td>4</td>
<td>(B)</td>
</tr>
<tr>
<td>8</td>
<td>24</td>
<td>25</td>
<td>13</td>
<td>9</td>
<td>(C)</td>
</tr>
<tr>
<td>9</td>
<td>26</td>
<td>27</td>
<td>17</td>
<td>14</td>
<td>(D)</td>
</tr>
<tr>
<td>10</td>
<td>28</td>
<td>29</td>
<td>22</td>
<td>20</td>
<td>(E)</td>
</tr>
<tr>
<td>11</td>
<td>30</td>
<td>31</td>
<td>32</td>
<td>38</td>
<td>(F)</td>
</tr>
</tbody>
</table>

Assume that Aline, Bentley, Calvin, and Daniel are the only sellers in this market.

175. Refer to Exhibit 3-12. Fill in blanks (A) and (B) respectively with the market quantity supplied at each given price.

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176. Refer to Exhibit 3-12. Fill in blanks (C) and (D) respectively with the market quantity supplied at each given price.
   a. 17.75; 21.00
   b. 47; 52
   c. 50; 55
   d. 71; 84
   e. none of the above

   Ans: D  pts: 1  dif: Difficulty: Moderate
   nat: BUSPROG: Analytic  loc: DISC: Supply and demand
   key: Bloom's: Application  not: New

177. Refer to Exhibit 3-12. Fill in blanks (E) and (F) respectively with the market quantity supplied at given each price.
   a. 24.75; 32.75
   b. 47; 52
   c. 99; 131
   d. 48; 65
   e. none of the above

   Ans: C  pts: 1  dif: Difficulty: Moderate
   nat: BUSPROG: Analytic  loc: DISC: Supply and demand
   key: Bloom's: Application  not: New

178. Refer to Exhibit 3-12. Each individual seller's supply curve is ____________ sloping and the market supply curve is ____________ sloping.
   a. upward; also upward
   b. downward; also downward
   c. upward; downward
   d. downward; upward

   Ans: A  pts: 1  dif: Difficulty: Easy
   nat: BUSPROG: Analytic  loc: DISC: Supply and demand
   key: Bloom's: Comprehension  not: New

---

**Exhibit 3-13**

<table>
<thead>
<tr>
<th>Price</th>
<th>Jose</th>
<th>Kaitlyn</th>
<th>Leah</th>
<th>Maria</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5</td>
<td>30</td>
<td>11</td>
<td>25</td>
<td>30</td>
<td>(A)</td>
</tr>
<tr>
<td>6</td>
<td>27</td>
<td>10</td>
<td>23</td>
<td>26</td>
<td>(B)</td>
</tr>
</tbody>
</table>

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Assume that Jose, Kaitlyn, Leah, and Maria are the only buyers in this market.

179. Refer to Exhibit 3-13. Fill in blanks (A) and (B) respectively with the market quantity demanded at each given price.
   a. 96; 86
   b. 24; 21.5
   c. 75; 64
   d. 82; 72
   e. none of the above

   ANS: A  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application  NOT: New

180. Refer to Exhibit 3-13. Fill in blanks (C) and (D) respectively with the market quantity demanded at each given price.
   a. 18.5; 15.5
   b. 74; 62
   c. 75; 64
   d. 50; 43
   e. none of the above

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application  NOT: New

181. Refer to Exhibit 3-13. Fill in blanks (E) and (F) respectively with the market quantity demanded at each given price.
   a. 12; 6.75
   b. 25; 19
   c. 75; 64
   d. 48; 27
   e. none of the above

   ANS: D  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application  NOT: New

182. Refer to Exhibit 3-13. Each individual consumer’s demand curve is ______________ sloping and the market demand curve is ______________ sloping.
   a. upward; also upward
   b. downward; also downward
   c. upward; downward
   d. downward; upward

   ANS: B  PTS: 1  DIF: Difficulty: Easy
Exhibit 3-14

<table>
<thead>
<tr>
<th>Price of Good X</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10</td>
<td>400</td>
<td>60</td>
</tr>
<tr>
<td>11</td>
<td>360</td>
<td>70</td>
</tr>
<tr>
<td>12</td>
<td>310</td>
<td>80</td>
</tr>
<tr>
<td>13</td>
<td>230</td>
<td>90</td>
</tr>
<tr>
<td>14</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>15</td>
<td>70</td>
<td>110</td>
</tr>
</tbody>
</table>

183. Refer to Exhibit 3-14. At a price of $10, there is a ____________ unit ____________ of good X.
   a. 340; surplus
   b. 230; shortage
   c. 60; surplus
   d. 340; shortage
   e. 270; shortage

ANS: D          PTS: 1          DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic          LOC: DISC: Supply and demand
KEY: Bloom's: Application      NOT: New

184. Refer to Exhibit 3-14. At a price of $11, there is a ____________ unit ____________ of good X.
   a. 290; shortage
   b. 215; shortage
   c. 40; surplus
   d. 290; surplus
   e. 230; shortage

ANS: A          PTS: 1          DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic          LOC: DISC: Supply and demand
KEY: Bloom's: Application      NOT: New

185. Refer to Exhibit 3-14. At a price of $12, there is a ____________ unit ____________ of good X.
   a. 195; shortage
   b. 230; shortage
   c. 195; surplus
   d. 230; surplus
   e. 180; shortage

ANS: B          PTS: 1          DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic          LOC: DISC: Supply and demand
KEY: Bloom's: Application      NOT: New

186. Refer to Exhibit 3-14. At a price of $13, there is a ____________ unit ____________ of good X.
   a. 140; shortage
187. Refer to Exhibit 3-14. At a price of $15, there is a ____________ unit ____________ of good X.
   a. 40; shortage
   b. 90; surplus
   c. 40; surplus
   d. 20; shortage
   e. 20; surplus

ANS: C  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application  NOT: New

188. Which of the following is an example of a service?
   a. medical care
   b. dental care
   c. a psychology lecture
   d. a television set
   e. a, b and c

ANS: E  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge  NOT: New

189. Equilibrium and disequilibrium
   a. are real world states.
   b. are mental constructs used by economists.
   c. foreshadow what is about to happen in a market.
   d. a and b
   e. a, b and c

ANS: E  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension  NOT: New

190. A change in price will lead to a change in __________ and to a change in __________, while a change in government subsidies will lead to a change in __________ and a change in the number of buyers will lead to a change in __________.
   a. quantity demanded; quantity supplied; supply; demand
   b. demand; quantity supplied; supply; quantity demanded
   c. quantity demanded; supply; quantity supplied; demand
   d. quantity supplied; quantity demanded; demand; supply
   e. quantity demanded; demand; quantity supplied; supply

ANS: A  PTS: 1  DIF: Difficulty: Challenging
191. If a market is in disequilibrium, economists would predict that the product’s price would ________ to reach equilibrium when the quantity demanded is ________ than the quantity supplied.
   a. rise; greater
   b. fall; less
   c. fall; greater
   d. rise; less
   e. a and b

   ANS: E  PTS: 1  DIF: Difficulty: Moderate

Exhibit 3-17

<table>
<thead>
<tr>
<th>Price of Good X</th>
<th>Quantity Supplied</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20</td>
<td>400</td>
<td>260</td>
</tr>
<tr>
<td>19</td>
<td>360</td>
<td>290</td>
</tr>
<tr>
<td>18</td>
<td>310</td>
<td>310</td>
</tr>
<tr>
<td>17</td>
<td>230</td>
<td>350</td>
</tr>
<tr>
<td>16</td>
<td>130</td>
<td>400</td>
</tr>
<tr>
<td>15</td>
<td>70</td>
<td>450</td>
</tr>
</tbody>
</table>

192. Refer to Exhibit 3-17. At a price of $20, the quantity demanded of good X is ________ than the quantity supplied of good X, and economists would use this information to predict that the price of good X would soon _________. This would push the price ________ the equilibrium price.
   a. greater; fall; toward
   b. greater; rise; toward
   c. less; fall; toward
   d. less; rise; away from
   e. less; fall; away from

   ANS: C  PTS: 1  DIF: Difficulty: Moderate

193. Refer to Exhibit 3-17. At a price of $16, the quantity demanded of good X is ________ than the quantity supplied of good X, and economists would use this information to predict that the price of good X would soon _________. This would push the price ________ the equilibrium price.
   a. greater; fall; toward
   b. greater; rise; toward
   c. less; fall; toward
   d. less; rise; away from
   e. greater; rise; away from

   ANS: B  PTS: 1  DIF: Difficulty: Moderate
1. When the price of Toyota Corollas rises, *ceteris paribus*, the demand for Corollas falls.

   ANS: F  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

2. A surplus will occur in a market when the price of the product is above the equilibrium price.

   ANS: T  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Analytic

3. Supply curves are always upward sloping.

   ANS: F  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

4. If the government increased licensing requirements for beauty salons, the supply curve for salon services would shift to the left.

   ANS: T  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Application

5. Economists use the terms *neutral good* and *normal good* interchangeably.

   ANS: F  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Knowledge

6. To an economist, an increase in demand means the same thing as an increase in quantity demanded.

   ANS: F  PTS: 1  DIF: Difficulty: Easy
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

7. In moving along a demand curve, everything is held constant except the prices of related goods.

   ANS: F  PTS: 1  DIF: Difficulty: Moderate
   NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
   KEY: Bloom's: Comprehension

8. A demand curve is the graphical representation of the law of demand.
9. A shortage in the bread market can cause the price of bread to rise.

ANS: T  PTS: 1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

10. The law of diminishing marginal utility helps to explain the direct relationship between price and quantity supplied.

ANS: F  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

11. Another term for excess supply is shortage.

ANS: F  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge

12. A simultaneous decrease in the demand and the supply of good X always leads to a decrease in the price of good X.

ANS: F  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

13. The sum of consumers' surplus and producers' surplus is maximized at equilibrium.

ANS: T  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

14. If hot dogs are an inferior good, a decrease in income will cause the equilibrium price of hot dogs to rise.

ANS: T  PTS: 1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application

15. The terms scarcity and shortage are synonyms.

ANS: F  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge
16. Consumers’ surplus is the difference between the maximum price the buyer is willing and able to pay for a good and the actual price paid.

ANS: T  PTS:  1  DIF: Difficulty: Easy
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge

17. The market demand curve for a given product may be downward sloping even if no person in that market has a downward sloping demand curve.

ANS: T  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Application  MSC: Economics 24/7

18. Mutually beneficial trade between buyers and sellers drives a market to equilibrium.

ANS: T  PTS:  1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

19. The law of diminishing marginal utility helps to explain why supply curves are generally upward sloping.

ANS: F  PTS:  1  DIF: Difficulty: Challenging
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

20. As long as the maximum buying price of a good is less than the minimum selling price of that good, an exchange will occur.

ANS: F  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

21. In general, all markets equilibrate at the same speed.

ANS: F  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge

22. An increase in supply is graphically represented by a leftward shift of the supply curve.

ANS: F  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension

23. Demand takes into account goods, but not services.

ANS: F  PTS:  1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand

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24. If the quantity demanded of good X is greater than the quantity supplied of good X, then the market for good X is in disequilibrium.

ANS: T  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Knowledge  NOT: New

25. When a market is in disequilibrium, such as when the quantity supplied of a good is greater than the quantity demanded of that good, the price of the good will rise, ceteris paribus.

ANS: F  PTS: 1  DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Comprehension  NOT: New

ESSAY

1. Explain the difference between a change in supply and a change in quantity supplied. Be sure to state what causes each to change and how they differ when graphed.

ANS:
A change in supply results from a change in one or more of the determinants of supply: prices of relevant resources, prices of other goods, technology, number of sellers, expectations of future price, taxes and subsidies, and government restrictions. When supply changes the entire supply curve shifts to the right (an increase in supply) or to the left (a decrease in supply). A change in quantity supplied results from a change in a good's own price and is shown on a graph by a movement along a supply curve.

PTS: 1  DIF: Difficulty: Moderate  NAT: BUSPROG: Analytic  LOC: DISC: Supply and demand
KEY: Bloom's: Analysis

2. Suppose that the average price of refrigerators has fallen over the past few years, yet the refrigerator companies have offered more and more of them for sale. Does this mean that the supply curve for refrigerators is downward sloping? Explain.

ANS:
The reason that refrigerator prices have fallen is likely a result of a change in one of the determinants of supply. For example, a technological improvement in the production of refrigerators may have occurred. This advance in technology would cause the supply curve for refrigerators to shift to the right, lowering equilibrium price and raising the equilibrium quantity. Since one of the determinants of supply has changed, this is not a case of a movement along a supply curve (and thus does not violate the law of supply).

KEY: Bloom's: Analysis

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3. When Hurricane Katrina hit the Gulf Coast of the United States in 2005 it destroyed 5,000,000 acres of timber. Given that lumber is timber that has been sawed or split into planks and boards, explain in terms of supply and/or demand how the hurricane impacted each of the following markets (be sure to note the expected resulting impact on equilibrium price and quantity):
   a. Domestic lumber
   b. Imported lumber
   c. New home construction

ANS:

   a. The severe weather would be expected to shift the supply curve for domestic lumber to the left, but would not automatically shift the demand curve. This would result in a higher equilibrium price and a lower equilibrium quantity for domestic lumber.
   b. Imported lumber is a substitute for US-grown lumber, therefore the demand curve for imported lumber would be expected to shift to the right. The supply curve for imported lumber would not automatically shift. This would result in a higher equilibrium price and a higher equilibrium quantity for imported lumber.
   c. An increase in the price of timber would represent an increase in a resource cost for those who are building new homes. Higher resource costs shift the supply curve for new home construction to the left, but the demand curve would not automatically shift. This would result in a higher equilibrium price and a lower equilibrium quantity for new homes.

PTS: 1   DIF: Difficulty: Challenging   NAT: BUSPROG: Analytic
LOC: DISC: Supply and demand   KEY: Bloom's: Synthesis

4. Explain the difference between a change in demand and a change in quantity demanded. Be sure to specify what causes each to change and how they differ when graphed.

ANS:
A change in demand results from a change in one or more of the determinants of demand: prices of related goods (substitutes and complements), income of buyers, number of buyers, expectations of future price, and preferences of buyers. When demand changes the entire demand curve shifts to the right (an increase in demand) or to the left (a decrease in demand). A change in quantity demanded results from a change in a good's own price and is shown on a graph by a movement along a given demand curve.

PTS: 1   DIF: Difficulty: Moderate   NAT: BUSPROG: Analytic
LOC: DISC: Supply and demand   KEY: Bloom's: Analysis

5. Describe one of the two reasons given in the text to help explain why price and quantity demanded are inversely related.

ANS:

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One reason that price and quantity demanded are inversely related is that people substitute lower priced goods for higher priced goods. As the price of one good rises, people will tend to shift away from consuming that good (reducing the quantity demanded), toward one that is relatively lower priced. The second reason that helps to explain this inverse relationship is the law of diminishing marginal utility. The law of diminishing marginal utility states that the marginal utility of equal successive units consumed tends to decline as more units are consumed. Since people tend to receive more marginal utility from the first unit consumed than from the second unit, it makes logical sense that they would be willing to pay more for the first unit than for successive units. In order to encourage the buyer to purchase more units, the seller must lower the price.

PTS: 1  DIF: Difficulty: Moderate  NAT: BUSPROG: Analytic
LOC: DISC: Supply and demand  KEY: Bloom's: Comprehension

6. Explain why the price of a good tends to fall when there is a surplus of the good. Give a hypothetical numerical example to help support your answer.

ANS:
Surpluses always occur at prices that are above the equilibrium price. When there is a surplus of a good, the quantity supplied of the good exceeds the quantity demanded. Sellers will find that they are unable to sell as many units at that price as they had hoped to sell, and they will find that inventories have risen above the level intended for demand changes. As a result, some sellers will cut back on production, some will lower the price of the good, and others will do both. This will lead to an overall decrease in both the price and output of the good until equilibrium is reached. Examples will vary.

PTS: 1  DIF: Difficulty: Challenging  NAT: BUSPROG: Analytic
LOC: DISC: Supply and demand  KEY: Bloom's: Analysis

7. Explain why the price of a good tends to rise when there is a shortage of the good. Give a hypothetical numerical example to help support your answer.

ANS:
Shortages always occur at prices that are below the equilibrium price. When there is a shortage of a good, the quantity demanded of the good exceeds the quantity supplied. Buyers will not be able to purchase as many units as they had intended to at that price. This will cause some buyers to bid up the price of the product to encourage sellers to sell to them instead of to some other buyers. Sellers will then take notice of the ability to raise the price of the product, which will lead to an overall increase in both the price and output of the good until equilibrium is reached. Examples will vary.

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8. Explain what it means to say that “the market” feeds Cleveland. Give an example using a specific food item to help support your answer.

ANS:
People in Cleveland have a demand for food, and there are also people (the owners of the stores and restaurants) who are willing to supply food to Cleveland. The owners of the stores and restaurants are willing to do so because they want to earn money so that they can purchase the goods and services for which they have a demand. As the demand for a given food item changes, in order to earn more money the sellers/producers will alter their supply following the lead given to them by the buyers. This is a description of how a market works, and thus it is “the market” that is feeding Cleveland. Examples will vary.

9. With respect to the supply and demand for a given product, describe the connection that exists between equilibrium/disequilibrium and predictions. Cite your own unique example in order to help support your answer.

ANS:
Economists use the concepts of equilibrium and disequilibrium to help make predictions of what is about to happen. When a market is in disequilibrium, such as when the quantity demanded of good X exceeds the quantity supplied of good X, the economist knows that this will lead to a change in the market price. The economist is aware that this is a temporary state, and that the price of good X will rise since there is a shortage of the product (Qd > Qs). This market that was in disequilibrium will soon move to equilibrium. The economist is making a prediction of what will happen to the quantity demanded and quantity supplied of good X, as well as its price.