

***Economics 2019 (Hubbard/O'Brien)***

**Chapter 3 Where Prices Come From: The Interaction of Demand and Supply**

**3.1 The Demand Side of the Market**

1) By 2017, Pepsi and Coke were attempting to increase their profits in the bottled water market by introducing premium water brands. Pepsi and Coke introduced LIFEWTR and Smartwater, respectively, while competitors like Nestle and Danone produced their own versions of premium water. The premium water brands marketed to compete with LIFEWTR and Smartwater would be considered

- A) complements to LIFEWTR and Smartwater.
- B) substitutes for LIFEWTR and Smartwater.
- C) inferior goods compared to LIFEWTR and Smartwater.
- D) normal goods compared to LIFEWTR and Smartwater.

Answer: B

Diff: 2 Page Ref: 72

Topic: Price of Related Goods

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Chapter Opener: How Smart Is Your Water?

2) If the amount of carbonated sodas consumed continues to decline as consumers continue to choose to buy healthier products, this will likely

- A) increase the demand for premium water, because premium water and carbonated sodas are considered complements.
- B) increase the demand for premium water, because premium water and carbonated sodas are considered substitutes.
- C) decrease the demand for premium water, because premium water is considered an inferior good and carbonated sodas are considered normal goods.
- D) decrease the demand for premium water, because premium water is considered a normal good and carbonated sodas are considered inferior goods.

Answer: B

Diff: 1 Page Ref: 73

Topic: Price of Related Goods

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Economics in Your Life & Career: Can You Forecast the Future Demand for Premium Bottled Water?

- 3) What is the difference between an "increase in demand" and an "increase in quantity demanded"?
- A) There is no difference between the two terms; they both refer to a shift of the demand curve.
  - B) An "increase in demand" is represented by a rightward shift of the demand curve while an "increase in quantity demanded" is represented by a movement along a given demand curve.
  - C) There is no difference between the two terms; they both refer to a movement downward along a given demand curve.
  - D) An "increase in demand" is represented by a movement along a given demand curve, while an "increase in quantity demanded" is represented by a rightward shift of the demand curve.

Answer: B

Diff: 1 Page Ref: 81

Topic: Demand versus Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 4) The demand by all the consumers of a given good or service is the \_\_\_\_\_ for the good or service.
- A) market demand
  - B) quantity demanded
  - C) law of demand
  - D) scheduled demand

Answer: A

Diff: 1 Page Ref: 74

Topic: Market Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 5) If, in response to an increase in the price of chocolate the quantity of chocolate demanded decreases, then economists would describe this as
- A) a decrease in demand.
  - B) a decrease in quantity demanded.
  - C) a change in consumer income.
  - D) a decrease in consumers' taste for chocolate.

Answer: B

Diff: 1 Page Ref: 74

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

6) By drawing a demand curve with \_\_\_\_\_ on the vertical axis and \_\_\_\_\_ on the horizontal axis, economists assume that the most important determinant of the demand for a good is the \_\_\_\_\_ of the good.

- A) quantity; price; quantity
- B) price; quantity; quantity
- C) price; quantity; price
- D) quantity; price; price

Answer: C

Diff: 1 Page Ref: 75

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

7) The law of demand implies, holding everything else constant, that as the price of bagels increases

- A) the quantity of bagels demanded will decrease.
- B) the demand for bagels will decrease.
- C) the quantity of bagels demanded will increase.
- D) the demand for bagels will increase.

Answer: A

Diff: 1 Page Ref: 75

Topic: Law of Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

8) If a demand curve shifts to the right, then

- A) demand has increased.
- B) quantity demanded has increased.
- C) demand has decreased.
- D) quantity demanded has decreased.

Answer: A

Diff: 1 Page Ref: 76

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

9) If a demand curve shifts to the left, then

- A) demand has increased.
- B) quantity demanded has increased.
- C) demand has decreased.
- D) quantity demanded has decreased.

Answer: C

Diff: 1 Page Ref: 76

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

10) Holding everything else constant, an increase in the price of MP3 players will result in

- A) a decrease in the quantity of MP3 players supplied.
- B) a decrease in the demand for MP3 players.
- C) an increase in the supply of MP3 players.
- D) a decrease in the quantity of MP3 players demanded.

Answer: D

Diff: 2 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

11) A change in all of the following variables will change the market demand for a product *except*

- A) the price of the product.
- B) population and demographics.
- C) income.
- D) tastes.

Answer: A

Diff: 1 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

**Table 3-1**

Loose Leaf Tea Price per lb. (dollars)	Sunil's Quantity Demanded (lbs)	Mia's Quantity Demanded (lbs)	Rest of Market Quantity Demanded (lbs)	Market Quantity Demanded (lbs)
\$8	4	0	30	
6	7	2	40	
5	9	3	51	
4	12	5	64	
3	15	8	90	

12) *Refer to Table 3-1.* The table above shows the demand schedules for loose-leaf tea of two individuals (Sunil and Mia) and the rest of the market. At a price of \$5, the quantity demanded in the market would be

- A) 51 lbs.
- B) 63 lbs.
- C) 76 lbs
- D) 146 lbs.

Answer: B

Diff: 2 Page Ref: 75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

13) *Refer to Table 3-1.* The table above shows the demand schedules for loose-leaf tea of two individuals (Sunil and Mia) and the rest of the market. If the price of loose-leaf tea rises from \$3 to \$4, the market quantity demanded would

- A) decrease by 32 lbs.
- B) increase by 64 lbs.
- C) increase by 32 lbs.
- D) decrease by 64 lbs.

Answer: A

Diff: 2 Page Ref: 75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

14) The income effect of a price change refers to the impact of a change in

- A) income on the price of a good.
- B) demand when income changes.
- C) the quantity demanded when income changes.
- D) the price of a good on a consumer's purchasing power.

Answer: D

Diff: 3 Page Ref: 75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

15) Which of the following will shift the demand curve for a good?

- A) a change in the technology used to produce the good
- B) an increase in the price of the good
- C) a decrease in the price of a complementary good
- D) a decrease in the price of the good

Answer: C

Diff: 1 Page Ref: 77-78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

16) A movement along the demand curve for toothpaste would be caused by

- A) a change in the price of toothbrushes.
- B) a change in consumer income.
- C) a change in the price of toothpaste.
- D) a change in population.

Answer: C

Diff: 1 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

17) When the price of a normal good falls, consumers buy a larger quantity because of the \_\_\_\_\_ effect and the \_\_\_\_\_ effect.

- A) substitution; income
- B) normal; inferior
- C) substitute; complement
- D) supply; demand

Answer: A

Diff: 1 Page Ref: 75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

18) If the price of grapefruit rises, the substitution effect due to the price change will cause

- A) a decrease in the demand for grapefruit.
- B) a decrease in the demand for oranges, a substitute for grapefruit.
- C) a decrease in the quantity of grapefruit demanded.
- D) a decrease in the quantity of grapefruit supplied.

Answer: C

Diff: 3 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

19) If the price of orchids falls, the substitution effect due to the price change will cause

- A) an increase in the demand for orchids.
- B) an increase in the demand for roses, a substitute for orchids.
- C) an increase in the quantity of orchids demanded.
- D) an increase in the quantity of orchids supplied.

Answer: C

Diff: 3 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

20) The \_\_\_\_\_ effect refers to the change in quantity demanded for a good that results from the effect of a change in the good's price on consumer's purchasing power.

- A) *ceteris paribus*
- B) population
- C) substitution
- D) income

Answer: D

Diff: 2 Page Ref: 75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

21) If an increase in income leads to an increase in the demand for peanut butter, then peanut butter is

- A) a neutral good.
- B) a normal good.
- C) a necessity.
- D) a complement.

Answer: B

Diff: 1 Page Ref: 76

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

22) If an increase in income leads to a decrease in the demand for popcorn, then popcorn is

- A) an inferior good.
- B) a neutral good.
- C) a necessity.
- D) a normal good.

Answer: A

Diff: 2 Page Ref: 76

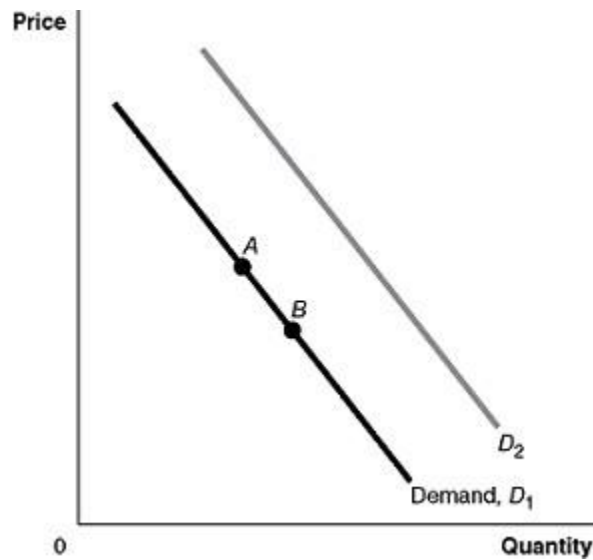
Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-1



23) Refer to Figure 3-1. An increase in population would be represented by a movement from

- A) A to B.
- B) B to A.
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 78

Topic: Population and Demographics

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

24) Refer to Figure 3-1. A decrease in taste or preference would be represented by a movement from

- A) A to B.
- B) B to A.
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 78

Topic: Tastes

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



25) *Refer to Figure 3-1.* If the product represented is an inferior good, an increase in income would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

26) *Refer to Figure 3-1.* A decrease in the price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: A

Diff: 2 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

27) *Refer to Figure 3-1.* A decrease in the price of a substitute good would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

28) **Refer to Figure 3-1.** A decrease in the price of a complementary good would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

29) **Refer to Figure 3-1.** An increase in the expected future price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

30) **Refer to Figure 3-1.** If the product represented is a normal good, a decrease in income would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 76

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

31) *Refer to Figure 3-1.* An increase in the price of a complement would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

32) *Refer to Figure 3-1.* A decrease in the expected future price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

33) *Refer to Figure 3-1.* If the product represented is a normal good, an increase in income would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 76/76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 34) **Refer to Figure 3-1.** An increase in the price of the product would be represented by a movement from
- A) A to B.
  - B) B to A.
  - C)  $D_1$  to  $D_2$ .
  - D)  $D_2$  to  $D_1$ .

Answer: B

Diff: 2 Page Ref: 81/81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 35) **Refer to Figure 3-1.** An increase in the price of a substitute would be represented by a movement from
- A) A to B.
  - B) B to A.
  - C)  $D_1$  to  $D_2$ .
  - D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 36) **Refer to Figure 3-1.** If the product represented is an inferior good, a decrease in income would be represented by a movement from
- A) A to B.
  - B) B to A.
  - C)  $D_1$  to  $D_2$ .
  - D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 77/77

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 37) **Refer to Figure 3-1.** An increase in taste or preference would be represented by a movement from
- A) A to B.
  - B) B to A.
  - C)  $D_1$  to  $D_2$ .
  - D)  $D_2$  to  $D_1$ .

Answer: C

Diff: 2 Page Ref: 78/78

Topic: Tastes

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

38) *Refer to Figure 3-1.* A decrease population would be represented by a movement from

- A) A to B.
- B) B to A.
- C)  $D_1$  to  $D_2$ .
- D)  $D_2$  to  $D_1$ .

Answer: D

Diff: 2 Page Ref: 78/78

Topic: Population and Demographics

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

39) The Internet has created a new category in the book selling market, namely, the "barely used" book. How does the availability of barely used books affect the market for new books?

- A) The demand curve for new books shifts to the right.
- B) The demand curve for new books shifts to the left.
- C) The supply curve for new books shifts to the right.
- D) The supply curve for new books shifts to the left.

Answer: B

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

40) Elvira decreased her consumption of bananas when the price of peanut butter increased. For Elvira, peanut butter and bananas are

- A) substitutes.
- B) both inferior goods.
- C) complements.
- D) both luxury goods.

Answer: C

Diff: 3 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

41) Tomas increased his consumption of potato chips when the price of pistachios increased. For Tomas, potato chips and pistachios are

- A) substitutes.
- B) both inferior goods.
- C) complements.
- D) both luxury goods.

Answer: A

Diff: 3 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 42) If the price of automobiles was to increase, then
- A) the demand for gasoline would decrease.
  - B) the demand for gasoline would increase.
  - C) the supply of gasoline would increase.
  - D) the quantity of gasoline demanded would decrease.

Answer: A

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 43) If the price of music downloads was to decrease, then
- A) the demand for MP3 players would decrease.
  - B) the demand for MP3 players would increase.
  - C) the supply of MP3 players would increase.
  - D) the quantity of MP3 players demanded would decrease.

Answer: B

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 44) Suppose that when the price of raspberries increases, Lonnie increases his purchases of papayas. To Lonnie
- A) raspberries and papayas are complements.
  - B) raspberries and papayas are inferior goods.
  - C) raspberries and papayas are normal goods.
  - D) raspberries and papayas are substitutes.

Answer: D

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 45) Suppose that when the price of hamburgers decreases, the Ruiz family increases their purchases of ketchup. To the Ruiz family
- A) hamburgers and ketchup are complements.
  - B) hamburgers and ketchup are substitutes.
  - C) hamburgers and ketchup are normal goods.
  - D) hamburgers are normal goods and ketchup is an inferior good.

Answer: A

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

46) Studies have shown links between calcium consumption and a reduction in osteoporosis. How does this affect the market for calcium?

- A) The calcium supply curve shifts to the right because of a change in tastes in favor of calcium.
- B) The calcium demand curve shifts to the right because of a change in tastes in favor of calcium.
- C) The calcium demand curve shifts to the left because this new information will increase the price of calcium.
- D) The calcium supply curve shifts to the left because this new information will increase the price of calcium.

Answer: B

Diff: 2 Page Ref: 78

Topic: Tastes

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

47) Technological advances have resulted in lower prices for digital cameras. What is the impact of this on the market for traditional (non-digital) cameras?

- A) The demand curve for traditional cameras shifts to the right.
- B) The supply curve for traditional cameras shifts to the right.
- C) The demand curve for traditional cameras shifts to the left.
- D) The supply curve for traditional cameras shifts to the left.

Answer: C

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

48) How does the increasing use of MP3 players affect the market for compact discs?

- A) The demand curve for compact discs shifts to the right.
- B) The supply curve for compact discs shifts to the left.
- C) The supply curve for compact discs shifts to the right.
- D) The demand curve for compact discs shifts to the left.

Answer: D

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

49) Technological advancements have led to lower prices and an increase in the sale of digital cameras. How does this affect the digital photo printing paper market?

- A) The demand curve for digital photo printing paper shifts to the right.
- B) The demand curve for digital photo printing paper shifts to the left.
- C) The supply curve for digital photo printing paper shifts to the right.
- D) The supply curve for digital photo printing paper shifts to the left.

Answer: A

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

50) Due to wildfires in Northern California, agricultural experts predict a 30 percent decline in this year's grape harvest. What happens in the California wine market as a result of this announcement?

- A) The demand curve for California wine shifts to the left in anticipation of higher prices in the future.
- B) The demand curve for California wine shifts to the right in anticipation of higher prices in the future.
- C) The supply curve for California wine shifts to the right in anticipation of higher prices in the future.
- D) The supply curve for California wine shifts to the left in anticipation of lower quantities in the future.

Answer: B

Diff: 2 Page Ref: 79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

51) Tom Searchinger, a senior attorney at the Environmental Defense Fund, observed that generous farm subsidies have encouraged farmers to produce more corn and more wheat. How does this affect the market for fertilizer?

- A) The supply of fertilizer increases.
- B) The supply of fertilizer decreases.
- C) The demand for fertilizer increases.
- D) The demand for fertilizer decreases.

Answer: C

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



52) In June, buyers of titanium expect that the price of titanium will fall in July. What happens in the titanium market in June, holding everything else constant?

- A) The demand curve shifts to the right.
- B) The quantity demanded increases.
- C) The quantity demanded decreases.
- D) The demand curve shifts to the left.

Answer: D

Diff: 2 Page Ref: 79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

53) In January, buyers of gold expect that the price of gold will rise in February. What happens in the gold market in January, holding all else constant?

- A) The supply curve shifts to the right.
- B) The demand curve shifts to the left.
- C) The demand curve shifts to the right.
- D) The quantity demanded increases.

Answer: C

Diff: 2 Page Ref: 79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

54) For products like virtual reality headsets, \_\_\_\_\_ products such as games produced for use with the headsets have shown to be needed for the headsets to compete with \_\_\_\_\_ products like game consoles.

- A) complementary; complementary
- B) complementary; substitute
- C) substitute; complementary
- D) substitute; substitute

Answer: B

Diff: 2 Page Ref: 77-78

Topic: Income

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Virtual Reality Headsets: Will a Substitute Fail for a Lack of Complements?

55) Which of the following has occurred as the millennial generation has come of age?

- A) The demand for "fast casual" food has decreased in the U.S. market.
- B) The demand for golf equipment has decreased in the U.S. market.
- C) The demand for traditional fast food has increased in the U.S. market.
- D) all of the above

Answer: B

Diff: 1 Page Ref: 78-79

Topic: Population and Demographics

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Millennials Shake Up the Market for Soda, Groceries, Big Macs, and Running Shoes

56) Which of the following generation categories has the largest population in the United States in 2017?

- A) the millennials
- B) generation X
- C) the baby boomers
- D) the centenarians

Answer: A

Diff: 1 Page Ref: 78-79

Topic: Population and Demographics

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

Special Feature: Apply the Concept: Millennials Shake Up the Market for Soda, Groceries, Big Macs, and Running Shoes

57) Factors that will tend to lead to higher demand for premium bottled water include all of the following *except*

- A) the popularity of the product with millennials.
- B) taxes on sodas that cities have been imposing.
- C) doubts about the benefits of ingredients such as electrolytes which are not found in regular bottled water.
- D) the possibility of attracting consumers who now prefer energy drinks and sports drinks.

Answer: C

Diff: 1 Page Ref: 81-82

Topic: Tastes

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Forecasting the Demand for Premium Bottled Water

58) A(n) \_\_\_\_\_ is represented by a leftward shift of the demand curve while a(n) \_\_\_\_\_ is represented by a movement along a given demand curve.

- A) decrease in demand; increase in demand
- B) decrease in demand; increase in quantity demanded
- C) increase in demand; decrease in quantity demanded
- D) decrease in quantity demanded; decrease in demand

Answer: B

Diff: 1 Page Ref: 81

Topic: Demand versus Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

59) If, in response to a decrease in the price of grapes, the quantity of grapes demanded increases, then economists would describe this as

- A) an increase in demand.
- B) an increase in quantity demanded.
- C) a change in consumer income.
- D) an increase in consumers' taste for grapes.

Answer: B

Diff: 2 Page Ref: 74

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

60) The law of demand implies, holding everything else constant, that as the price of gelato

- A) increases, the demand for gelato will increase.
- B) increases, the quantity of gelato demanded will increase.
- C) decreases, the quantity of gelato demanded will increase.
- D) decreases, the demand for gelato will increase.

Answer: C

Diff: 1 Page Ref: 75

Topic: Law of Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

61) The phrase "demand has decreased" means that

- A) a demand curve has shifted to the left.
- B) there has been an upward movement along a demand curve.
- C) there has been a downward movement along a demand curve.
- D) a demand curve has shifted to the right.

Answer: A

Diff: 1 Page Ref: 76

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 62) Holding everything else constant, a decrease in the price of bicycles will result in
- A) a decrease in the quantity of bicycles demanded.
  - B) an increase in the demand for bicycles.
  - C) a decrease in the supply of bicycles.
  - D) an increase in the quantity of bicycles demanded.

Answer: D

Diff: 2 Page Ref: 81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 63) A change in which variable will change the market demand for a product?

- A) the price of the product
- B) population
- C) technology
- D) the prices of substitutes in production

Answer: B

Diff: 1 Page Ref: 78

Topic: Population and Demographics

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

**Table 3-2**

<b>Caviar Price per oz. (dollars)</b>	<b>Ari's Quantity Demanded (oz.)</b>	<b>Sonia's Quantity Demanded (oz.)</b>	<b>Rest of Market Quantity Demanded (oz.)</b>	<b>Market Quantity Demanded (oz.)</b>
\$75	6	0	46	
65	18	6	64	
55	28	14	136	
45	36	24	170	
35	44	36	220	

- 64) *Refer to Table 3-2.* The table above shows the demand schedules for caviar of two individuals (Ari and Sonia) and the rest of the market. At a price of \$55, the quantity demanded in the market would be

- A) 42 oz.
- B) 136 oz.
- C) 178 oz.
- D) 233 oz.

Answer: C

Diff: 2 Page Ref: 74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

65) **Refer to Table 3-2.** The table above shows the demand schedules for caviar of two individuals (Ari and Sonia) and the rest of the market. At a price of \$75, the quantity demanded in the market would be

- A) 6 oz.
- B) 46 oz.
- C) 52 oz.
- D) 127 oz.

Answer: C

Diff: 2 Page Ref: 74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

66) **Refer to Table 3-2.** The table above shows the demand schedules for caviar of two individuals (Ari and Sonia) and the rest of the market. If the price of caviar rises from \$65 to \$75, the market quantity demanded would

- A) decrease by 36 oz.
- B) increase by 52 oz.
- C) increase by 36 oz.
- D) decrease by 52 oz.

Answer: A

Diff: 2 Page Ref: 74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

67) **Refer to Table 3-2.** The table above shows the demand schedules for caviar of two individuals (Ari and Sonia) and the rest of the market. If the price of caviar falls from \$45 to \$35, the market quantity demanded would

- A) decrease by 50 oz.
- B) increase by 70 oz.
- C) increase by 50 oz.
- D) decrease by 70 oz.

Answer: B

Diff: 2 Page Ref: 74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 68) If a decrease in income leads to a decrease in the demand for mac and cheese, then mac and cheese is
- A) a normal good.
  - B) a neutral good.
  - C) a complement.
  - D) a necessity.

Answer: A

Diff: 1 Page Ref: 76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 69) If a decrease in income leads to an increase in the demand for sardines, then sardines are
- A) an inferior good.
  - B) a neutral good.
  - C) a necessity.
  - D) a normal good.

Answer: A

Diff: 2 Page Ref: 77

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 70) If the price of refillable butane lighters was to decrease, then
- A) the demand for butane would decrease.
  - B) the demand for butane would increase.
  - C) the quantity of butane demanded would increase.
  - D) the quantity of butane demanded would decrease.

Answer: B

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 71) Suppose that when the price of hamburgers decreases, the Landry family decreases their purchases of chicken nuggets. To the Landry family
- A) hamburgers and chicken nuggets are complements.
  - B) hamburgers and chicken nuggets are inferior goods.
  - C) hamburgers and chicken nuggets are normal goods.
  - D) hamburgers and chicken nuggets are substitutes.

Answer: D

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

72) Suppose that when the price of strawberries decreases, Simone increases her purchase of whipped cream. To Simone

- A) strawberries and whipped cream are complements.
- B) strawberries and whipped cream are substitutes.
- C) strawberries and whipped cream are normal goods.
- D) strawberries are a normal good and whipped cream is an inferior good.

Answer: A

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

73) If the price of gasoline decreases, what will be the impact in the market for public transportation?

- A) The demand curve for public transportation shifts to the right.
- B) The quantity of public transportation demanded increases.
- C) The demand curve for public transportation shifts to the left.
- D) The quantity of public transportation demanded decreases.

Answer: C

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

74) How does the decreasing use of traditional cameras affect the market for traditional camera film?

- A) The demand curve for traditional camera film shifts to the right.
- B) The quantity of traditional camera film demanded decreases.
- C) The quantity of traditional camera film demanded increases.
- D) The demand curve for traditional camera film shifts to the left.

Answer: D

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

75) The market for smart water is becoming more competitive. The increase in competition in this market is an example of how the market responds to

- A) changes in consumer tastes.
- B) decreases in income.
- C) changes in expected future prices.
- D) decreases in the price of carbonated soda (a substitute for the product).

Answer: A

Diff: 2 Page Ref: 73/73

Topic: Price of Related Goods

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Chapter Opener: How Smart Is Your Water?

76) If the sales of carbonated sodas continue to decline as more cities impose soda taxes on these beverages, this will likely

- A) increase the demand for premium water, because premium water and carbonated sodas are considered complements.
- B) increase the demand for premium water, because premium water and carbonated sodas are considered substitutes.
- C) decrease the demand for premium water, because premium water is considered an inferior good and carbonated sodas are considered normal goods.
- D) decrease the demand for premium water, because premium water is considered a normal good and carbonated sodas are considered inferior goods.

Answer: B

Diff: 1 Page Ref: 73/73

Topic: Price of Related Goods

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Economics in Your Life & Career: Can You Forecast the Future Demand for Premium Bottled Water?

77) A(n) \_\_\_\_\_ is represented by a rightward shift of the demand curve while a(n) \_\_\_\_\_ is represented by a movement along a given demand curve.

- A) increase in demand; decrease in demand
- B) increase in demand; increase in quantity demanded
- C) decrease in demand; decrease in quantity demanded
- D) increase in quantity demanded; increase in demand

Answer: B

Diff: 1 Page Ref: 81/81

Topic: Demand versus Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

78) A demand curve shows the relationship between

- A) the price of a product and the quantity of the product demanded.
- B) the amount of a product sellers are willing to sell at a particular price and the amount consumers are willing to buy at that price.
- C) the quantity that consumers are willing and able to buy and the quantity that sellers are willing and able to offer.
- D) the price of a produce and the demand for the product.

Answer: A

Diff: 1 Page Ref: 74/74

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



79) If, in response to a decrease in the price of coffee, the quantity of coffee demanded increases, then economists would describe this as

- A) an increase in demand.
- B) an increase in quantity demanded.
- C) a change in consumer income.
- D) an increase in consumers' taste for coffee.

Answer: B

Diff: 2 Page Ref: 75/75

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

80) If, in response to an increase in the price of pineapples, the quantity of pineapples demanded decreases, then economists would describe this as

- A) an decrease in demand.
- B) a decrease in quantity demanded.
- C) a change in consumer income.
- D) a decrease in consumers' taste for pineapples.

Answer: B

Diff: 2 Page Ref: 75/75

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

81) By drawing a demand curve with price on the vertical axis and quantity on the horizontal axis, economists assume that the most important determinant of the demand for a good is

- A) consumer income.
- B) consumer tastes and preferences.
- C) the price of the good.
- D) the quality of the good.

Answer: C

Diff: 1 Page Ref: 76/76

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

82) The law of demand implies, holding everything else constant, that as the price of yogurt

- A) increases, the demand for yogurt will increase.
- B) increases, the quantity of yogurt demanded will decrease.
- C) decreases, the quantity of yogurt demanded will decrease.
- D) decreases, the demand for yogurt will increase.

Answer: B

Diff: 1 Page Ref: 75/75

Topic: Law of Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 83) The phrase "demand has increased" means that
- A) a demand curve has shifted to the left.
  - B) there has been an upward movement along a demand curve.
  - C) there has been a downward movement along a demand curve.
  - D) a demand curve has shifted to the right.

Answer: D

Diff: 1 Page Ref: 76/76

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 84) Holding everything else constant, a decrease in the price of GPS systems will result in
- A) an decrease in the quantity of GPS systems demanded.
  - B) an increase in the demand for GPS systems.
  - C) a decrease in the supply of GPS systems.
  - D) an increase in the quantity of GPS systems demanded.

Answer: D

Diff: 2 Page Ref: 81/81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 85) Holding everything else constant, an increase in the price of raisins will result in
- A) a decrease in the quantity of raisins demanded.
  - B) an increase in the demand for raisins.
  - C) a decrease in the supply of raisins.
  - D) an increase in the quantity of raisins demanded.

Answer: A

Diff: 2 Page Ref: 81/81

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 86) A change in which variable will change the market demand for a product?
- A) the price of the product
  - B) expected future prices
  - C) the number of firms in the market
  - D) the quantity of the product supplied

Answer: B

Diff: 1 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

**Table 3-3**

<b>Kona Coffee Price per lb. (dollars)</b>	<b>Luke's Quantity Demanded (lbs.)</b>	<b>Ravi's Quantity Demanded (lbs.)</b>	<b>Rest of Market Quantity Demanded (lbs.)</b>	<b>Market Quantity Demanded (lbs.)</b>
\$10	3	0	23	
8	9	3	32	
6	14	7	68	
5	18	12	85	
4	22	18	110	

87) *Refer to Table 3-3.* The table above shows the demand schedules for Kona coffee of two individuals (Luke and Ravi) and the rest of the market. At a price of \$6, the quantity demanded in the market would be

- A) 36 lbs.
- B) 68 lbs.
- C) 89 lbs.
- D) 123 lbs.

Answer: C

Diff: 2 Page Ref: 74-75/74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

88) *Refer to Table 3-3.* The table above shows the demand schedules for Kona coffee of two individuals (Luke and Ravi) and the rest of the market. At a price of \$4, the quantity demanded in the market would be

- A) 40 lbs.
- B) 70 lbs.
- C) 110 lbs.
- D) 150 lbs.

Answer: D

Diff: 2 Page Ref: 74-75/74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

89) **Refer to Table 3-3.** The table above shows the demand schedules for Kona coffee of two individuals (Luke and Ravi) and the rest of the market. If the price of Kona coffee rises from \$4 to \$5, the market quantity demanded would

- A) decrease by 35 lbs.
- B) increase by 115 lbs.
- C) increase by 35 lbs.
- D) decrease by 115 lbs.

Answer: A

Diff: 2 Page Ref: 74-75/74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

90) **Refer to Table 3-3.** The table above shows the demand schedules for Kona coffee of two individuals (Luke and Ravi) and the rest of the market. If the price of Kona coffee falls from \$6 to \$4, the market quantity demanded would

- A) decrease by 89 lbs.
- B) increase by 26 lbs.
- C) increase by 61 lbs.
- D) increase by 110 lbs.

Answer: C

Diff: 2 Page Ref: 74-75/74-75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

91) The \_\_\_\_\_ effect of a price change refers to the impact of a change in the price of a good on a consumer's purchasing power.

- A) income
- B) substitution
- C) demographics
- D) *ceteris paribus*

Answer: A

Diff: 3 Page Ref: 75/75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

92) Which of the following will *not* shift the demand curve for a good?

- A) an increase in population
- B) an increase in the price of the good
- C) a decrease in the price of a substitute good
- D) an increase in consumer incomes

Answer: B

Diff: 1 Page Ref: 76/76

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

93) A \_\_\_\_\_ demand curve for shampoo would be caused by a change in the price of shampoo.

- A) rightward shift of the
- B) leftward shift of the
- C) movement along the
- D) positively sloped

Answer: C

Diff: 1 Page Ref: 76/76

Topic: Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

94) The substitution effect of a price change refers to

- A) the change in quantity demanded that results from a change in price making a good more or less expensive relative to other goods that are substitutes.
- B) the shift of a demand curve when the price of a substitute good changes.
- C) the movement along the demand curve due to a change in purchasing power brought about by the price change.
- D) the shift in the demand curve due to a change in purchasing power brought about by the price change.

Answer: A

Diff: 3 Page Ref: 75/75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

95) If the price of pork rinds falls, then the substitution effect due to the price change will cause

- A) an increase in the demand for pork rinds.
- B) an increase in the demand for corn chips, a substitute for pork rinds.
- C) an increase in the quantity of pork rinds demanded.
- D) a decrease in the quantity of pork rinds demanded.

Answer: C

Diff: 3 Page Ref: 75/75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

96) If the price of beef jerky rises, then the substitution effect due to the price change will cause

- A) an increase in the demand for beef jerky.
- B) an increase in the demand for hot sauce, a complement for beef jerky.
- C) an increase in the quantity of beef jerky demanded.
- D) a decrease in the quantity of beef jerky demanded.

Answer: D

Diff: 3 Page Ref: 75/75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

97) The income effect of a price change results in a

- A) shift of the demand curve when income changes.
- B) movement along the demand curve due to a change in relative prices.
- C) shift of the demand curve due to a change in purchasing power brought about by the price change.
- D) movement along the demand curve due to a change in purchasing power brought about by the price change.

Answer: D

Diff: 2 Page Ref: 75/75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

98) If a decrease in income leads to a decrease in the demand for ice cream, then ice cream is

- A) a normal good.
- B) a neutral good.
- C) a complement.
- D) a necessity.

Answer: A

Diff: 1 Page Ref: 76/76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

99) If an increase in income leads to an increase in the demand for sushi, then sushi is

- A) a normal good.
- B) a neutral good.
- C) a complement.
- D) a necessity.

Answer: A

Diff: 1 Page Ref: 76/76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

100) If a decrease in income leads to an increase in the demand for macaroni, then macaroni is  
A) an inferior good.  
B) a neutral good.  
C) a necessity.  
D) a normal good.

Answer: A

Diff: 2 Page Ref: 77/77

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

101) If an increase in income leads to a decrease in the demand for salami, then salami is  
A) an inferior good.  
B) a neutral good.  
C) a necessity.  
D) a normal good.

Answer: A

Diff: 2 Page Ref: 77/77

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

102) How has the growing popularity of factory outlet stores affected the market for clothing at retail department stores?

A) the demand curve for clothing at retail department stores shifts to the right.  
B) the demand curve for clothing at retail department stores shifts to the left.  
C) the supply curve for clothing at retail department stores shifts to the right.  
D) the supply curve for clothing at retail department stores shifts to the left.

Answer: B

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

103) According to a recent study, "Stricter college alcohol policies, such as raising the price of alcohol, or banning alcohol on campus, decrease the number of students who use marijuana." On the basis of this information, how would you describe alcohol and marijuana?

A) The two goods are substitutes in consumption.  
B) There is no relationship between the two goods.  
C) The two goods are complements in consumption.  
D) They are both luxury goods.

Answer: C

Diff: 3 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

104) If the price of propane-fueled gas grills was to decrease, then

- A) the demand for propane would decrease.
- B) the demand for propane would increase.
- C) the quantity of propane demanded would increase.
- D) the quantity of propane demanded would decrease.

Answer: B

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

105) If the price of smartphones was to increase, then

- A) the demand for smartphone apps would decrease.
- B) the demand for smartphone apps would increase.
- C) the quantity of smartphone apps demanded would increase.
- D) the quantity of smartphone apps demanded would decrease.

Answer: A

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

106) Suppose that when the price of hamburgers increases, the Ruiz family increases their purchases of hot dogs. To the Ruiz family

- A) hamburgers and hot dogs are complements.
- B) hamburgers and hot dogs are inferior goods.
- C) hamburgers and hot dogs are normal goods.
- D) hamburgers and hot dogs are substitutes.

Answer: D

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

107) Suppose that when the price of oranges decreases, Sarita decreases her purchases of peaches. To Sarita,

- A) oranges and peaches are complements.
- B) oranges and peaches are inferior goods.
- C) oranges and peaches are normal goods.
- D) oranges and peaches are substitutes.

Answer: D

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



108) Suppose that when the price of pickles decreases, Teddy increases his purchase of ketchup. To Teddy,

- A) pickles and ketchup are complements.
- B) pickles and ketchup are substitutes.
- C) pickles and ketchup are normal goods.
- D) pickles are a normal good and ketchup is an inferior good.

Answer: A

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

109) Suppose that when the price of ice cream increases, Liza decreases her purchase of hot fudge. To Liza,

- A) ice cream and hot fudge are complements.
- B) ice cream and hot fudge are substitutes.
- C) ice cream and hot fudge are normal goods.
- D) ice cream is a normal good and hot fudge is an inferior good.

Answer: A

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

110) Several studies have shown promising links between green tea consumption and cancer prevention. How does this affect the market for green tea?

- A) The quantity of green tea demanded increases because of a change in tastes in favor of green tea.
- B) The green tea demand curve shifts to the right because of a change in tastes in favor of green tea.
- C) The green tea demand curve shifts to the left because this new information will increase the price of green tea.
- D) The quantity of green tea demanded decreases because this new information will increase the price of green tea.

Answer: B

Diff: 2 Page Ref: 78/78

Topic: Tastes

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

111) If the price of gasoline increases, what will be the impact in the market for public transportation?

- A) The demand curve for public transportation shifts to the right.
- B) The quantity of public transportation demanded increases.
- C) The demand curve for public transportation shifts to the left.
- D) The quantity of public transportation demanded decreases.

Answer: A

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

112) If the price of train tickets decreases, what will be the impact in the market for bus travel?

- A) The demand curve for bus travel shifts to the right.
- B) The quantity of bus travel demanded increases.
- C) The demand curve for bus travel shifts to the left.
- D) The quantity of bus travel demanded decreases.

Answer: C

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

113) How does the increasing use of digital cameras affect the market for traditional camera film?

- A) The demand curve for traditional camera film shifts to the right.
- B) The quantity of traditional camera film demanded decreases.
- C) The quantity of traditional camera film demanded increases.
- D) The demand curve for traditional camera film shifts to the left.

Answer: D

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

114) How does the decreasing use of DVD players affect the market for prerecorded DVDs?

- A) The demand curve for prerecorded DVDs shifts to the right.
- B) The quantity of prerecorded DVDs demanded decreases.
- C) The quantity of prerecorded DVDs demanded increases.
- D) The demand curve for prerecorded DVDs shifts to the left.

Answer: D

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

115) Technological advancements have led to lower prices and an increase in the sale of color laser printers. How does this affect the market for laser printer ink cartridges?

- A) The demand curve for laser printer ink cartridges shifts to the right.
- B) The demand curve for laser printer ink cartridges shifts to the left.
- C) The quantity of laser printer ink cartridges demanded increases.
- D) The quantity of laser printer ink cartridges demanded decreases.

Answer: A

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

116) Technological advancements have led to lower prices and an increase in the sale of color laser printers. How does this affect the market for traditional inkjet printers?

- A) The demand curve for inkjet printers shifts to the right.
- B) The demand curve for inkjet printers shifts to the left.
- C) The quantity of inkjet printers demanded increases.
- D) The quantity of inkjet printers demanded decreases.

Answer: B

Diff: 2 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

117) Buyers scrambled to secure stocks of Australian wool following a forecast of an 11 percent decline in wool production. What happens in the Australian wool market as a result of this announcement?

- A) The demand curve for Australian wool shifts to the left in anticipation of higher prices in the future.
- B) The demand curve for Australian wool shifts to the right in anticipation of higher prices in the future.
- C) The quantity of Australian wool demanded increases in anticipation of higher prices in the future.
- D) The quantity of Australian wool demanded decreases in anticipation of lower quantities in the future.

Answer: B

Diff: 2 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

118) Factory incentives on cell phones have encouraged consumers to upgrade their phones. How does this affect the market for bluetooth headsets?

- A) The quantity of bluetooth headsets demanded increases.
- B) The quantity of bluetooth headsets demanded decreases.
- C) The demand for bluetooth headsets increases.
- D) The demand for bluetooth headsets decreases.

Answer: C

Diff: 2 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

119) In January, buyers of gold expect that the price of gold will fall in February. What happens in the gold market in January, holding everything else constant?

- A) The demand curve shifts to the right.
- B) The quantity demanded increases.
- C) The quantity demanded decreases.
- D) The demand curve shifts to the left.

Answer: D

Diff: 2 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

120) In September, buyers of silver expect that the price of silver will rise in October. What happens in the silver market in September, holding all else constant?

- A) The quantity demanded decreases.
- B) The demand curve shifts to the left.
- C) The demand curve shifts to the right.
- D) The quantity demanded increases.

Answer: C

Diff: 2 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

121) If virtual reality headsets are considered substitutes for game consoles, an increase in the price of virtual reality headsets would, all else equal,

- A) increase the demand for game consoles.
- B) decrease the demand for game consoles.
- C) increase the quantity of game consoles demanded.
- D) decrease the quantity of game consoles demanded.

Answer: A

Diff: 2 Page Ref: 77-78/77-78

Topic: Income

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Virtual Reality Headsets: Will a Substitute Fail for a Lack of Complements?

122) If virtual reality headsets are considered substitutes for game consoles, then a decline in the price of game consoles would, all else equal,

- A) increase the demand for virtual reality headsets.
- B) decrease the demand for virtual reality headsets.
- C) increase the quantity of virtual reality headsets demanded.
- D) decrease the quantity of virtual reality headsets demanded.

Answer: B

Diff: 2 Page Ref: 77-78/77-78

Topic: Income

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Virtual Reality Headsets: Will a Substitute Fail for a Lack of Complements?

123) Which of the following has occurred as the millennial generation has come of age?

- A) The demand for "fast casual" food has decreased in the U.S. market.
- B) The demand for golf equipment has increased in the U.S. market.
- C) The demand for traditional fast food has decreased in the U.S. market.
- D) all of the above

Answer: C

Diff: 1 Page Ref: 78-79/78-79

Topic: Population and Demographics

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Millennials Shake Up the Market for Soda, Groceries, Big Macs, and Running Shoes

124) Which of the following generation categories has the smallest population in the United States in 2017?

- A) the millennials
- B) generation X
- C) the baby boomers
- D) generation Y

Answer: C

Diff: 1 Page Ref: 78-79/78-79

Topic: Population and Demographics

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Millennials Shake Up the Market for Soda, Groceries, Big Macs, and Running Shoes

125) Using Richard Tedlow's "three phases of marketing", the premium bottled water industry is probably in

- A) the first phase, where a very large number of firms are each producing a relatively small volume of premium bottled water.
- B) the second phase, where one or a few brands have attained high market shares by selling a large number of bottles of premium water at lower prices.
- C) the third phase, where the dominant firms have rapidly introduced a large number of premium bottled water varieties.
- D) The market for premium bottled water is too young to categorize using the "three phases of marketing".

Answer: B

Diff: 1 Page Ref: 81-82/81-82

Topic: Tastes

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Forecasting the Demand for Premium Bottled Water

**Table 3-4**

Cashews Price per lb. (dollars)	Jordy's Quantity Demanded (lbs)	Amy's Quantity Demanded (lbs)	Rest of Market Quantity Demanded (lbs)	Market Quantity Demanded (lbs)
\$10	1	1	50	
8	2	3	70	
6	3	5	95	
4	5	9	128	
2	8	14	156	

126) *Refer to Table 3-4.* The table above shows the demand schedules for cashews of two individuals (Jordy and Amy) and the rest of the market. At a price of \$6, the quantity demanded in the market would be

- A) 87 lbs.
- B) 95 lbs.
- C) 103 lbs.
- D) 215 lbs.

Answer: C

Diff: 2 Page Ref: 75/75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

127) *Refer to Table 3-4.* The table above shows the demand schedules for cashews of two individuals (Jordy and Amy) and the rest of the market. At a price of \$10, the quantity demanded in the market would be

- A) 2 lbs.
- B) 48 lbs.
- C) 50 lbs.
- D) 52 lbs.

Answer: D

Diff: 2 Page Ref: 75/75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

128) *Refer to Table 3-4.* The table above shows the demand schedules for cashews of two individuals (Jordy and Amy) and the rest of the market. If the price of cashews rises from \$4 to \$6, the market quantity demanded would

- A) decrease by 33 lbs.
- B) increase by 39 lbs.
- C) increase by 33 lbs.
- D) decrease by 39 lbs.

Answer: D

Diff: 2 Page Ref: 75/75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

129) *Refer to Table 3-4.* The table above shows the demand schedules for cashews of two individuals (Jordy and Amy) and the rest of the market. If the price of cashews falls from \$4 to \$2, the market quantity demanded would

- A) decrease by 28 lbs.
- B) increase by 36 lbs.
- C) increase by 28 lbs.
- D) decrease by 36 lbs.

Answer: B

Diff: 2 Page Ref: 75/75

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

130) When the price of a good rises, consumers buy a smaller quantity because of the \_\_\_\_\_ effect and the \_\_\_\_\_ effect.

- A) substitution; income
- B) normal; inferior
- C) substitute; complement
- D) supply; demand

Answer: A

Diff: 1 Page Ref: 75/75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



131) If the price of prime rib falls, the income effect due to the price change will cause

- A) an increase in the demand for prime rib.
- B) an increase in the demand for flank steak, a substitute for prime rib.
- C) an increase in the quantity of prime rib demanded.
- D) an increase in the quantity of prime rib supplied.

Answer: C

Diff: 3 Page Ref: 75/75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

132) The income effect of a price change refers to the change in the quantity demanded of a good that results from a change in purchasing power as a result of the price change.

Answer: TRUE

Diff: 2 Page Ref: 75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

133) Chips and salsa are complements. If the price of salsa decreases, the demand for chips will increase.

Answer: TRUE

Diff: 1 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

134) A normal good is a good for which the demand increases as income decreases, holding everything else constant.

Answer: FALSE

Diff: 2 Page Ref: 76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

135) The income effect explains why there is an inverse relationship between the price of a normal good and the quantity of the good demanded.

Answer: TRUE

Diff: 2 Page Ref: 75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

136) If consumers believe the price of iPads will decrease in the future, this will cause the demand for iPads to decrease now.

Answer: TRUE

Diff: 2 Page Ref: 79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

137) The income effect of a price change refers to the change in the quantity demanded of a good that results from a change in the price of a complementary product.

Answer: FALSE

Diff: 2 Page Ref: 75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

138) If the price of peaches, a substitute for plums, decreases the demand for plums will increase.

Answer: FALSE

Diff: 2 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

139) An inferior good is a good for which the quantity demanded decreases as the price increases, holding everything else constant.

Answer: FALSE

Diff: 2 Page Ref: 76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

140) The substitution effect explains why there is a direct relationship between the price of a product and the quantity of the product demanded.

Answer: FALSE

Diff: 2 Page Ref: 75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

141) If consumers believe the price of LCD televisions will decrease in the future, this will cause the demand for LCD televisions to increase now.

Answer: FALSE

Diff: 1 Page Ref: 79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

142) An increase in population results in an increase in demand.

Answer: TRUE

Diff: 2 Page Ref: 78/78

Topic: Population and Demographics

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

143) Peanut butter and jelly are complements. If the price of peanut butter increases, the demand for jelly will increase.

Answer: FALSE

Diff: 1 Page Ref: 78/78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

144) A normal good is a good for which the demanded decreases as income decreases, holding everything else constant.

Answer: TRUE

Diff: 1 Page Ref: 76/76

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

145) The income effect explains why there is usually a direct relationship between the price of product and the quantity of the product demanded.

Answer: FALSE

Diff: 1 Page Ref: 75/75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

146) If consumers believe the price of tablet computers will increase in the future, this will cause the demand for tablet computers to decrease now.

Answer: FALSE

Diff: 1 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

147) The income effect of a price change refers to the change in the quantity demanded of a good that results from a change in the price of a substitute product.

Answer: FALSE

Diff: 2 Page Ref: 75/75

Topic: Income Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

148) If the price of peaches, a substitute for plums, increases the demand for plums will decrease.

Answer: FALSE

Diff: 1 Page Ref: 77/77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

149) An inferior good is a good for which the quantity demanded increases as the price decreases, holding everything else constant.

Answer: FALSE

Diff: 1 Page Ref: 77/77

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

150) The substitution effect explains why there is an inverse relationship between the price of a product and the quantity of the product demanded.

Answer: TRUE

Diff: 1 Page Ref: 75/75

Topic: Substitution Effect

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

151) If consumers believe the price of hybrid vehicles will decrease in the future, this will cause the demand for hybrid vehicles to decrease now.

Answer: TRUE

Diff: 1 Page Ref: 79/79

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

152) What is the *ceteris paribus* condition?

Answer: The *ceteris paribus* condition is the requirement that when analyzing the relationship between two variables, such as price and quantity demanded, other variables must be held constant.

Diff: 1 Page Ref: 76

Topic: Ceteris Paribus Condition

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

153) What are the two effects that explain the law of demand? Briefly explain each effect.

Answer: The two effects that explain the law of demand are the income effect and the substitution effect. The income effect is the change in quantity demanded of a good that results from a change in purchasing power due to a change in the good's price. The substitution effect is the change in quantity demanded of a good that results from the effect of a change in the good's price making the good more or less expensive relative to other goods that are substitutes.

Diff: 3 Page Ref: 75

Topic: Law of Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

154) Explain the difference between a normal good and an inferior good.

Answer: A normal good is something for which the demand increases when income rises and the demand decreases when income falls. An inferior good is something for which the demand decreases when income rises and the demand increases when income falls.

Diff: 2 Page Ref: 76-77

Topic: Income

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

155) For each of the following pairs of products, state which are complements, which are substitutes, and which are unrelated.

- a. Digital camera and memory card
- b. 7Up and Mountain Dew
- c. Swimsuits and flip-flops
- d. Tylenol and cat food
- e. Photocopier and paper

Answer:

- a. Complements
- b. Substitutes
- c. Complements
- d. Unrelated
- e. Complements

Diff: 1 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

156) What are the five variables that will shift the demand curve?

Answer:

1. Income
2. Price of related goods
3. Tastes
4. Population and demographics
5. Expected future prices

Diff: 2 Page Ref: 76

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

157) For each of the following pairs of products, state which are complements, which are substitutes, and which are unrelated.

- a. Blu-ray discs and video-on-demand
- b. Fiat 500 and Mini Cooper S
- c. Toothpaste and toothbrush
- d. Popcorn and snowboards
- e. Razors and razor blades

Answer:

- a. Substitutes
- b. Substitutes
- c. Complements
- d. Unrelated
- e. Complements

Diff: 1 Page Ref: 77

Topic: Price of Related Goods

\*: Recurring

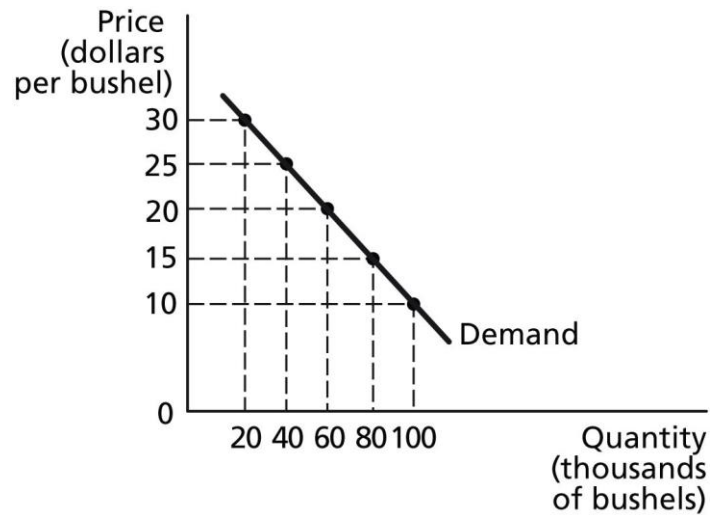
Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

158) Use the following demand schedule for apples to draw a graph of the demand curve. Be sure to label the demand curve and each axis, and show each point on the demand curve.

Price (dollars per bushel)	Quantity (thousands of bushels)
30	20
25	40
20	60
15	80
10	100

Answer:



Diff: 2 Page Ref: 74-75

Topic: Demand Schedules

\*: Recurring

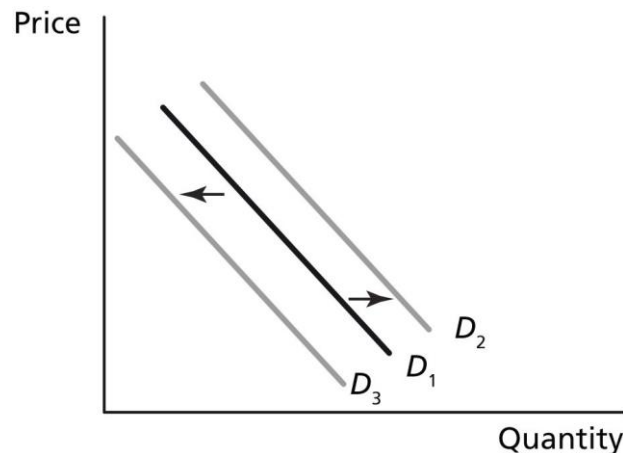
Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

159) Draw a demand curve and label it  $D_1$ . On the graph, illustrate an increase in demand and a decrease in demand, and label the curves  $D_2$  and  $D_3$ , respectively. Starting on demand curve  $D_1$ , explain the shift that would result from each of the following events:

- an increase in income and the good is a normal good
- an increase in income and the good is an inferior good
- a decrease in the price of a substitute good
- a decrease in the price of a complementary good
- an increase in the taste for the good
- a decrease in population
- an increase in the expected future price of the good

Answer:



a, d, e, and g would increase demand, causing a shift from  $D_1$  to  $D_2$

b, c, and f would decrease demand, causing a shift from  $D_1$  to  $D_3$

Diff: 2 Page Ref: 76-81

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

160) What is the difference between a "change in demand" and a "change in quantity demanded"?

Answer: A "change in demand" means the demand curve has shifted. This is caused by a change in any variable other than price that can influence the market demand of the good in question. A "change in quantity demanded" refers to a movement along the demand curve and this is caused by a change in the price of the good in question.

Diff: 1 Page Ref: 81/81

Topic: Demand versus Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



161) What is the Law of Demand.

Answer: The law of demand is the rule that, holding everything else constant, when the price of a product falls, the quantity of the product demanded will increase, and when the price of a product rises, the quantity of the product demanded will decrease.

Diff: 3 Page Ref: 75/75

Topic: Law of Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

162) What is the difference between a demand schedule and a demand curve?

Answer: A demand schedule is a table that shows the relationship between the price of a product and the quantity of the product demanded. A demand curve is a curve that shows the relationship between the price of a product and the quantity of the product demanded.

Diff: 1 Page Ref: 74/74

Topic: Demand Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

163) Explain the difference between substitutes and complements.

Answer: Substitutes are goods and services that can be used for the same purpose. Complements are goods and services that are used together.

Diff: 2 Page Ref: 77-78/77-78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

164) Cole was discussing the market for cocoa beans with his friend John Schmidt. Cole said, "Ever since Venezuela announced that its cocoa harvest was its lowest ever in fifteen years, the price of cocoa beans has been rising and rising and people are buying more and more. I think the demand for cocoa beans must be upward sloping." Is Cole right? Briefly explain why or why not.

Answer: Cole has confused a change in demand as a result of a change in the expected future price of cocoa beans with a change in price. Following the announcement of the poor harvest buyers expected that the price of cocoa beans would rise. In anticipation of higher prices in the future, demand increased; this led to a higher equilibrium price. As long as buyers believe that the price of cocoa beans will rise in the future they will increase their demand today.

Diff: 2 Page Ref: 81/81

Topic: Demand versus Quantity Demanded

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

165) For each of the following pairs of products, state which are complements, which are substitutes, and which are unrelated.

- a. Swim fins and scuba tanks
- b. Coca Cola and Volkswagens
- c. Printers and ink cartridges
- d. Ice and ice chests
- e. Heineken and Corona

Answer:

- a. Complements
- b. Unrelated
- c. Complements
- d. Complements
- e. Substitutes

Diff: 1 Page Ref: 77-78/77-78

Topic: Price of Related Goods

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

166) For each of the following pairs of products, state which are complements, which are substitutes, and which are unrelated.

- a. House plants and potato chips
- b. Eyeglasses and contact lenses
- c. Motorcycles and gasoline
- d. Smartphones and smartphone apps
- e. Red wine and white wine

Answer:

- a. Unrelated
- b. Substitutes
- c. Complements
- d. Complements
- e. Substitutes

Diff: 1 Page Ref: 77-78/77-78

Topic: Price of Related Goods

\*: Recurring

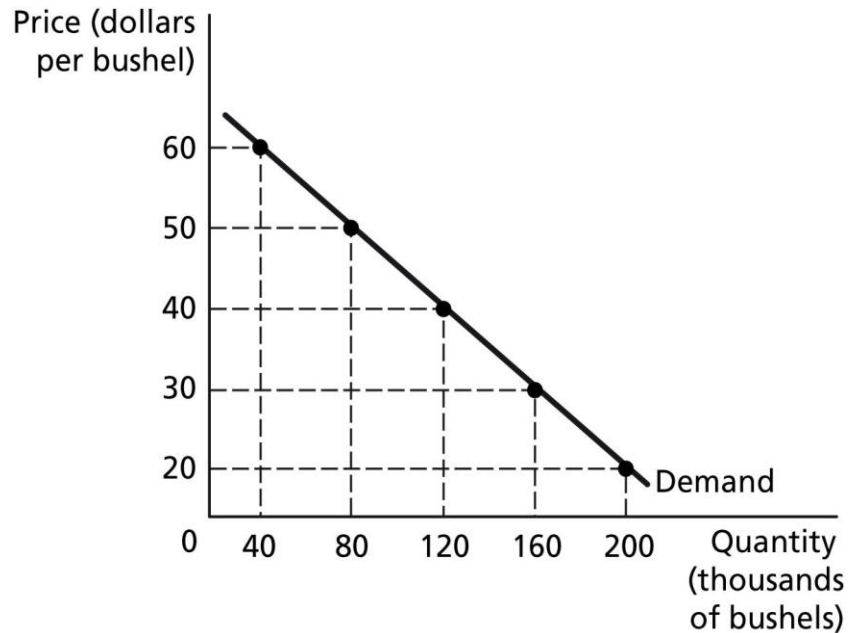
Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

167) Use the following demand schedule for cherries to draw a graph of the demand curve. Be sure to label the demand curve and each axis, and show each point on the demand curve.

Price (dollars per bushel)	Quantity (thousands of bushels)
60	40
50	80
40	120
30	160
20	200

Answer:



Diff: 2 Page Ref: 74-75/74-75

Topic: Demand Schedules

\*: Recurring

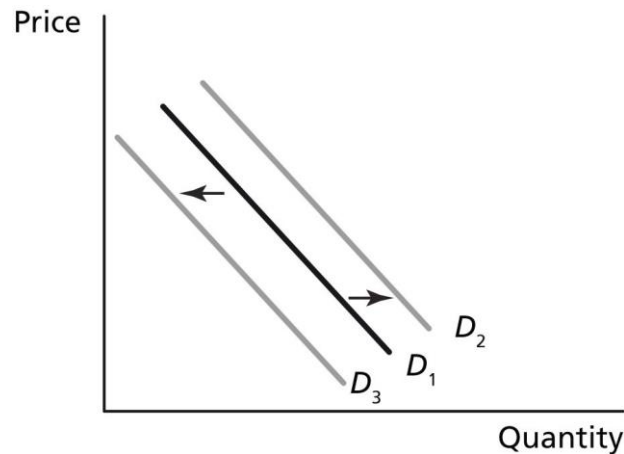
Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

168) Draw a demand curve and label it  $D_1$ . On the graph, illustrate an increase in demand and a decrease in demand, and label the curves  $D_2$  and  $D_3$ , respectively. Starting on demand curve  $D_1$ , explain the shift that would result from each of the following events:

- a decrease in income and the good is a normal good
- a decrease in income and the good is an inferior good
- an increase in the price of a substitute good
- an increase in the price of a complementary good
- a decrease in the taste for the good
- an increase in population
- a decrease in the expected future price of the good

Answer:



a, d, e, and g would decrease demand, causing a shift from  $D_1$  to  $D_3$

b, c, and f would increase demand, causing a shift from  $D_1$  to  $D_2$

Diff: 2 Page Ref: 76-79/76-79

Topic: Demand Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

### 3.2 The Supply Side of the Market

1) A supply schedule

A) is a table that shows the relationship between the price of a product and the quantity of the product supplied.

B) is a curve that shows the relationship between the price of a product and the quantity of the product supplied.

C) is the relationship between the supply of a product and the cost of producing the product.

D) is a table that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.

Answer: A

Diff: 1 Page Ref: 82

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

2) If in the market for peaches the supply curve has shifted to the left

A) the supply of peaches has increased.

B) the supply of peaches has decreased.

C) the quantity of peaches supplied has increased.

D) the quantity of peaches supplied has decreased.

Answer: B

Diff: 1 Page Ref: 83

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

3) If in the market for oranges the supply has increased, then

A) the supply curve for oranges has shifted to the right.

B) the supply curve for oranges has shifted to the left.

C) there has been a movement upwards along the supply curve for oranges.

D) there has been a movement downwards along the supply curve for oranges.

Answer: A

Diff: 1 Page Ref: 83

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 4) Last year, the Pottery Palace supplied 8,000 ceramic pots at \$40 each. This year, the company supplied the same quantity of ceramic pots at \$55 each. Based on this evidence, The Pottery Palace has experienced
- A) a decrease in supply.
  - B) an increase in supply.
  - C) an increase in the quantity supplied.
  - D) a decrease in the quantity supplied.

Answer: A

Diff: 2 Page Ref: 82

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 5) What is the difference between an "increase in supply" and an "increase in quantity supplied"?
- A) There is no difference between the two terms; they both refer to a shift of the supply curve.
  - B) There is no difference between the two terms; they both refer to a movement along a given supply curve.
  - C) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" means at any given price supply has increased.
  - D) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" refers to a movement along a given supply curve in response to an increase in price.

Answer: D

Diff: 1 Page Ref: 86

Topic: Supply versus Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 6) One would speak of a change in the quantity of a good supplied, rather than a change in supply, if
- A) supplier expectations about future prices change.
  - B) the price of the good changes.
  - C) the cost of producing the good changes.
  - D) prices of substitutes in production change.

Answer: B

Diff: 1 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

7) Which of the following would cause a decrease in the supply of milk?

- A) an increase in the price of cookies (assuming that milk and cookies are complements)
- B) a decrease in the price of milk
- C) an increase the price of a product that producers sell instead of milk
- D) an increase in the number of firms that produce milk

Answer: C

Diff: 2 Page Ref: 84

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

8) Suppose that in October, market analysts predict that the price of platinum will fall in November. What happens in the platinum market in October, holding everything else constant?

- A) The supply curve shifts to the right.
- B) The supply curve shifts to the left.
- C) The quantity of platinum demanded and the quantity of platinum supplied both increase.
- D) The demand curve shifts to the right.

Answer: A

Diff: 2 Page Ref: 85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-2



9) Refer to Figure 3-2. An increase in price of inputs would be represented by a movement from

- A) A to B.
- B) B to A.
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: D

Diff: 2 Page Ref: 85

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

10) Refer to Figure 3-2. An increase in the number of firms in the market would be represented by a movement from

- A) A to B.
- B) B to A.
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: C

Diff: 2 Page Ref: 85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



11) *Refer to Figure 3-2.* An increase in the price of substitutes in production would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: D

Diff: 2 Page Ref: 85

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

12) *Refer to Figure 3-2.* A decrease in the price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: B

Diff: 2 Page Ref: 85

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

13) *Refer to Figure 3-2.* A decrease in productivity would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: D

Diff: 2 Page Ref: 85

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

14) *Refer to Figure 3-2.* A decrease in the expected future price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: C

Diff: 2 Page Ref: 85

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

15) *Refer to Figure 3-2.* A technological advancement would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: C

Diff: 2 Page Ref: 85/85

Topic: Technological Change

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

16) *Refer to Figure 3-2.* An increase in the expected future price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: D

Diff: 2 Page Ref: 85/85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

17) *Refer to Figure 3-2.* A decrease in the price of inputs would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: C

Diff: 2 Page Ref: 85/85

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

18) *Refer to Figure 3-2.* A decrease in the number of firms in the market would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: D

Diff: 2 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

19) *Refer to Figure 3-2.* A decrease in the price of substitutes in production would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: C

Diff: 2 Page Ref: 85/85

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

20) *Refer to Figure 3-2.* An increase in the price of the product would be represented by a movement from

- A)  $A$  to  $B$ .
- B)  $B$  to  $A$ .
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Answer: A

Diff: 2 Page Ref: 85/85

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

21) In October 2005, the U.S. Fish and Wildlife Service banned the importation of beluga caviar, the most prized of caviars, from the Caspian Sea. What happened in the market for caviar in the United States?

- A) The supply curve shifted to the left.
- B) The supply curve shifted to the right.
- C) The demand curve shifted to the right.
- D) The demand curve shifted to the left.

Answer: A

Diff: 2 Page Ref: 85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

22) Danielle Ocean pays for monthly pool maintenance for her home swimming pool. Last week, the owner of the pool service informed Danielle that he will have to raise his monthly service fee because of increases in the price of pool chemicals. How is the market for pool maintenance services affected by this?

- A) There is an increase in the supply of pool maintenance services.
- B) There is a decrease in the demand for pool maintenance services.
- C) There is a decrease in the quantity of pool maintenance services supplied.
- D) There is a decrease in the supply of pool maintenance services.

Answer: D

Diff: 2 Page Ref: 83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

23) Harvey Rabbitt pays for monthly cable TV service. Last week, the cable company informed Harvey that his monthly cable price would go down because the city council has granted approval for three new cable companies to service his area. How is the market for cable TV services affected by this?

- A) There is an increase in the supply of cable TV service.
- B) There is a decrease in the demand for cable TV service.
- C) There is a decrease in the quantity of cable TV service supplied.
- D) There is a decrease in the supply of cable TV service.

Answer: A

Diff: 2 Page Ref: 85

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

24) The popularity of digital cameras has enticed large discount stores like Wal-Mart and Costco to offer digital photo printing services. How does the offering of the printing service by Wal-Mart and Costco affect the digital photo printing market?

- A) The demand curve for digital photo printing services shifts to the right.
- B) The demand curve for digital photo printing services shifts to the left.
- C) The supply curve for digital photo printing services shifts to the right.
- D) The supply curve for digital photo printing services shifts to the left.

Answer: C

Diff: 2 Page Ref: 85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

25) Ranchers can raise either cattle or sheep on their land. Which of the following would cause the supply of sheep to increase?

- A) an increase in the price of sheep
- B) a decrease in the price of cattle
- C) an increase in the demand for cattle
- D) an increase in the price of sheep feed

Answer: B

Diff: 2 Page Ref: 84

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

26) Vineyards can grow either red wine grapes or white wine grapes on their land. Which of the following would cause the supply of red wine grapes to decrease?

- A) an increase in the price of white wine grapes
- B) a decrease in the price of white wine grapes
- C) an increase in the demand for red wine grapes
- D) an increase in the price of red wine

Answer: A

Diff: 2 Page Ref: 84

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

27) Which of the following would shift the supply curve for MP3 players to the right?

- A) an increase in the price of a substitute in production
- B) an increase in consumer income (assuming that all MP3 players are normal goods)
- C) a decrease in the number of firms that produce MP3 players
- D) a decrease in the price of an input used to produce MP3 players

Answer: D

Diff: 3 Page Ref: 83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

28) Which of the following would shift the supply curve for MP3 players to the left?

- A) an increase in the price of an input used to produce MP3 players
- B) a decrease in consumer tastes for MP3 players
- C) an increase in the number of firms that produce MP3 players
- D) an increase in the productivity of the workers who produce MP3 players

Answer: A

Diff: 3 Page Ref: 83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

29) If a firm has an incentive to increase supply now and decrease supply in the future, then the firm expects that the

- A) price of its product will be lower in the future than it is today.
- B) price of its product will be higher in the future than it is today.
- C) price of inputs will be lower in the future than they are today.
- D) demand for the product will be lower in the future than it is today.

Answer: A

Diff: 3 Page Ref: 85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

30) If a firm expects that the price of its product will be higher in the future than it is today, then

- A) the firm will go out of business.
- B) the firm has an incentive to increase supply now and decrease supply in the future.
- C) the firm has an incentive to decrease quantity supplied now and increase quantity supplied in the future.
- D) the firm has an incentive to decrease supply now and increase supply in the future.

Answer: D

Diff: 2 Page Ref: 85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

31) The supply curve for watches

- A) shows the supply of watches consumers are willing and able to buy at any given price.
- B) is downward sloping.
- C) shows the relationship between the quantity of watches firms are willing and able to supply and the quantity of watches consumers are willing and able to purchase.
- D) shows the relationship between the price of watches and the quantity of watches supplied.

Answer: D

Diff: 2 Page Ref: 82

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

32) A decrease in the price of GPS systems will result in

- A) a smaller quantity of GPS systems supplied.
- B) a larger quantity of GPS systems supplied.
- C) a decrease in the demand for GPS systems.
- D) an increase in the supply of GPS systems.

Answer: A

Diff: 1 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

33) An increase in the price of off-road vehicles will result in

- A) a smaller quantity of off-road vehicles supplied.
- B) a larger quantity of off-road vehicles supplied.
- C) an increase in the demand for off-road vehicles.
- D) a decrease in the supply of off-road vehicles.

Answer: B

Diff: 1 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

34) Which of the following would cause an increase in the supply of peanut butter?

- A) a decrease in the price of grape jelly (assuming that peanut butter and grape jelly are complements)
- B) an increase in the price of peanut butter
- C) an increase the price of a product that producers sell instead of peanut butter
- D) an increase in the number of firms that produce peanut butter

Answer: D

Diff: 2 Page Ref: 85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

35) In February, market analysts predict that the price of titanium will rise in March. What happens in the titanium market in February, holding everything else constant?

- A) The supply curve shifts to the right.
- B) The supply curve shifts to the left.
- C) The quantity of titanium demanded and the quantity of titanium supplied both increase.
- D) The demand curve shifts to the left.

Answer: B

Diff: 2 Page Ref: 85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

36) If the United States placed an embargo on Swedish products, what would happen in the U.S. market for Swedish furniture?

- A) The supply curve would shift to the left.
- B) The supply curve would shift to the right.
- C) The demand curve would shift to the right.
- D) The demand curve would shift to the left.

Answer: A

Diff: 2 Page Ref: 85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

37) An increase in the price of pineapples will result in

- A) a smaller quantity of pineapples supplied.
- B) a larger quantity of pineapples supplied.
- C) a decrease in the demand for pineapples.
- D) an increase in the supply of pineapples.

Answer: B

Diff: 1 Page Ref: 83

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

38) A supply curve

- A) is a table that shows the relationship between the price of a product and the quantity of the product supplied.
- B) is a curve that shows the relationship between the price of a product and the quantity of the product supplied.
- C) is the relationship between the supply of a good and the cost of producing the good.
- D) is a curve that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.

Answer: B

Diff: 1 Page Ref: 82/82

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

39) If in the market for apples the supply has decreased, then

- A) the supply curve for apples has shifted to the right.
- B) there has been a movement upwards along the supply curve for apples.
- C) the supply curve for apples has shifted to the left.
- D) there has been a movement downwards along the supply curve for apples.

Answer: C

Diff: 1 Page Ref: 83/83

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

40) If in the market for bananas the supply curve has shifted to the right, then

- A) the supply of bananas increased.
- B) the quantity of bananas supplied has increased.
- C) the supply of bananas has decreases.
- D) the quantity of bananas supplied has decreased.

Answer: A

Diff: 1 Page Ref: 83/83

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



41) Last month, the Tecumseh Corporation supplied 400 units of three-ring binders at \$6 per unit. This month, the company supplied the same quantity of binders at \$4 per unit. Based on this evidence, Tecumseh has experienced

- A) a decrease in supply.
- B) an increase in supply.
- C) an increase in the quantity supplied.
- D) a decrease in the quantity supplied.

Answer: B

Diff: 2 Page Ref: 83/83

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

42) \_\_\_\_\_ means the supply curve has shifted to the right, while \_\_\_\_\_ refers to a movement along a given supply curve in response to an increase in price.

- A) An increase in supply; a decrease in supply
- B) A decrease in supply; an increase in supply
- C) An increase in supply; an increase in quantity supplied
- D) A decrease in supply; a decrease in quantity supplied

Answer: C

Diff: 1 Page Ref: 86/86

Topic: Supply versus Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

43) One would speak of a movement along a supply curve for a good, rather than a change in supply, if

- A) the cost of producing the good changes.
- B) supplier expectations about future prices change.
- C) the price of the good changes.
- D) prices of substitutes in production change.

Answer: C

Diff: 1 Page Ref: 86/86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

44) Which of the following would cause an increase in the supply of cheese?

- A) a decrease in the price of wine (assuming that cheese and wine are complements)
- B) an increase in the price of cheese
- C) an increase the price of a product that producers sell instead of cheese
- D) an increase in the number of firms that produce cheese

Answer: D

Diff: 2 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

45) In July, market analysts predict that the price of gold will rise in August. What happens in the gold market in July, holding everything else constant?

- A) The supply curve shifts to the right.
- B) The supply curve shifts to the left.
- C) The quantity demanded and the quantity supplied increase.
- D) The demand curve shifts to the left.

Answer: B

Diff: 2 Page Ref: 85/85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

46) If the United States lifts the embargo on Cuban products, what will happen in the U.S. market for Cuban cigars?

- A) The supply curve will shift to the left.
- B) The supply curve will shift to the right.
- C) The demand curve will shift to the right.
- D) The demand curve will shift to the left.

Answer: B

Diff: 2 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

47) George Gnat subscribes to a monthly pest control service for his home. Last week, the owner of the service informed George that he will have to raise his monthly service fee because of increases in the price of gasoline used by his workers on their service trips. How is the market for pest control services affected by this?

- A) There is an increase in the supply of pest control services.
- B) There is a decrease in the demand for pest control services.
- C) There is a decrease in the quantity of pest control services supplied.
- D) There is a decrease in the supply of pest control services.

Answer: D

Diff: 2 Page Ref: 83-84/83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

48) The growing popularity of energy conservation has enticed large home improvement stores like Home Depot and Lowes to offer tankless water heaters. How does the fact that home improvement stores now offer these products affect the tankless water heater market?

- A) The demand curve for tankless water heaters shifts to the right.
- B) The demand curve for tankless water heaters shifts to the left.
- C) The supply curve for tankless water heaters shifts to the right.
- D) The supply curve for tankless water heaters shifts to the left.

Answer: C

Diff: 2 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

49) Farmers can plant either corn or soybeans in their fields. Which of the following would cause the supply of soybeans to increase?

- A) an increase in the price of soybeans
- B) a decrease in the price of corn
- C) an increase in the demand for corn
- D) an increase in the price of soybean seeds

Answer: B

Diff: 2 Page Ref: 84/84

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

50) Which of the following would shift the supply curve for energy drinks to the left?

- A) a decrease in the expected future price of energy drinks
- B) an increase in consumer income (assuming that energy drinks are normal goods)
- C) a decrease in the number of firms that produce energy drinks
- D) a decrease in the price of an input used to produce energy drinks

Answer: C

Diff: 3 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 51) If a firm expects that the price of its product will be lower in the future than it is today
- A) the firm has an incentive to increase supply now and decrease supply in the future.
  - B) the firm has an incentive to decrease supply now and increase supply in the future.
  - C) the firm has an incentive to increase quantity supplied now and decrease quantity supplied in the future.
  - D) the firm will not change supply until it knows for certain what will happen to its price.

Answer: A

Diff: 3 Page Ref: 85/85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 52) A firm has an incentive to decrease supply now and increase supply in the future if it expects that
- A) more firms will enter the market in the future.
  - B) the prices of inputs used to produce the product will rise in the future.
  - C) the price of its product will be lower in the future than it is today.
  - D) the price of its product will be higher in the future than it is today.

Answer: D

Diff: 2 Page Ref: 85/85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 53) The supply curve for umbrellas
- A) shows the supply of umbrellas consumers are willing and able to buy at any given price.
  - B) is downward sloping.
  - C) shows the relationship between the quantity of umbrellas firms are willing and able to supply and the quantity of umbrellas consumers are willing and able to purchase.
  - D) shows the relationship between the price of umbrellas and the quantity of umbrellas supplied.

Answer: D

Diff: 1 Page Ref: 82/82

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 54) An increase in the price of MP3 players will result in
- A) a smaller quantity of MP3 players supplied.
  - B) a larger quantity of MP3 players supplied.
  - C) a decrease in the demand for MP3 players.
  - D) an increase in the supply of MP3 players.

Answer: B

Diff: 1 Page Ref: 83/83

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 55) Which of the following would cause a decrease in the supply of peanut butter?
- A) a decrease in the price of jelly (assuming that peanut butter and jelly are complements)
  - B) a decrease in the price of peanut butter
  - C) an increase the price of peanuts
  - D) an increase in the technology used to produce peanut butter

Answer: C

Diff: 2 Page Ref: 83-84/83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 56) In April, market analysts predict that the price of titanium will fall in May. What happens in the titanium market in April, holding everything else constant?

- A) The supply curve shifts to the right.
- B) The supply curve shifts to the left.
- C) The quantity demanded and the quantity supplied increase.
- D) The demand curve shifts to the right.

Answer: A

Diff: 2 Page Ref: 85/85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 57) The decline in the popularity of clothing made from animal fur has enticed large department stores like J. C. Penney and Sears to discontinue sales of animal-fur products. How does discontinuing sales of these products by J.C. Penney and Sears affect the animal-fur clothing market?

- A) The demand curve for animal-fur clothing shifts to the right.
- B) The demand curve for animal-fur clothing shifts to the left.
- C) The supply curve for animal-fur clothing shifts to the right.
- D) The supply curve for animal-fur clothing shifts to the left.

Answer: D

Diff: 2 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

58) Farmers can raise either goats or ostriches on their land. Which of the following would cause the supply of goats to decrease?

- A) an increase in the price of ostriches
- B) a decrease in the price of goats
- C) an increase in the demand for goats
- D) an increase in the price of ostrich feed

Answer: A

Diff: 2 Page Ref: 84/84

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

59) Which of the following would shift the supply curve for smartphones to the right?

- A) an increase in the price of a substitute in production
- B) an increase in consumer income (assuming that all smartphones are normal goods)
- C) a decrease in the number of firms that produce smartphones
- D) a decrease in the price of an input used to produce smartphones

Answer: D

Diff: 3 Page Ref: 83-84/83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

60) A decrease in the price of pork will result in

- A) a smaller quantity of pork supplied.
- B) a larger quantity of pork supplied.
- C) a decrease in the demand for pork.
- D) an increase in the supply of pork.

Answer: A

Diff: 1 Page Ref: 86/86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

61) An increase in the number of firms in a market will cause the quantity of a good supplied to increase.

Answer: FALSE

Diff: 1 Page Ref: 85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

62) A change in supply is represented by a shift of the supply curve.

Answer: TRUE

Diff: 1 Page Ref: 83

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

63) An increase in the quantity of a product supplied is caused by an increase in the price of the product.

Answer: TRUE

Diff: 1 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

64) Quantity supplied refers to the amount of a good or service that a firm is willing and able to supply at a given price.

Answer: TRUE

Diff: 1 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

65) A positive technological change will cause the supply of a good to increase.

Answer: TRUE

Diff: 2 Page Ref: 84

Topic: Technological Change

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

66) An decrease in quantity supplied is represented by a leftward shift of the supply curve.

Answer: FALSE

Diff: 1 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

67) An increase in the price of inputs will cause the supply curve for a product to shift to the right.

Answer: FALSE

Diff: 1 Page Ref: 83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

68) All else equal, as the price of a product falls, the quantity supplied increases.

Answer: FALSE

Diff: 1 Page Ref: 83

Topic: Law of Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

69) A decrease in the number of firms in a market will cause supply to increase.

Answer: FALSE

Diff: 1 Page Ref: 85/85

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

70) A change in quantity supplied is represented by a movement along the supply curve.

Answer: TRUE

Diff: 1 Page Ref: 83/83

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

71) An decrease in supply is caused by a decrease in the price of the product.

Answer: FALSE

Diff: 1 Page Ref: 86/86

Topic: Supply versus Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

72) If the price of a product is expected to increase in the future, the supply today will increase.

Answer: FALSE

Diff: 1 Page Ref: 85/85

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

73) A positive technological change will cause the quantity of a good supplied to increase.

Answer: FALSE

Diff: 1 Page Ref: 84/84

Topic: Technological Change

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



74) An increase in quantity supplied is represented by a rightward shift of the supply curve.

Answer: FALSE

Diff: 1 Page Ref: 86/86

Topic: Supply versus Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

75) A decrease in the price of inputs will cause the supply curve for a product to shift to the right.

Answer: TRUE

Diff: 1 Page Ref: 83-84/83-84

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

76) All else equal, as the price of a product falls, the quantity supplied decreases.

Answer: TRUE

Diff: 1 Page Ref: 83/83

Topic: Law of Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

77) Explain the differences between a change in supply and a change in quantity supplied.

Answer: A change in supply refers to a shift of the supply curve, which occurs when one of the variables other than the price of the product changes. A change in quantity supplied refers to a movement along the supply curve, which occurs when the price of the product changes.

Diff: 1 Page Ref: 86

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

78) What is the difference between a supply schedule and a supply curve?

Answer: A supply schedule is a *table* that shows the relationship between the price of a product and the quantity of the product supplied. A supply curve is a *curve* that shows the relationship between the price of a product and the quantity of the product supplied.

Diff: 2 Page Ref: 82

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

79) What is the law of supply? What does this law imply about the shape of the supply curve?

Answer: The law of supply states that, holding everything else constant, an increase in price causes an increase in quantity supplied. The positive relationship between price and quantity supplied gives rise to an upward-sloping supply curve.

Diff: 1 Page Ref: 83

Topic: Law of Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

80) From a supply perspective, what impact would an increase in the price of motorcycles have on the market for motorcycles?

Answer: An increase in the price of motorcycles would generate an increase in the quantity of motorcycles supplied in the market.

Diff: 2 Page Ref: 86

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

81) Indicate whether each of the following situations would shift the supply curve to the left, to the right, or not at all.

- a. An increase in the number of firms in the market
- b. An increase in the current price of the product
- c. A decrease in productivity
- d. An increase in the expected future price of a product
- e. A decrease in the price of an input

Answer:

- a. Shift to the right
- b. No shift
- c. Shift to the left
- d. Shift to the left
- e. Shift to the right

Diff: 2 Page Ref: 83-85

Topic: Shifts in Supply

\*: Recurring

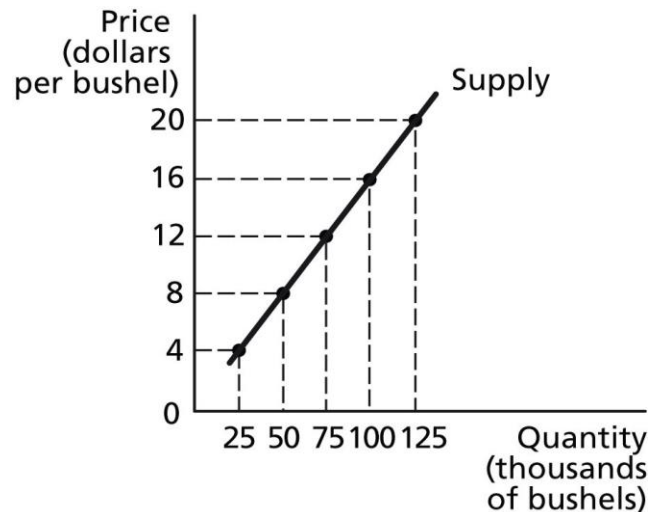
Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

82) Use the following supply schedule for cherries to draw a graph of the supply curve. Be sure to label the supply curve and each axis, and show each point on the supply curve.

Price (dollars per bushel)	Quantity (thousands of bushels)
4	25
8	50
12	75
16	100
20	125

Answer:



Diff: 2 Page Ref: 83

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

83) What are the five most important variables that shift the market supply curve?

Answer: Prices of inputs; Technological change; Prices of substitutes in production; The number of firms in the market; Expected future prices

Diff: 1 Page Ref: 83/83

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

84) Would a change in the price of in-line skates cause a change in the supply of in-line skates? Why or why not?

Answer: No, a change in the price of in-line skates would not cause a change in the supply of in-line skates. Rather, it would cause a change in the quantity supplied. Supply changes only when there is a change in any variable other than the price that would affect the supply of the good in question.

Diff: 2 Page Ref: 86/86

Topic: Supply versus Quantity Supplied

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

85) Indicate whether each of the following situations would shift the supply curve to the left, to the right, or not at all.

- a. An increase in the price of an input
- b. An increase in productivity
- c. An increase in the price of a substitute in production
- d. A decrease in the expected future price of a product
- e. A decrease in the current price of the product

Answer:

- a. Shift to the left
- b. Shift to the right
- c. Shift to the left
- d. Shift to the right
- e. No shift

Diff: 2 Page Ref: 83-85/83-85

Topic: Supply Curves

\*: Recurring

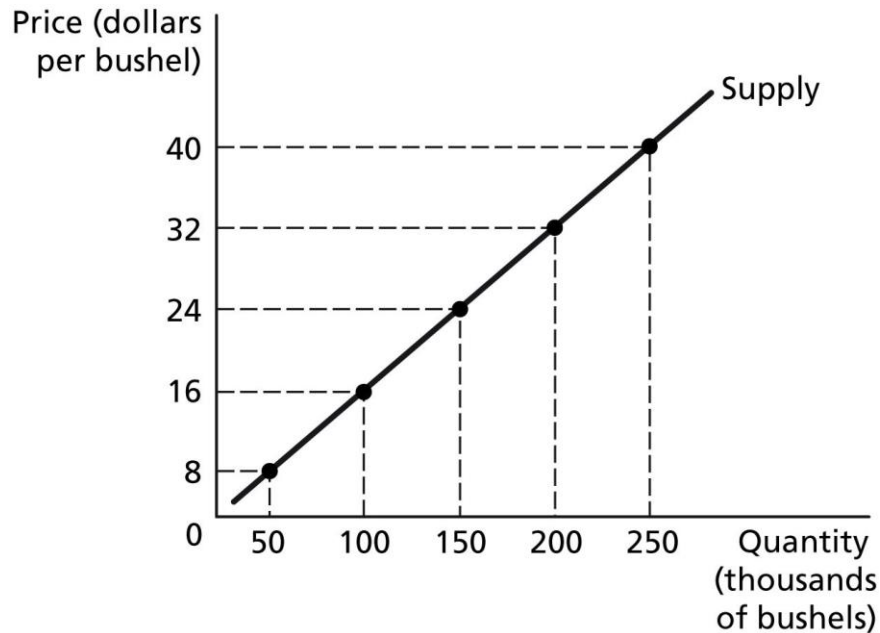
Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

86) Use the following supply schedule for cherries to draw a graph of the supply curve. Be sure to label the supply curve and each axis, and show each point on the supply curve.

Price (dollars per bushel)	Quantity (thousands of bushels)
8	50
16	100
24	150
32	200
40	250

Answer:



Diff: 2 Page Ref: 82-83/82-83

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

### 3.3 Market Equilibrium: Putting Demand and Supply Together

1) Which of the following is the correct way to describe equilibrium in a market?

- A) At equilibrium, demand equals supply.
- B) At equilibrium, quantity demanded equals quantity supplied.
- C) At equilibrium, market forces no longer apply.
- D) At equilibrium, scarcity is eliminated.

Answer: B

Diff: 1 Page Ref: 86

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

2) At a product's equilibrium price

- A) the product's demand curve is the same as the product's supply curve.
- B) the quantity of the product demanded is greater than the quantity of the product supplied.
- C) the quantity of the product demanded is less than the quantity of the product supplied.
- D) the product's demand curve crosses the product's supply curve.

Answer: D

Diff: 1 Page Ref: 86

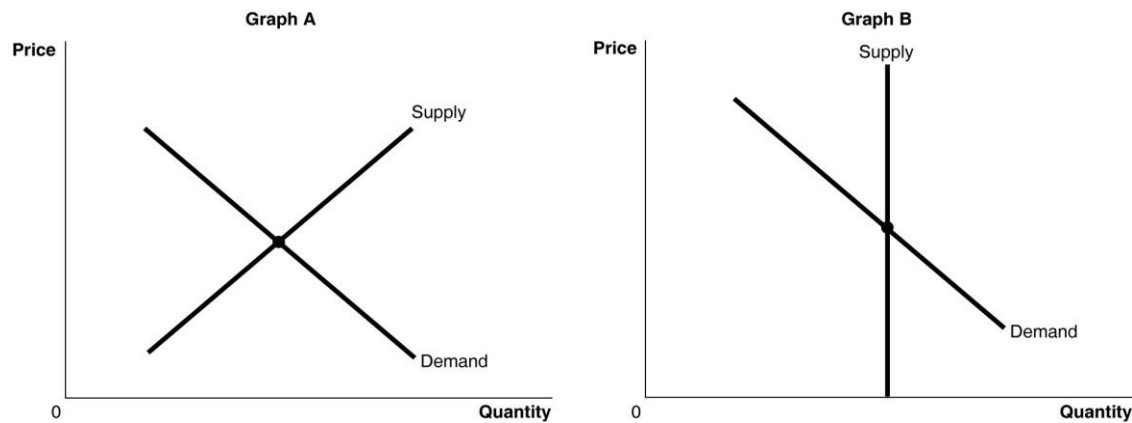
Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-3



3) *Refer to Figure 3-3.* The figure above shows the supply and demand curves for two markets: the market for an original Picasso painting and the market for designer jeans. Which graph most likely represents which market?

- A) Graph B represents the market for an original Picasso painting and Graph A represents the market for designer jeans.
- B) Graph A represents the market for an original Picasso painting and Graph B represents the market for designer jeans.
- C) Graph A represents both the market for an original Picasso painting and designer jeans.
- D) Graph B represents both the market for an original Picasso painting and designer jeans.

Answer: A

Diff: 2 Page Ref: 87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

4) *Refer to Figure 3-3.* The figure above shows the supply and demand curves for two markets: the market for original Michelangelo sculptures and the market for Ray Ban sunglasses. Which graph most likely represents which market?

- A) Graph B represents the market for original Michelangelo sculptures and Graph A represents the market for Ray Ban sunglasses.
- B) Graph A represents the market for original Michelangelo sculptures and Graph B represents the market for Ray Ban sunglasses.
- C) Graph A represents both the market for original Michelangelo sculptures and Ray Ban sunglasses.
- D) Graph B represents both the market for original Michelangelo sculptures and Ray Ban sunglasses.

Answer: A

Diff: 2 Page Ref: 87/87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

5) In 2004, hurricanes damaged a large portion of Florida's orange crop. As a result of this, many orange growers were not able to supply fruit to the market. If, following the hurricane, the price remained at its pre-hurricane level, we would expect to see

- A) a surplus of oranges.
- B) the quantity demanded equal to the quantity supplied.
- C) a shortage of oranges.
- D) an increase in the demand for oranges.

Answer: C

Diff: 2 Page Ref: 88

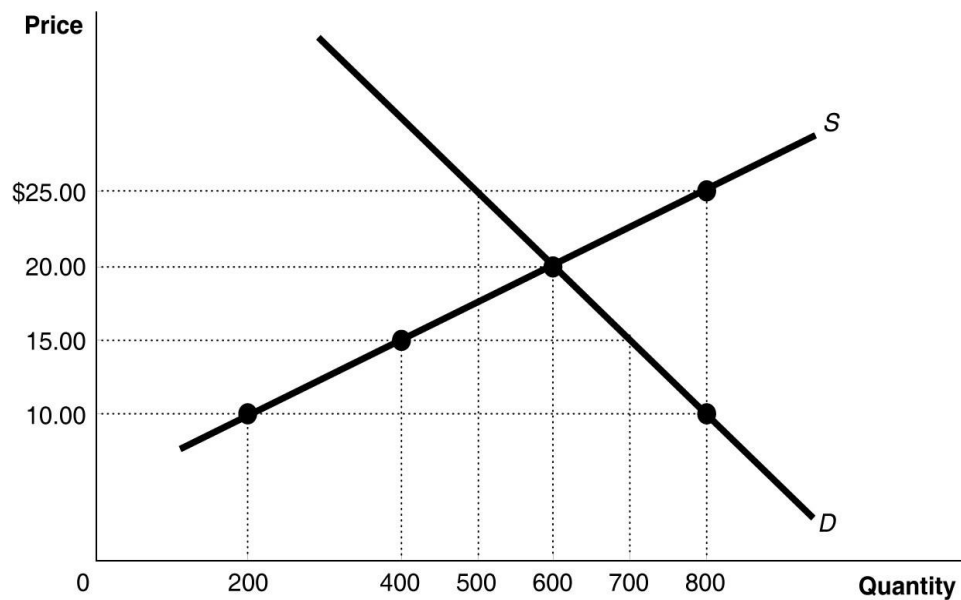
Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

*Figure 3-4*



6) *Refer to Figure 3-4.* If the price is \$10,

- A) there would be a surplus of 600 units.
- B) there would be a shortage of 600 units.
- C) there would be a surplus of 200 units.
- D) there would be a shortage of 200 units.

Answer: B

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



7) *Refer to Figure 3-4.* At a price of \$10, how many units will be sold?

- A) 200
- B) 400
- C) 600
- D) 800

Answer: A

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

8) *Refer to Figure 3-4.* If the current market price is \$10, the market will achieve equilibrium through

- A) a price increase, increasing the supply and decreasing the demand.
- B) a price decrease, decreasing the supply and increasing the demand.
- C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
- D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: D

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

9) *Refer to Figure 3-4.* If the price is \$15,

- A) there would be a surplus of 300 units.
- B) there would be a shortage of 300 units.
- C) there would be a surplus of 400 units.
- D) there would be a shortage of 400 units.

Answer: B

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

10) *Refer to Figure 3-4.* At a price of \$15, how many units will be sold?

- A) 300
- B) 400
- C) 600
- D) 700

Answer: B

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 11) **Refer to Figure 3-4.** If the current market price is \$15, the market will achieve equilibrium by
- A) a price increase, increasing the supply and decreasing the demand.
  - B) a price decrease, decreasing the supply and increasing the demand.
  - C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
  - D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: D

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 12) **Refer to Figure 3-4.** If the price is \$25

- A) there is a surplus of 300 units.
- B) there is a shortage of 300 units.
- C) there is a surplus of 200 units.
- D) there is a shortage of 200 units.

Answer: A

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 13) **Refer to Figure 3-4.** At a price of \$25, how many units will be sold?

- A) 400
- B) 500
- C) 600
- D) 800

Answer: B

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 14) **Refer to Figure 3-4.** At a price of \$25, how many units will be supplied?

- A) 400
- B) 500
- C) 600
- D) 800

Answer: D

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 15) **Refer to Figure 3-4.** If the current market price is \$25, the market will achieve equilibrium by
- A) a price increase, increasing the supply and decreasing the demand.
  - B) a price decrease, decreasing the supply and increasing the demand.
  - C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
  - D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: C

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 16) **Refer to Figure 3-4.** At a price of \$20, how many units will be sold?

- A) 400
- B) 500
- C) 600
- D) 800

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 17) **Refer to Figure 3-4.** At a price of \$20, how many units will be supplied?

- A) 400
- B) 500
- C) 600
- D) 800

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 18) **Refer to Figure 3-4.** If the price is \$20

- A) there is a surplus of 600 units.
- B) there is a shortage of 600 units.
- C) quantity demanded is zero.
- D) the market is in equilibrium.

Answer: D

Diff: 2 Page Ref: 87/87

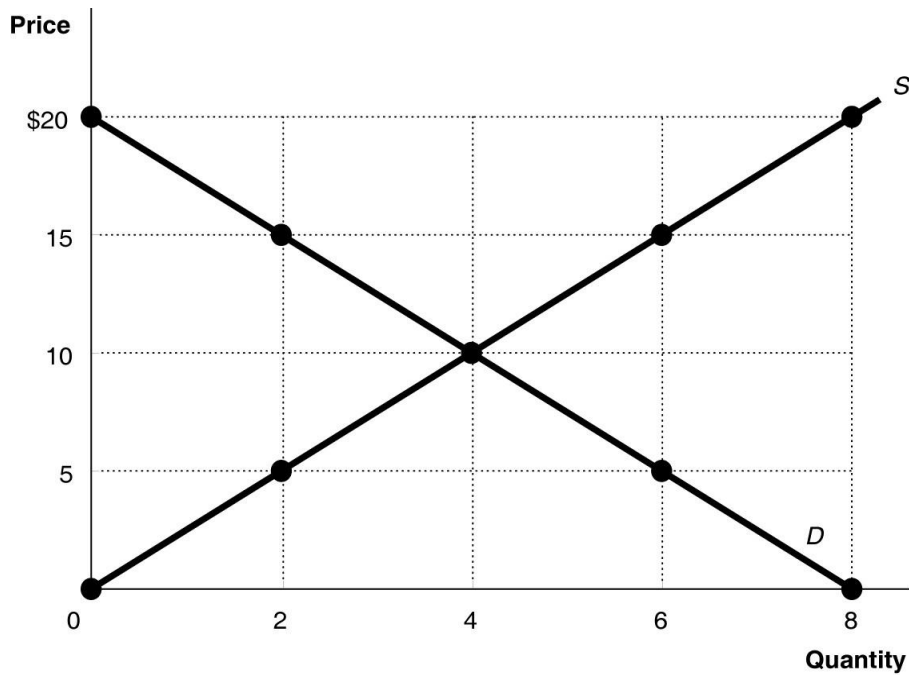
Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-5



- 19) Refer to Figure 3-5. At a price of \$15,
- A) there would be a surplus of 4 units.
  - B) there would be a shortage of 2 units.
  - C) there would be a surplus of 6 units.
  - D) there would be a shortage of 4 units.

Answer: A

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 20) Refer to Figure 3-5. At a price of \$5, the quantity sold

- A) is 2 units.
- B) is 4 units.
- C) is 6 units.
- D) cannot be determined.

Answer: A

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

21) *Refer to Figure 3-5.* At a price of \$20,

- A) there would be a surplus of 8 units.
- B) there would be a shortage of 8 units.
- C) there would be a surplus of 0 units.
- D) there would be a shortage of 4 units.

Answer: A

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

22) *Refer to Figure 3-5.* At a price of \$10, the quantity sold

- A) is 2 units.
- B) is 4 units.
- C) is 6 units.
- D) is 8 units.

Answer: B

Diff: 2 Page Ref: 88

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

23) *Refer to Figure 3-5.* In a free market such as that depicted above, a surplus is eliminated by

- A) a price increase, increasing the supply and decreasing the demand.
- B) a price decrease, decreasing the supply and increasing the demand.
- C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
- D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: C

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

24) *Refer to Figure 3-5.* At a price of \$5,

- A) there is a surplus of 4 units.
- B) there is a scarcity of 4 units.
- C) there is a shortage of 6 units.
- D) there is a shortage of 4 units.

Answer: D

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

25) *Refer to Figure 3-5.* At a price of \$0,

- A) there is a surplus of 8 units.
- B) there is a surplus of 0 units.
- C) there is a shortage of 0 units.
- D) there is a shortage of 8 units.

Answer: D

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

26) *Refer to Figure 3-5.* At a price of \$15, the quantity sold

- A) is 2 units.
- B) is 4 units.
- C) is 6 units.
- D) cannot be determined.

Answer: A

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

27) *Refer to Figure 3-5.* At a price of \$20, the quantity sold

- A) is 0 units.
- B) is 4 units.
- C) is 8 units.
- D) cannot be determined.

Answer: A

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

28) *Refer to Figure 3-5.* In a free market such as that depicted above, a shortage is eliminated by

- A) a price increase, increasing the supply and decreasing the demand.
- B) a price decrease, decreasing the supply and increasing the demand.
- C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
- D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: D

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

29) Assume there is a shortage in the market for digital music players. Which of the following statements correctly describes this situation?

- A) The demand for digital music players is greater than the supply of digital music players.
- B) Some consumers will be unable to obtain digital music players at the market price and will have an incentive to offer to buy the product at a higher price.
- C) The price of digital music players will rise in response to the shortage; as the price rises the quantity demanded will increase and the quantity supplied will decrease.
- D) The shortage will cause a decrease in the equilibrium price of digital music players.

Answer: B

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

30) In a perfectly competitive market, there are \_\_\_\_\_ buyers and \_\_\_\_\_ sellers.

- A) many; few
- B) few; many
- C) many; many
- D) few; few

Answer: C

Diff: 1 Page Ref: 87

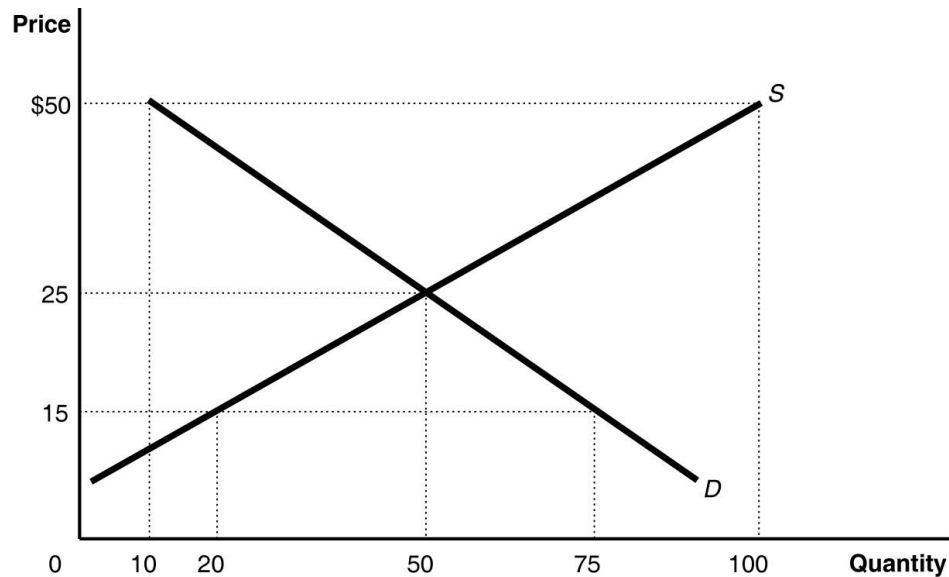
Topic: Perfectly Competitive Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-6



31) Refer to Figure 3-6. The figure above represents the market for canvas tote bags. Assume that the market price is \$35. Which of the following statements is *true*?

- A) There is a surplus that will cause the price to decrease; quantity demanded will then increase and quantity supplied will decrease until the price equals \$25.
- B) There is a surplus that will cause the price to decrease; quantity supplied will then increase and quantity demanded will decrease until the price equals \$25.
- C) There will be a surplus that will cause the price to decrease; demand will then increase and supply will decrease until the price equals \$25.
- D) There is a surplus that will cause the price to increase; quantity demanded will then decrease and quantity supplied will increase until the price equals \$25.

Answer: A

Diff: 2 Page Ref: 87

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



32) **Refer to Figure 3-6.** The figure above represents the market for canvas tote bags. Assume that the price of tote bags is \$15. At this price

- A) the quantity demanded exceeds the quantity supplied by 75. The price will eventually rise to \$25 where quantity demanded will equal quantity supplied.
- B) the demand exceeds the supply of tote bags by 55. Some consumers will have an incentive to offer to buy tote bags at a higher price.
- C) there is a shortage, equal to 55 tote bags, that will be eliminated when the price rises to \$25.
- D) there is a shortage equal to 55 tote bags; the price of tote bags will rise until demand is equal to supply.

Answer: C

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

33) **Refer to Figure 3-6.** The figure above represents the market for canvas tote bags. Compare the conditions in the market when the price is \$50 and when the price is \$35. Which of the following describes how the market differs at these prices?

- A) At each price there is a surplus; the surplus is greater at \$35 than at \$50.
- B) The difference between quantity supplied and quantity demanded is greater at \$50 than at \$35.
- C) At each price there is a surplus; firms will lower the equilibrium price in order to eliminate the surplus.
- D) At each price the supply of tote bags exceeds that demand for tote bags.

Answer: B

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

34) **Refer to Figure 3-6.** The figure above represents the market for coffee grinders. Assume that the market price is \$21. Which of the following statement is *true*?

- A) There is a shortage that will cause the price to increase; quantity demanded will then decrease and quantity supplied will increase until the price equals \$25.
- B) There is a shortage that will cause the price to increase; quantity supplied will then decrease and quantity demanded will increase until the price equals \$25.
- C) There will be a shortage that will cause the price to increase; demand will then decrease and supply will increase until the price equals \$25.
- D) There is a shortage that will cause the price to decrease; quantity demanded will then increase and quantity supplied will decrease until the price equals \$25.

Answer: A

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

35) *Refer to Figure 3-6.* The figure above represents the market for coffee grinders. Assume that the price of coffee grinders is \$50. At this price

A) the quantity supplied exceeds the quantity demanded by 100. The price will eventually fall to \$25 where quantity demanded will equal quantity supplied.

B) the supply exceeds the demand by 90. Some producers will have an incentive to offer to sell coffee grinders at a lower price.

C) there is a surplus equal to 90 coffee grinders that will be eliminated when the price falls to \$25.

D) there is a surplus equal to 90 coffee grinders and the price of coffee grinders will fall until demand is equal to supply.

Answer: C

Diff: 3 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

36) *Refer to Figure 3-6.* The figure above represents the market for coffee grinders. Compare the conditions in the market when the price is \$15 and when the price is \$21. Which of the following describes how the market differs at these prices?

A) At each price there is a shortage; the shortage is greater at \$15 than at \$21.

B) The difference between quantity supplied and quantity demanded is greater at \$21 than at \$15.

C) At each price there is a shortage; firms will raise the equilibrium price in order to eliminate the shortage.

D) At each price the demand for coffee grinders exceeds the supply of coffee grinders.

Answer: A

Diff: 3 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

37) If, for a product, the quantity supplied exceeds the quantity demanded, the market price will fall until

A) the quantity demanded exceeds the quantity supplied. The market will then be in equilibrium.

B) quantity demanded equals quantity supplied. The equilibrium price will then be lower than the market price.

C) all consumers will be able to afford the product.

D) quantity demanded equals quantity supplied. The market price will then equal the equilibrium price.

Answer: D

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

38) Which of the following is evidence of a surplus of bananas?

- A) Firms raise the price of bananas.
- B) The price of bananas is lowered in order to increase sales.
- C) The equilibrium price of bananas rises due to an increase in demand.
- D) The quantity of bananas demanded is greater than the quantity supplied.

Answer: B

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

39) Which of the following is evidence of a shortage of walnuts?

- A) Firms lower the price of walnuts.
- B) The price of cashews is lowered in order to make up for the walnut shortage.
- C) The equilibrium price of walnuts falls due to a decrease in demand.
- D) The quantity of walnuts demanded is greater than the quantity supplied.

Answer: D

Diff: 2 Page Ref: 87

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

40) Auctions in recent years have resulted in higher prices paid for letters written by John Wilkes Booth than those written by Abraham Lincoln. Which of the following events would cause the price differences in these letters to get smaller?

- A) The demand for Booth letters increases.
- B) The supply of Lincoln letters increases.
- C) The demand for Lincoln letters increases and the supply of Booth letters increases.
- D) The demand for Lincoln letters decreases and the demand for Booth letters increases.

Answer: C

Diff: 1 Page Ref: 88-89

Topic: Market Equilibrium

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

- 41) Auctions in recent years have resulted in higher prices paid for letters written by John Wilkes Booth than those written by Abraham Lincoln. What is a reason for this difference in price?
- A) There is a surplus of letters written by Booth and a shortage of letters written by Lincoln.
  - B) Many people are more fascinated by villains and anti-heroes than by heroic figures.
  - C) There are more letters available for collectors to buy that were written by Lincoln than there are letters that were written by Booth.
  - D) Booth was a well-known actor; the demand for his letters rose as wealthy actors attempted to buy them.

Answer: C

Diff: 1 Page Ref: 88-89

Topic: Market Equilibrium

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

- 42) At market equilibrium,
- A) demand equals supply.
  - B) quantity demanded equals quantity supplied.
  - C) surpluses are greater than shortages.
  - D) shortages are greater than surpluses.

Answer: B

Diff: 1 Page Ref: 86/86

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 43) At a product's equilibrium price
- A) anyone who needs the product will be able to buy the product, regardless of ability to pay.
  - B) the federal government will provide the product to anyone who cannot afford it.
  - C) not all sellers who are willing to accept the price will find buyers for their products.
  - D) any buyer who is willing and able to pay the price will find a seller for the product.

Answer: D

Diff: 1 Page Ref: 86/86

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

44) Hurricane Katrina damaged a large portion of refining and pipeline capacity when it swept through the Gulf coast states in August 2005. As a result of this, many gasoline distributors were not able to maintain normal deliveries. At the pre-hurricane equilibrium price (i.e., at the initial equilibrium price), we would expect to see

- A) a surplus of gasoline.
- B) the quantity demanded equal to the quantity supplied.
- C) a shortage of gasoline.
- D) an increase in the demand for gasoline.

Answer: C

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

45) Assume that there is a surplus in the market for hybrid automobiles. Which of the following statements correctly describes this situation?

- A) The supply of hybrid automobiles is greater than the demand for hybrid automobiles.
- B) Some consumers will be unable to obtain hybrid automobiles at the market price and will have an incentive to offer to buy the product at a higher price.
- C) The price of hybrid automobiles will fall in response to the surplus; as the price falls the quantity demanded will increase and the quantity supplied will decrease.
- D) The surplus will cause an increase in the equilibrium price of hybrid automobiles.

Answer: C

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

46) Which of the following describes a characteristic of a perfectly competitive market?

- A) There are many buyers but few sellers.
- B) There are many sellers but few buyers.
- C) There are many buyers and sellers.
- D) Equilibrium is achieved when demand for the product sold in the market equals the supply.

Answer: C

Diff: 1 Page Ref: 87/87

Topic: Perfectly Competitive Market

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 47) If the quantity demanded for a product exceeds the quantity supplied, the market price will rise until
- A) the quantity demanded equals the quantity supplied. The product will then no longer be scarce.
  - B) quantity demanded equals quantity supplied. The equilibrium price will then be greater than the market price.
  - C) only wealthy consumers will be able to afford the product.
  - D) quantity demanded equals quantity supplied. The market price will then equal the equilibrium price.

Answer: D

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 48) Which of the following is evidence of a shortage of chocolate?

- A) Firms lower the price of chocolate.
- B) The price of chocolate is raised in order to increase sales.
- C) The equilibrium price of chocolate falls due to a decrease in demand.
- D) The quantity of chocolate demanded is greater than the quantity supplied.

Answer: D

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 49) Even when the demand for one good is high, the price of the good is also affected by supply. The textbook illustrates this by comparing the price of two items that were auctioned on the same day. Which of the following describes the results of the auction?

- A) A letter written by Abraham Lincoln sold for a higher price than a letter written by John Wilkes Booth.
- B) A letter written by Abraham Lincoln was sold for a higher price than a letter written by Adam Smith.
- C) A letter written by John Wilkes Booth sold for a higher price than a letter written by Lee Harvey Oswald.
- D) A letter written by John Wilkes Booth sold for a higher price than a letter written by Abraham Lincoln.

Answer: D

Diff: 1 Page Ref: 88-89/88-89

Topic: Market Equilibrium

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

50) If the demand for letters written by Abraham Lincoln is higher than the demand for letters written by John Wilkes Booth, what would have to be *true* for the market equilibrium prices for these letters to be equal?

- A) The supply of Lincoln letters would have to be less than the supply of Booth letters.
- B) The supply of Booth letters would have to be less than the supply of Lincoln letters.
- C) The supply of Lincoln letters and the supply of Booth letters would have to be equal.
- D) If the demand for Lincoln letters is greater than the demand for Booth letters, the market equilibrium price for Lincoln letters will always be greater than the market equilibrium price for Booth letters.

Answer: B

Diff: 1 Page Ref: 88-89/88-89

Topic: Market Equilibrium

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

51) In response to a surplus the market price of a good will fall; as the price falls, the quantity demanded will increase and quantity supplied will decrease until equilibrium is reached.

Answer: TRUE

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

52) Scarcity is defined as the situation that exists when the quantity demanded for a good is greater than the quantity supplied.

Answer: FALSE

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

53) Market equilibrium occurs where supply equals demand.

Answer: FALSE

Diff: 2 Page Ref: 86

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

54) A shortage occurs when the market price is lower than the equilibrium price.

Answer: TRUE

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

55) A shortage is defined as the situation that exists when the quantity of a good supplied is greater than the quantity demanded.

Answer: FALSE

Diff: 1 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

56) A surplus occurs when the actual selling price is above the market equilibrium price.

Answer: TRUE

Diff: 2 Page Ref: 88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

57) A competitive market equilibrium is a market equilibrium with many buyers and sellers.

Answer: TRUE

Diff: 2 Page Ref: 87/87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

58) In response to a shortage, the market price of a good will rise. As the price rises, the demand will decrease and supply will increase until equilibrium is reached.

Answer: FALSE

Diff: 2 Page Ref: 88/88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

59) A surplus is defined as the situation that exists when the quantity of a good supplied is greater than the quantity demanded.

Answer: TRUE

Diff: 1 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

60) A surplus occurs when the market price is lower than the equilibrium price.

Answer: FALSE

Diff: 1 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



61) It is possible for a market for a good to experience a surplus and a shortage at the same time.

Answer: FALSE

Diff: 1 Page Ref: 88/88

Topic: Surplus and Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

62) Market equilibrium occurs where the quantity supplied is equal to the quantity demanded.

Answer: TRUE

Diff: 1 Page Ref: 86-87/86-87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

63) Nearly one-fifth of China's 1.38 billion people are under the age of 15. How will this affect high school enrollment over the next fifteen years? The labor market over the next fifteen years?

Answer: The demand for high school education will increase. The supply of labor over the next 15 years will increase.

Diff: 1 Page Ref: 88

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

64) In 2004, hurricanes destroyed a large portion of Florida's grapefruit crop. How did this affect the market price and market quantity of grapefruit?

Answer: The supply curve for grapefruit shifted to the left resulting in a higher equilibrium price and lower equilibrium quantity.

Diff: 2 Page Ref: 88

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

65) If the price of a product is above equilibrium, what forces it down?

Answer: When the price is above equilibrium, a surplus occurs. Some producers who are unable to sell the product will have an incentive to offer to sell the product at a lower price. A lower price will simultaneously decrease the quantity supplied and increase the quantity demanded. This downward pressure on price continues until the surplus is eliminated and equilibrium is achieved.

Diff: 2 Page Ref: 88

Topic: Surplus

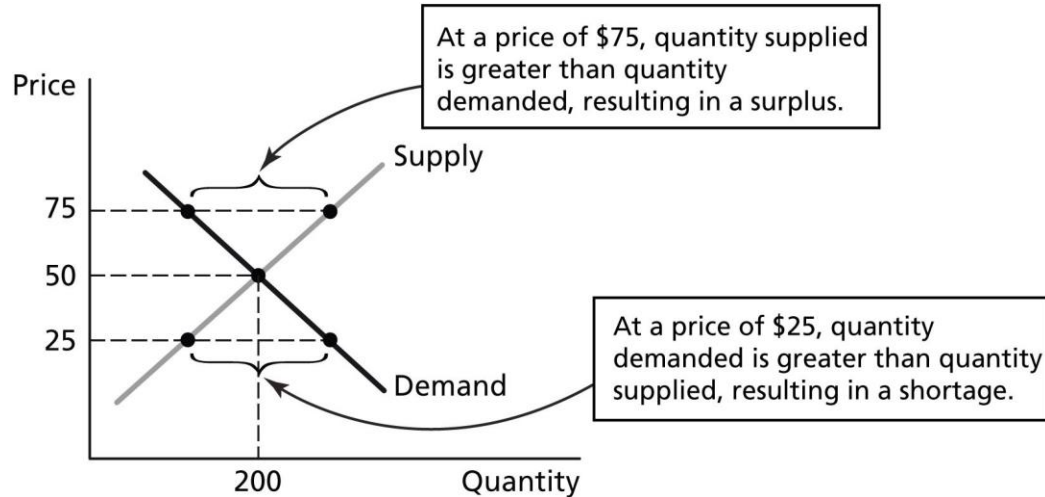
\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

66) Draw a supply and demand graph showing an equilibrium price of \$50 and an equilibrium quantity of 200 units. Explain what would happen if the selling price was \$75, and illustrate this on the graph. Explain what would happen if the selling price was \$25, and illustrate this on the graph. Be sure to label each axis and curve on the graph.

Answer:



Diff: 2 Page Ref: 87-88

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Table 3-5

Price per Bushel	Quantity Demanded (bushels)	Quantity Supplied (bushels)
\$3	36,000	0
6	30,000	3,000
9	24,000	6,000
12	19,000	10,000
15	15,000	15,000
18	10,000	21,000
21	7,000	28,000
24	4,000	36,000

67) Refer to Table 3-5. The table contains information about the corn market. Use the table to answer the following questions.

- What are the equilibrium price and quantity of corn?
- Suppose the prevailing price is \$9 per bushel. Is there a shortage or a surplus in the market?
- What is the quantity of the shortage or surplus?
- How many bushels will be sold if the market price is \$9 per bushel?
- If the market price is \$9 per bushel, what must happen to restore equilibrium in the market?
- At what price will suppliers be able to sell 24,000 bushels of corn?
- Suppose the market price is \$21 per bushel. Is there a shortage or a surplus in the market?
- What is the quantity of the shortage or surplus?
- How many bushels will be sold if the market price is \$21 per bushel?
- If the market price is \$21 per bushel, what must happen to restore equilibrium in the market?

Answer:

- Equilibrium price = \$15; Equilibrium quantity = 15,000 bushels.
- There is a shortage.
- Shortage =  $24,000 - 6,000 = 18,000$  bushels.
- Quantity sold = 6,000 bushels.
- Price must rise.
- At \$9 per bushel.
- There is a surplus.
- Surplus =  $28,000 - 7,000 = 21,000$  bushels.
- Quantity sold = 7,000 bushels.
- Price must fall.

Diff: 2 Page Ref: 87-88

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

68) What is a surplus? What is a shortage?

Answer: A surplus is a situation in which the quantity supplied is greater than the quantity demanded. A shortage is a situation in which the quantity demanded is greater than the quantity supplied.

Diff: 1 Page Ref: 88/88

Topic: Surplus and Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

69) What is the difference between a market equilibrium and a competitive market equilibrium?

Answer: A market equilibrium is a situation in which quantity demanded equals quantity supplied. A competitive market equilibrium is a market equilibrium with many buyers and sellers.

Diff: 2 Page Ref: 86-87/86-87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

70) In much of Europe, the legal age to obtain a driver's license is 18. If the legal driving age in the United States was changed to 18, how would this affect the market for new automobiles? The market for automobile insurance?

Answer: The demand for new automobiles would decrease, as would the demand for automobile insurance. These would decrease both the equilibrium price and equilibrium quantity for automobiles and for automobile insurance.

Diff: 1 Page Ref: 86-87/86-87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

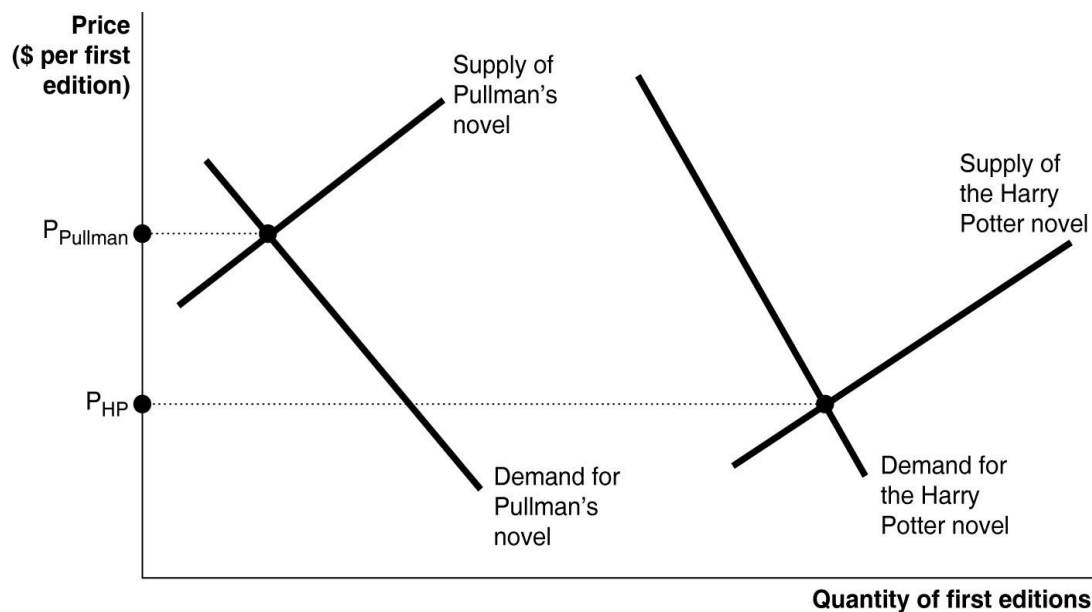
AACSB: Analytical thinking

71) Consider the collectors' market for first editions of two popular children's books, *Harry Potter and the Order of the Phoenix* by J. K. Rowling and *Ruby in the Smoke* by Philip Pullman. Sales of the Harry Potter novel are much greater than sales of *Ruby in the Smoke* yet the price of the Harry Potter novel is much lower than the price of Pullman's novel.

- On one large diagram, draw a demand and supply graph for first editions of *Harry Potter and the Order of the Phoenix* and another demand and supply graph for first editions of *Ruby in the Smoke*.
- Show how it is possible for the price of the Harry Potter novel to be much lower than the price of Pullman's novel, even though the demand for the Harry Potter novel is much greater than the demand for *Ruby in the Smoke*.
- Provide a written explanation to accompany your graphical illustration.

Answer:

- and b. See the figure below.



- The demand for the Harry Potter novel is much greater than the demand for Pullman novel. Yet, the latter commands a higher price. The only way this can be true is if the supply of the Harry Potter book is much greater than the supply of the Pullman novel. Indeed this is true. Following the success of the earlier Harry Potter novels, the publisher increased the quantity of the first edition of J. K. Rowling's later book, *Harry Potter and the Order of the Phoenix*. Pullman's novels, on the other hand, have enjoyed only modest success.

Diff: 3 Page Ref: 88-89/88-89

Topic: Market Equilibrium

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

Table 3-6

Price per Bushel	Quantity Demanded (bushels)	Quantity Supplied (bushels)
\$2	40,000	0
4	36,000	4,000
6	30,000	8,000
8	24,000	16,000
10	20,000	20,000
12	18,000	28,000
14	12,000	36,000
16	6,000	40,000

72) Refer to Table 3-6. The table contains information about the sorghum market. Use the table to answer the following questions.

- What are the equilibrium price and quantity of sorghum?
- Suppose the prevailing price is \$6 per bushel. Is there a shortage or a surplus in the market?
- What is the quantity of the shortage or surplus?
- How many bushels will be sold if the market price is \$6 per bushel?
- If the market price is \$6 per bushel, what must happen to restore equilibrium in the market?
- At what price will suppliers be able to sell 36,000 bushels of sorghum?
- Suppose the market price is \$14 per bushel. Is there a shortage or a surplus in the market?
- What is the quantity of the shortage or surplus?
- How many bushels will be sold if the market price is \$14 per bushel?
- If the market price is \$14 per bushel, what must happen to restore equilibrium in the market?

Answer:

- Equilibrium price = \$10; Equilibrium quantity = 20,000 bushels.
- There is a shortage.
- Shortage = 30,000 - 8,000 = 22,000 bushels.
- Quantity sold = 8,000 bushels.
- Price must rise.
- At \$4 per bushel.
- There is a surplus.
- Surplus = 36,000 - 12,000 = 24,000 bushels.
- Quantity sold = 12,000 bushels.
- Price must fall.

Diff: 2 Page Ref: 86-87/86-87

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

### 3.4 The Effect of Demand and Supply Shifts on Equilibrium

1) Let  $D$ = demand,  $S$  = supply,  $P$  = equilibrium price, and  $Q$ = equilibrium quantity. What happens in the market for tropical hardwood trees if the governments restrict the amount of forest lands that can be logged?

- A)  $D$  decreases,  $S$  no change,  $P$  and  $Q$  decrease.
- B)  $S$  decreases,  $D$  no change,  $P$  increases,  $Q$  decreases.
- C)  $D$  and  $S$  decrease,  $P$  and  $Q$  increase.
- D)  $D$  no change,  $S$  decreases,  $P$  increases,  $Q$  increases.

Answer: B

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

2) Let  $D$ = demand,  $S$  = supply,  $P$  = equilibrium price, and  $Q$ = equilibrium quantity. What happens in the market for walnuts if the Centers for Disease Control and Prevention announces that consuming a half cup of walnuts each week helps to lower levels of bad cholesterol?

- A)  $D$  increases,  $S$  no change,  $P$  and  $Q$  increase.
- B)  $S$  increases,  $D$  no change,  $P$  decreases,  $Q$  increases.
- C)  $D$  and  $S$  increase,  $P$  and  $Q$  decrease.
- D)  $D$  no change,  $S$  increases,  $P$  decreases,  $Q$  decreases.

Answer: A

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

3) In 2004, hurricanes destroyed a large portion of Florida's orange and grapefruit crops. In the market for citrus fruit in 2004

- A) the supply curve shifted to the right resulting in an increase in the equilibrium price.
- B) the supply curve shifted to the left resulting in an increase in the equilibrium price.
- C) the demand curve shifted to the right resulting in an increase in the equilibrium price.
- D) the demand curve shifted to the left resulting in a decrease in the equilibrium price.

Answer: B

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

4) Olive oil producers want to sell more olive oil at a higher price. Which of the following events would have this effect?

- A) an increase in the price of olive oil presses
- B) a decrease in the cost of transporting olive oil to markets
- C) an increase in the price of land used to plant olive trees
- D) research finds that consumption of olive oil reduces the risk of heart disease

Answer: D

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

5) Orange juice drinkers want to consume more orange juice at a lower price. Which of the following events would have this effect?

- A) a decrease in the price of orange juice processing
- B) an increase in the cost of fertilizer used for orange groves
- C) a decrease in income, assuming orange juice is a normal good
- D) a decrease in the population

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

6) Assume that cotton is a normal good. Which of the following would cause both the equilibrium price and equilibrium quantity of cotton to increase?

- A) an increase in consumer income
- B) a drought that sharply reduces cotton output
- C) a decrease in consumer income
- D) unusually good weather that results in a bumper crop of cotton

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



7) Assume that potatoes are an inferior good. Which of the following would cause both the equilibrium price and equilibrium quantity of potatoes to decrease?

- A) an increase in consumer income
- B) a freeze that sharply reduces potato output
- C) a decrease in consumer income
- D) a technological advancement that results in a bumper crop of potatoes

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

8) Which of the following would cause the equilibrium price of white bread to decrease and the equilibrium quantity of white bread to increase?

- A) a decrease in the price of flour
- B) an increase in the price of flour
- C) an increase in the price of rye bread, a substitute for white bread
- D) an increase in the price of butter, a complement for white bread

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

9) Assume that the hourly price for the services of tarot card readers has risen and sales of these services have also risen. One can conclude that

- A) the law of demand has been violated.
- B) the number of tarot card readers has increased.
- C) the demand for tarot card readers has increased.
- D) tarot card readers are deliberately charging high prices because they provide services for superstitious clients.

Answer: C

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

10) Assume that the price for swimming pool maintenance services has risen and sales of these services have fallen. One can conclude that

- A) the law of supply has been violated.
- B) the demand for swimming pool maintenance services has increased.
- C) the supply of swimming pool maintenance services has decreased.
- D) swimming pool maintenance services are becoming more technologically advanced.

Answer: C

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

11) Assume that California Merlot is a normal good. Prices of California Merlot have risen steadily in recent years. Over this same period, prices for French oak barrels used for wine storage have dropped and consumer incomes have risen. Which of the following best explains the rising prices of California Merlots?

- A) The supply curve for Merlot has shifted to the right while the demand curve for Merlot has shifted to the left.
- B) The demand curve for Merlot has shifted to the right more than the supply curve has shifted to the right.
- C) The demand curve and the supply curve for Merlot have both shifted to the left.
- D) The supply curve for Merlot has shifted to the right more than the demand curve has shifted to the right.

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

12) Assume that microbrewery beer is a normal good. Prices of microbrewery beer have risen steadily in recent years. Over this same period, prices for fermenting vats used in beer making have also risen and consumer incomes have fallen. Which of the following best explains the rising prices of microbrewery beer?

- A) The supply curve for microbrewery beer has shifted to the left while the demand curve for microbrewery beer has shifted to the right.
- B) The demand curve for microbrewery beer has shifted to the left more than the supply curve has shifted to the left.
- C) The demand curve and the supply curve for microbrewery beer have both shifted to the right.
- D) The supply curve for microbrewery beer has shifted to the left more than the demand curve has shifted to the left.

Answer: D

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

13) In recent years, the cost of producing organic produce in the United States has decreased largely due to technological advancement. At the same time, more and more Americans prefer organic produce over conventional produce. Which of the following best explains the effect of these events in the organic produce market?

- A) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- B) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- C) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in both the equilibrium price and the equilibrium quantity.
- D) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

14) The cost of producing cigarettes in the United States has increased and at the same time, more and more Americans are choosing to not smoke cigarettes. Which of the following best explains the effect of these events in the cigarette market?

- A) The supply curve has shifted to the right and the demand curve has shifted to the left. As a result there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- B) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- C) Both the supply and demand curves have shifted to the left. As a result, there has been a decrease in the equilibrium quantity and an uncertain effect on the equilibrium price.
- D) The supply curve has shifted to the right and the demand curve has shifted to the left. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

15) An article in the *Wall Street Journal* in early 2001 noted two developments in the market for laser eye surgery. The first development concerned side effects from the surgery, including blurred vision. The second development was that the companies renting eye-surgery machinery to doctors had reduced their charges. In the market for laser eye surgeries, these two developments

A) decreased demand and decreased supply, resulting in a decrease in the equilibrium quantity and an increase in the equilibrium price of laser eye surgeries.

B) decreased demand and increased supply resulting in an increase in both the equilibrium quantity and the equilibrium price of laser eye surgeries.

C) decreased demand and increased supply, resulting in a decrease in the equilibrium price and an uncertain effect on the equilibrium quantity of laser eye surgeries.

D) decreased demand and increased supply, resulting in a decrease in both the equilibrium price and the equilibrium quantity of laser eye surgeries.

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

16) An increase in the demand for lobster due to changes in consumer tastes, accompanied by a decrease in the supply of lobster as a result bad weather reducing the number of fishermen trapping lobster, will result in

A) a decrease in the equilibrium quantity of lobster and no change in the equilibrium price.

B) an increase in the equilibrium price of lobster and no change in the equilibrium quantity.

C) an increase in the equilibrium price of lobster; the equilibrium quantity may increase or decrease.

D) a decrease in the equilibrium quantity of lobster; the equilibrium price may increase or decrease.

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

17) A decrease in the demand for soft drinks due to changes in consumer tastes, accompanied by an increase in the supply of soft drinks as a result of reductions in input prices, will result in

A) a decrease in the equilibrium quantity of soft drinks and no change in the equilibrium price.

B) a decrease in the equilibrium price of soft drinks and no change in the equilibrium quantity.

C) a decrease in the equilibrium price of soft drinks; the equilibrium quantity may increase or decrease.

D) an increase in the equilibrium quantity of soft drinks; the equilibrium price may increase or decrease.

Answer: C

Diff: 3 Page Ref: 90

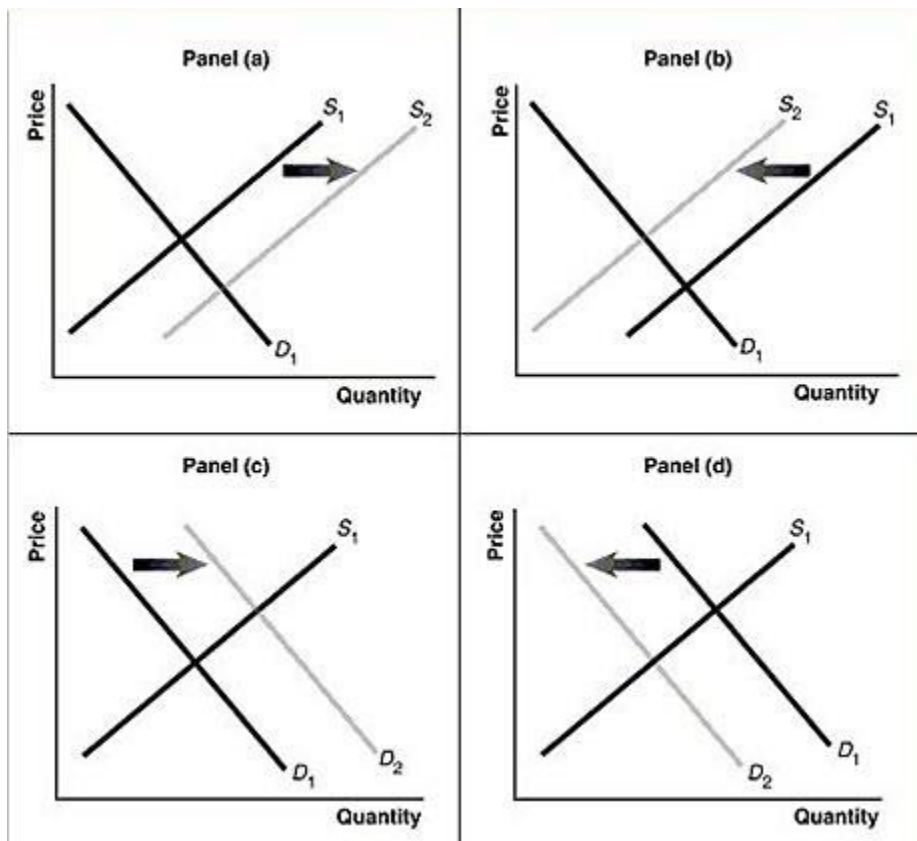
Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-7



18) Refer to Figure 3-7. Assume that the graphs in this figure represent the demand and supply curves for bicycle helmets. Which panel best describes what happens in this market if there is a substantial increase in the price of bicycles?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

19) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for women's clothing. Which panel best describes what happens in this market when the wages of seamstresses rise?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: B

Diff: 2 Page Ref: 91

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

20) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for almonds. Which panel best describes what happens in this market when there is an increase in the productivity of almond harvesters?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: A

Diff: 2 Page Ref: 91

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

21) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for Fruitopia, a soft drink. Which panel describes what happens in the market for Fruitopia when the price of Snapple, a substitute product, decreases?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

22) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for potatoes and that steak and potatoes are complements. What panel describes what happens in this market when the price of steak rises?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

23) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for rice. What happens in this market if buyers expect the price of rice to fall?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

24) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for used clothing, an inferior good. Which panel describes what happens in this market as a result of a decrease in income?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: C

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

25) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for blu-ray discs. Which panel best describes what happens in this market if there is a substantial increase in the price of blu-ray players?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

26) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for laptop computers. Which panel best describes what happens in this market when the price of computer hard drives falls?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: A

Diff: 2 Page Ref: 91/91

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

27) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for tuna. Which panel best describes what happens in this market when there is a decrease in the productivity of commercial fishermen?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: B

Diff: 2 Page Ref: 91/91

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



28) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for frozen yogurt. Which panel describes what happens in the market for frozen yogurt when the price of ice cream, a substitute product, increases?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

29) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for mustard and that bratwurst and mustard are complements. What panel describes what happens in this market when the price of bratwurst falls?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

30) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for coffee. What happens in this market if buyers expect the price of coffee to rise?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

31) *Refer to Figure 3-7.* Assume that the graphs in this figure represent the demand and supply curves for ramen noodles, an inferior good. Which panel describes what happens in this market as a result of an increase in income?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)

Answer: D

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

32) Positive technological change in the production of LCD televisions caused the price of LCD televisions to fall. Holding everything else constant, how would this affect the market for Blu-ray players (a complement to LCD televisions)?

- A) The supply of Blu-ray players would increase and the equilibrium price of Blu-ray players would decrease.
- B) The demand for Blu-ray players would increase and the equilibrium price of Blu-ray players would increase.
- C) The demand for Blu-ray players would decrease because consumers could afford to buy fewer LCD televisions and Blu-ray players.
- D) The demand for Blu-ray players would increase and the equilibrium price of Blu-ray players would decrease.

Answer: B

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

33) An increase in input costs in the production of electric automobiles caused the price of electric automobiles to rise. Holding everything else constant, how would this affect the market for gasoline-powered automobiles (a substitute for electric automobiles)?

- A) The supply of gasoline-powered automobiles would increase and the equilibrium price of gasoline-powered automobiles would decrease.
- B) The demand for gasoline-powered automobiles would increase and the equilibrium price of gasoline-powered automobiles would increase.
- C) The demand for gasoline-powered automobiles would decrease because consumers could afford to buy fewer gasoline-powered automobiles.
- D) The demand for gasoline-powered automobiles would increase and the equilibrium price of gasoline-powered automobiles would decrease.

Answer: B

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

34) Assume that both the demand curve and the supply curve for MP3 players shift to the right but the demand curve shifts more than the supply curve. As a result

- A) both the equilibrium price and quantity of MP3 players will increase.
- B) the equilibrium price of MP3 players will increase; the equilibrium quantity may increase or decrease.
- C) the equilibrium price of MP3 players may increase or decrease; the equilibrium quantity will increase.
- D) the equilibrium price of MP3 players will decrease; the equilibrium quantity may increase or decrease.

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

35) Assume that both the demand curve and the supply curve for MP3 players shift to the right but the supply curve shifts more than the demand curve. As a result

- A) both the equilibrium price and quantity of MP3 players will decrease.
- B) the equilibrium price of MP3 players will decrease; the equilibrium quantity will increase.
- C) the equilibrium price of MP3 players may increase or decrease; the equilibrium quantity will decrease.
- D) the equilibrium price of MP3 players will increase; the equilibrium quantity will decrease.

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

36) Assume that the demand curve for MP3 players shifts to the right and the supply curve for MP3 players shift to the left, but the supply curve shifts more than the demand curve. As a result

- A) both the equilibrium price and quantity of MP3 players will decrease.
- B) the equilibrium price of MP3 players will decrease; the equilibrium quantity will increase.
- C) the equilibrium price of MP3 players may increase or decrease; the equilibrium quantity will decrease.
- D) the equilibrium price of MP3 players will increase; the equilibrium quantity will decrease.

Answer: D

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 37) Assume that the demand curve for MP3 players shifts to the right and the supply curve for MP3 players shift to the left, but the supply curve shifts less than the demand curve. As a result
- A) both the equilibrium price and quantity of MP3 players will decrease.
  - B) both the equilibrium price and quantity of MP3 players will increase.
  - C) the equilibrium price of MP3 players may increase or decrease; the equilibrium quantity will decrease.
  - D) the equilibrium price of MP3 players will increase; the equilibrium quantity will decrease.

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 38) "The price of compact fluorescent light bulbs fell because of improvements in production technology. As a result, the demand for incandescent light bulbs decreased. This caused the price of incandescent light bulbs to fall; as the price of incandescent light bulbs fell the demand for incandescent light bulbs decreased even further." Evaluate this statement.

- A) The statement is false. A decrease in the price of compact fluorescent light bulbs would decrease the demand for incandescent light bulbs, but a decrease in the price of incandescent light bulbs would not cause the demand for incandescent light bulbs to decrease.
- B) The statement is false because the demand for incandescent light bulbs would increase as the price of compact fluorescent light bulbs fell.
- C) The statement is false because compact fluorescent light bulbs producers would not reduce their prices as a result of improvements in technology; doing so would reduce their profits.
- D) The statement is false because it confuses the law of demand with the law of supply.

Answer: A

Diff: 2 Page Ref: 90

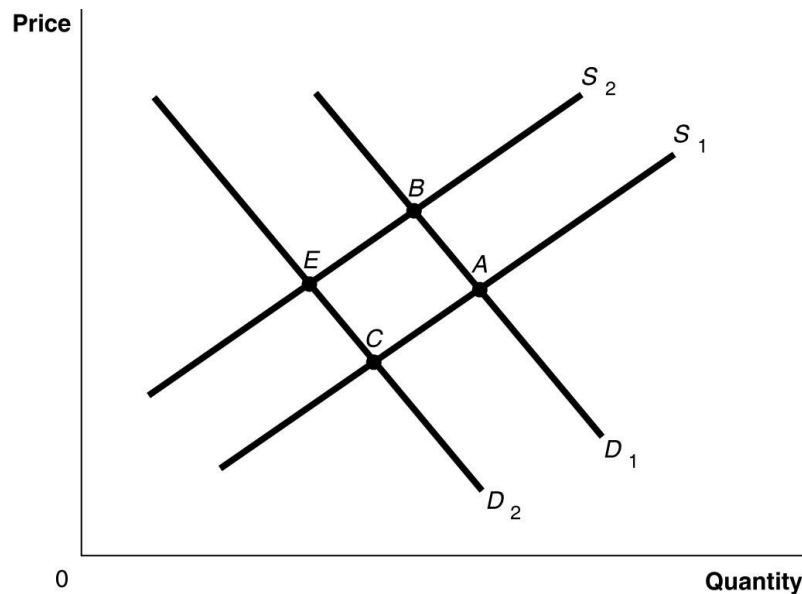
Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Figure 3-8



39) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_1$  and  $S_1$  (point A). If the price of oranges, a substitute for apples, decreases and the wages of apple workers increase, how will the equilibrium point change?

- A) The equilibrium point will move from A to E.
- B) The equilibrium point will move from A to B.
- C) The equilibrium point will move from A to C.
- D) The equilibrium will first move from A to B, then return to A.

Answer: A

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

40) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_1$  and  $S_1$  (point A). If there is a shortage of apples, how will the equilibrium point change?

- A) The equilibrium point will move from A to B.
- B) The equilibrium point will move from A to C.
- C) There will be no change in the equilibrium point.
- D) The equilibrium point will move from A to E.

Answer: C

Diff: 2 Page Ref: 91

Topic: Shortage

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

41) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for sugar at the intersection of  $D_1$  and  $S_1$  (point A). If there is an increase in the price of fertilizer used on sugar cane and there is a decrease in tastes for sugar-sweetened soft drinks, how will the equilibrium point change?

- A) The equilibrium point will move from A to B.
- B) The equilibrium point will move from A to C.
- C) There will be no change in the equilibrium point.
- D) The equilibrium point will move from A to E.

Answer: D

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

42) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for sugar at the intersection of  $D_1$  and  $S_2$  (point B). If there is an decrease in the price of fertilizer used on sugar cane and there is a decrease in tastes for sugar-sweetened soft drinks, how will the equilibrium point change?

- A) The equilibrium point will move from B to A.
- B) The equilibrium point will move from B to C.
- C) There will be no change in the equilibrium point.
- D) The equilibrium point will move from B to E.

Answer: B

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

43) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_2$  and  $S_2$  (point E). Which of the following changes would cause the equilibrium to change to point A?

- A) a positive change in the technology used to produce apples and decrease in the price of oranges, a substitute for apples
- B) an increase in the wages of apple workers and a decrease in the price of oranges, a substitute for apples
- C) an increase in the number of apple producers and a decrease in the number of apple trees as a result of disease
- D) a decrease in the wages of apple workers and an increase in the price of oranges, a substitute for apples

Answer: D

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

44) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_2$  and  $S_1$  (point C). Which of the following changes would cause the equilibrium to change to point B?

- A) a positive change in the technology used to produce apples and decrease in the price of oranges, a substitute for apples
- B) an increase in the wages of apple workers and an increase in the price of oranges, a substitute for apples
- C) an increase in the number of apple producers and a decrease in the number of apple trees as a result of disease
- D) a decrease in the wages of apple workers and an increase in the price of oranges, a substitute for apples

Answer: B

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

45) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_1$  and  $S_2$  (point B). Which of the following changes would cause the equilibrium to change to point C?

- A) a positive change in the technology used to produce apples and decrease in the price of oranges, a substitute for apples
- B) an increase in the wages of apple workers and an increase in the price of oranges, a substitute for apples
- C) an increase in the number of apple producers and a decrease in the number of apple trees as a result of disease
- D) a decrease in the wages of apple workers and an increase in the price of oranges, a substitute for apples

Answer: A

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

46) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_1$  and  $S_1$  (point A). If there is an increase in the wages of apple workers and an increase in the price of oranges, a substitute for apples, the equilibrium could move to which point?

- A) none of the points shown
- B) B
- C) C
- D) E

Answer: A

Diff: 3 Page Ref: 91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

47) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_1$  (point A). If the price of motorcycle engines increases, and the wages of motorcycle workers increase, how will the equilibrium point change?

- A) The equilibrium point will move from A to E.
- B) The equilibrium point will move from A to B.
- C) The equilibrium point will move from A to C.
- D) The equilibrium will first move from A to B, then return to A.

Answer: B

Diff: 3 Page Ref: 91/91

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

48) *Refer to Figure 3-8.* The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_2$  and  $S_1$  (point C). If the price of motorcycle side cars (a complement to motorcycles) decreases, and the wages of motorcycle workers increase, how will the equilibrium point change?

- A) The equilibrium point will move from C to E.
- B) The equilibrium point will move from C to B.
- C) The equilibrium point will move from C to A.
- D) The equilibrium will first move from C to A, then return to C.

Answer: B

Diff: 3 Page Ref: 91/91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



49) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_2$  and  $S_2$  (point  $E$ ). If the technology to produce motorcycles improves and the number of buyers increases, how will the equilibrium point change?

- A) The equilibrium point will move from  $E$  to  $A$ .
- B) The equilibrium point will move from  $E$  to  $B$ .
- C) The equilibrium point will move from  $E$  to  $C$ .
- D) The equilibrium point will remain at  $E$ .

Answer: A

Diff: 3 Page Ref: 91/91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

50) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_1$  (point  $A$ ). If there is a surplus of motorcycles how will the equilibrium point change?

- A) The equilibrium point will move from  $A$  to  $B$ .
- B) The equilibrium point will move from  $A$  to  $C$ .
- C) There will be no change in the equilibrium point.
- D) The equilibrium point will move from  $A$  to  $E$ .

Answer: C

Diff: 2 Page Ref: 91/91

Topic: Surplus

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

51) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_2$  and  $S_1$  (point  $C$ ). Which of the following changes would cause the equilibrium to change to point  $B$ ?

- A) a positive change in the technology used to produce motorcycles and decrease in the price of motorcycle insurance, a complement to motorcycles
- B) an increase in the wages of motorcycle workers and a decrease in the price of motorcycle insurance, a complement to motorcycles
- C) an increase in the number of motorcycle producers and an increase in the number of consumers who prefer riding motorcycles
- D) an increase in the wages of motorcycle workers and an increase in the price of motorcycle insurance, a complement to motorcycles

Answer: B

Diff: 3 Page Ref: 91/91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

52) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_1$  (point A). If there is an increase in the wages of motorcycle workers and an increase in the price of motorcycle insurance, a complement to motorcycles, the equilibrium could move to which point?

- A) A
- B) B
- C) C
- D) E

Answer: D

Diff: 3 Page Ref: 91/91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

53) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_2$  (point B). Assume that Motorcycles are a normal good. If there is an increase in number of companies producing motorcycles and a decrease in income (assume motorcycles are a normal good), the equilibrium could move to which point?

- A) A
- B) B
- C) C
- D) E

Answer: C

Diff: 3 Page Ref: 91/91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

54) Which of the following statements is *true*?

- A) An increase in demand causes a change in equilibrium price; the change in price does not cause a further change in demand or supply.
- B) A decrease in supply causes equilibrium price to rise; the increase in price then results in a decrease in demand.
- C) If both demand and supply increase there must be an increase in equilibrium price; equilibrium quantity may either increase or decrease.
- D) If demand decreases and supply increases one cannot determine if equilibrium price will increase or decrease without knowing which change is greater.

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

55) Which of the following statements is *true*?

- A) An increase in supply causes a change in equilibrium price; the change in price does not cause a further change in demand or supply.
- B) A decrease in supply causes equilibrium price to rise; the increase in price then results in a decrease in demand.
- C) If both demand and supply increase there must be an increase in equilibrium price; equilibrium quantity may either increase or decrease.
- D) If demand decreases and supply increases one cannot determine if equilibrium price will increase or decrease without knowing which change is greater.

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

56) A decrease in the equilibrium price for a product will result

- A) when the quantity demanded for the product exceeds the quantity supplied.
- B) when there is a decrease in supply and a decrease in demand for the product.
- C) when there is an increase in supply and a decrease in demand for the product.
- D) when there is a decrease in demand and a decrease in the number of firms producing the product.

Answer: C

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

57) A decrease in the equilibrium quantity for a product will result

- A) when the quantity demanded for the product exceeds the quantity supplied.
- B) when there is a decrease in supply and a decrease in demand for the product.
- C) when there is an increase in supply and a decrease in demand for the product.
- D) when there is a decrease in demand and an increase in the number of firms producing the product.

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

58) The following appeared in a Florida newspaper a week after a hurricane hit the state. "Floridians are relieved that the storm produced no fatalities but homeowners face weeks, if not months, of rebuilding. Matters are made worse by the soaring prices of plywood and other building materials that always follow in a hurricane's path. Complaints of profiteering and price gouging have not deterred firms from raising their prices by over 100 percent." Which of the following offers the best explanation for the price increases referred to in the article?

- A) The hurricane increased the number of suppliers of building materials.
- B) The hurricane created an artificial shortage of building materials.
- C) The hurricane caused an increase in the demand for building materials.
- D) There was a reduction in supply as firms shipped plywood and other materials to locations not affected by the storm.

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

59) Which of the following would cause a decrease in the equilibrium price and an increase in the equilibrium quantity of salmon?

- A) a decrease in demand and an increase in supply
- B) an increase in supply
- C) an increase in supply and an increase in demand greater than the increase in supply
- D) a decrease in demand and a decrease in supply

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

60) Which of the following would definitely cause an increase in the equilibrium price and an increase in the equilibrium quantity of watermelons?

- A) an increase in demand and an increase in supply
- B) an increase in supply
- C) an increase in supply and an increase in demand greater than the increase in supply
- D) a decrease in demand and an increase in supply

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

61) Select the phrase that correctly completes the following statement. "A positive change in technology caused an increase in the supply of flat-screen televisions. As a result \_\_\_\_\_."

- A) the price of flat-screen televisions decreased and the demand for flat-screen televisions increased
- B) the equilibrium quantity of flat-screen televisions decreased
- C) the price of flat-screen televisions decreased and the quantity demanded of flat-screen televisions increased
- D) the price of flat-screen televisions decreased. The lower price caused the supply of flat-screen televisions to decrease

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

62) Select the phrase that correctly completes the following statement. "An increase in input prices caused a decrease in the supply of baseballs. As a result \_\_\_\_\_."

- A) the price of baseballs increased and the demand for baseballs decreased
- B) the equilibrium quantity of baseballs increased
- C) the price of baseballs increased and the quantity demanded of baseballs decreased
- D) the price of baseballs increased. The higher price caused the supply of baseballs to increase

Answer: C

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

63) What would happen in the market for laser eye surgery if insurance companies started to cover a portion of the price of voluntary procedures?

- A) Demand will increase, but this will not shift the supply curve.
- B) Supply will increase, but this will not shift the demand curve.
- C) Demand and supply will both increase.
- D) Demand will increase and supply will decrease.

Answer: A

Diff: 3 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

64) If more insurance companies decide to cover part of the price of voluntary laser eye surgery and more doctors decide to enter the field of laser eye surgery, what will happen in the market for laser eye surgery as a result of these two factors?

- A) Demand will increase, but these two factors will not shift the supply curve.
- B) Supply will increase, but these two factors will not shift the demand curve.
- C) Demand and supply will both increase.
- D) Demand will increase and supply will decrease.

Answer: C

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

65) In recent years, the consumption of orange juice in the United States has fallen but the price of orange juice has risen. This is because the supply of orange juice has \_\_\_\_\_ and the demand for orange juice has \_\_\_\_\_.

- A) decreased; increased
- B) decreased; also decreased
- C) increased; decreased
- D) increased; also increased

Answer: B

Diff: 2 Page Ref: 92-93

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Lower Demand for Orange Juice-But Higher Prices?

66) "Because apples and oranges are substitutes, an increase in the price of oranges will cause the demand for apples to increase. This initial shift in demand for apples results in a higher price for apples; this higher price will cause the demand curve for apples to shift to the right." Which of the following correctly comments on this statement?

- A) The statement will be true if consumer tastes for apples and oranges do not change.
- B) The statement is false because a change in the price of apples would not change the demand for apples.
- C) The statement is false because oranges are inferior goods; apples are normal goods.
- D) The statement is false because one cannot assume that apples and oranges are substitutes for all consumers.

Answer: B

Diff: 2 Page Ref: 96

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Don't Let This Happen to You: Remember: A Change in a Good's Price Does Not Cause the Demand or Supply Curve to Shift

67) "Because chips and salsa are complements, an increase in the price of chips will cause the demand for salsa to decrease. This initial shift in demand for chips results in a higher price for chips; this higher price will cause the demand curve for chips to shift to the right." Which of the following correctly comments on this statement?

- A) The statement will be true if consumer tastes for chips and salsa do not change.
- B) The statement is false because a change in the price of chips would not change the demand for chips.
- C) The statement is false because salsa is an inferior good; chips are normal goods.
- D) The statement is false because one cannot assume that chips and salsa are complements for all consumers.

Answer: B

Diff: 2 Page Ref: 96

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Don't Let This Happen to You: Remember: A Change in a Good's Price Does Not Cause the Demand or Supply Curve to Shift

68) Suppose the cost of growing organic corn has risen at the same time as consumer preference for organic corn has fallen. In the market for organic corn, this would be represented by the equilibrium price \_\_\_\_\_ and the equilibrium quantity \_\_\_\_\_.

- A) increasing; increasing or decreasing
- B) increasing or decreasing; decreasing
- C) decreasing; increasing or decreasing
- D) increasing or decreasing; increasing

Answer: B

Diff: 2 Page Ref: 94-95

Topic: Shifts in Demand and Supply

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Can We Predict Changes in the Price and Quantity of Organic Corn?

69) Suppose that McDonald's successfully implements self-serve kiosks in their restaurants, which allows the company to reduce the number of employees at each location. All else equal, this technological improvement would

- A) shift the supply curve for its products to the right.
- B) shift the supply curve for its products to the left.
- C) shift the demand curve for its products to the right.
- D) shift the demand curve for its products to the left.

Answer: A

Diff: 2 Page Ref: 98-99

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: An Inside Look: McDonald's Looks for New Ways to Attract Customers

70) Let  $D$  = demand,  $S$  = supply,  $P$  = equilibrium price, and  $Q$  = equilibrium quantity. What happens in the market for electric vehicles if the government offers incentives to manufacturers to produce more electric vehicles?

- A)  $D$  increases,  $S$  no change,  $P$  and  $Q$  increase
- B)  $S$  increases,  $D$  no change,  $P$  decreases,  $Q$  increases
- C)  $D$  and  $S$  increase,  $P$  and  $Q$  decrease
- D)  $D$  no change,  $S$  increases,  $P$  decreases,  $Q$  decreases

Answer: B

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

71) Suppose favorable weather resulted in a bumper crop of oranges in Florida. In the market for oranges

- A) the supply curve shifted to the right resulting in a decrease in the equilibrium price.
- B) the supply curve shifted to the right resulting in an increase in the equilibrium price.
- C) the demand curve shifted to the left resulting in a decrease in the equilibrium price.
- D) the demand curve shifted to the right resulting in an increase in the equilibrium price.

Answer: A

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

72) Studies have shown that drinking one glass of red wine per day may help prevent heart disease. Assume this is true, and favorable weather has increased the grape harvest of California vineyards. In the market for red wine, these two developments would

- A) increase demand and decrease supply, resulting in an increase in the equilibrium quantity and a decrease in the equilibrium price of red wine.
- B) increase demand and increase supply, resulting in an increase in the equilibrium quantity and an uncertain effect on the equilibrium price of red wine.
- C) increase demand and increase supply, resulting in an increase in the equilibrium price and an uncertain effect on the equilibrium quantity of red wine.
- D) increase demand and increase supply, resulting in an increase in both the equilibrium price and the equilibrium quantity of red wine.

Answer: B

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



- 73) A decrease in the demand for incandescent light bulbs due to changes in consumer tastes, accompanied by a decrease in the supply of incandescent light bulbs as a result of government restrictions, will result in
- A) a decrease in the equilibrium quantity of incandescent light bulbs and no change in the equilibrium price.
  - B) a decrease in the equilibrium price of incandescent light bulbs and no change in the equilibrium quantity.
  - C) a decrease in the equilibrium price of incandescent light bulbs; the equilibrium quantity may increase or decrease.
  - D) a decrease in the equilibrium quantity of incandescent light bulbs; the equilibrium price may increase or decrease.

Answer: D

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 74) Suppose a negative technological change in the production of disease-resistant wheat caused the price of wheat to rise. Holding everything else constant, how would this affect the market for corn (a substitute for wheat)?

- A) The supply of corn would decrease and the equilibrium price of corn would increase.
- B) The demand for corn would increase and the equilibrium price of corn would increase.
- C) The demand for corn would decrease because consumers could afford to buy less wheat and corn.
- D) The demand for corn would increase and the equilibrium price of corn would decrease.

Answer: B

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

### Article Summary

World Tourism Day 2017, with its official celebration on September 27 in Qatar, was focused on sustainable tourism. Established by the United Nations World Tourism Organization (UNWTO), World Tourism Day has been celebrated since 1980, and the theme for 2017 was the "International Year of Sustainable Tourism for Development". The event was designed with two sessions: one focused on 'Tourism as a driver of economic growth', and the other 'Tourism and the Planet: committed to a greener future'. With over 1.2 billion travellers crossing international borders in 2016, and that number expected to grow to 1.8 billion by 2030, sustainable tourism is viewed by many as an important catalyst for diversification and economic growth.

Source: Vicky Karantzavelou, " World Tourism Day 2017 celebrated on the theme Sustainable Tourism – a Tool for Development," [traveldailynews.com](http://traveldailynews.com), August 14, 2017

75) *Refer to the Article Summary.* Assume that more global tourist destinations begin to offer and publicize sustainable tourism to American tourists and, due to the growing number of millennials attracted to sustainability, more Americans choose to embrace sustainable tourism. All else equal, what will happen in the market for sustainable tourism as a result of these two factors?

- A) Demand will increase, but these two factors will not shift the supply curve.
- B) Supply will increase, but these two factors will not shift the demand curve.
- C) Demand and supply will both increase.
- D) Demand will increase and supply will decrease.

Answer: C

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: World Tourism Day 2017 Celebrated on the Theme Sustainable Tourism - a Tool for Development

76) Let  $D$  = demand,  $S$  = supply,  $P$  = equilibrium price,  $Q$  = equilibrium quantity. What happens in the market for solar panels if the government offers tax breaks to encourage manufacturers to produce more solar panels?

- A)  $D$  increases,  $S$  no change,  $P$  and  $Q$  increase.
- B)  $S$  increases,  $D$  no change,  $P$  decreases,  $Q$  increases.
- C)  $D$  and  $S$  increase,  $P$  and  $Q$  decrease.
- D)  $D$  no change,  $S$  increases,  $P$  decreases,  $Q$  decreases.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

77) Let  $D$  = demand,  $S$  = supply,  $P$  = equilibrium price,  $Q$  = equilibrium quantity. What happens in the market for sushi if the Surgeon General announces that a majority of the raw fish that is imported to make sushi contains high levels of toxic mercury?

- A)  $D$  decreases,  $S$  no change,  $P$  and  $Q$  decrease.
- B)  $S$  decreases,  $D$  no change,  $P$  increases,  $Q$  decreases.
- C)  $D$  and  $S$  decrease,  $P$  and  $Q$  decrease.
- D)  $D$  no change,  $S$  increases,  $P$  decreases,  $Q$  decreases.

Answer: A

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

78) Hurricane Katrina damaged a large portion of oil refining and pipeline capacity in the Gulf coast states. In the market for gasoline

- A) the supply curve shifted to the left resulting in an increase in the equilibrium price.
- B) the supply curve shifted to the right resulting in an increase in the equilibrium price.
- C) the demand curve shifted to the left resulting in a decrease in the equilibrium price.
- D) the demand curve shifted to the right resulting in an increase in the equilibrium price.

Answer: A

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

79) Electric car enthusiasts want to buy more electric cars at a lower price. All of the following events would have this effect *except*

- A) technological advancement in the production of electric car batteries.
- B) an increase in the number of manufacturers of electric cars.
- C) a decrease in the price of lithium, which is used in the electric car batteries.
- D) an increase in the price of gasoline.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

80) Electric car manufacturers want to sell more electric cars at a higher price. Which of the following events would have this effect?

- A) technological advancement in the production of electric car batteries.
- B) an increase in the number of manufacturers of electric cars.
- C) a decrease in the price of lithium, which is used in the electric car batteries.
- D) an increase in the price of gasoline.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

81) Which of the following would cause both the equilibrium price and equilibrium quantity of barley (assume that barley is an inferior good) to increase?

- A) an increase in consumer income
- B) a drought that sharply reduces barley output
- C) a decrease in consumer income
- D) unusually good weather that results in a bumper crop of barley

Answer: C

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

82) Which of the following would cause both the equilibrium price and equilibrium quantity of oysters (assume that oysters are a normal good) to decrease?

- A) an increase in consumer income
- B) an oil spill that sharply reduces oyster output
- C) a decrease in consumer income
- D) a technological advancement in the production of oysters

Answer: C

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

83) Which of the following would cause the equilibrium price of ketchup to increase and the equilibrium quantity of ketchup to decrease?

- A) a decrease in the price of tomatoes
- B) an increase in the price of tomatoes
- C) an increase in the price of mustard, a substitute for ketchup
- D) an increase in the price of french fries, a complement for ketchup

Answer: B

Diff: 3 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

84) Which of the following would cause the equilibrium price of apple juice to decrease and the equilibrium quantity of apple juice to increase?

- A) a decrease in the price of apples
- B) an increase in the price of apples
- C) an increase in the price of orange juice, a substitute for apple juice
- D) a decrease in the price of granola bars, a complement for apple juice

Answer: A

Diff: 3 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

85) Assume that the hourly price for the services of personal trainers has risen and sales of these services have also risen. One can conclude that

- A) the law of demand has been violated.
- B) the number of personal trainers has increased.
- C) the demand for personal trainers has increased.
- D) personal trainers are deliberately charging high prices because they provide services for wealthy clients.

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

86) Assume that the price for lawn care has fallen and sales of lawn care services have also fallen. One can conclude that

- A) the law of supply has been violated.
- B) the number of lawn care service companies has increased.
- C) the demand for lawn care service has decreased.
- D) lawn care services are deliberately charging low prices because they want to discourage people from maintaining their own lawns.

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

87) Assume that airline tickets are a normal good. Prices of commercial airline tickets have fallen in recent months. Over this same period, the price of jet fuel has risen and consumer incomes have fallen. Which of the following best explains the falling prices of airline tickets?

- A) The supply curve for airline tickets has shifted to the left while the demand curve for airline tickets has shifted to the right.
- B) The demand curve for airline tickets has shifted to the left more than the supply curve has shifted to the left.
- C) The demand curve and the supply curve for airline tickets have both shifted to the right.
- D) The supply curve for airline tickets has shifted to the left more than the demand curve has shifted to the left.

Answer: B

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

88) Assume that smartphones are a normal good, and that the prices of smartphones have fallen in recent years. Over this same period, the price of the components used to produce smartphones has also fallen and consumer incomes have risen. Which of the following best explains the falling prices of smartphones?

- A) The supply curve for smartphones has shifted to the right while the demand curve for smartphones has shifted to the left.
- B) The demand curve for smartphones has shifted to the right more than the supply curve has shifted to the right.
- C) The demand curve and the supply curve for smartphones have both shifted to the left.
- D) The supply curve for smartphones has shifted to the right more than the demand curve has shifted to the right.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

89) In recent years the cost of producing wines in the U.S. has increased largely due to rising rents for vineyards. At the same time, more and more Americans prefer wine over beer. Which of the following best explains the effect of these events in the wine market?

- A) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- B) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.
- C) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in both the equilibrium price and the equilibrium quantity.
- D) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

90) Assume that in recent years the cost of producing microbrew beer in the U.S. has decreased largely due to technological improvements. At the same time, more and more Americans prefer microbrew beer over wine. Which of the following best explains the effect of these events in the microbrew beer market?

- A) The supply curve has shifted to the right and the demand curve has shifted to the left. As a result there has been a decrease in the equilibrium quantity and an uncertain effect on the equilibrium price.
- B) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- C) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in both the equilibrium price and the equilibrium quantity.
- D) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

Answer: B

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

91) Studies have shown that drinking one glass of red wine per day may help prevent heart disease. Assume this is true, and a fungal disease destroys a large portion of the grape harvest of California vineyards. In the market for red wine, these two developments would

- A) increase demand and increase supply, resulting in an increase in the equilibrium quantity and a decrease in the equilibrium price of red wine.
- B) increase demand and decrease supply resulting in a decrease in both the equilibrium quantity and the equilibrium price of red wine.
- C) increase demand and decrease supply, resulting in an increase in the equilibrium price and an uncertain effect on the equilibrium quantity of red wine.
- D) increase demand and decrease supply, resulting in an increase in both the equilibrium price and the equilibrium quantity of red wine.

Answer: C

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

92) A decrease in the demand for eggs due to changes in consumer tastes, accompanied by a decrease in the supply of eggs as a result of an outbreak of Avian flu, will result in

- A) a decrease in the equilibrium quantity of eggs and no change in the equilibrium price.
- B) a decrease in the equilibrium price of eggs and no change in the equilibrium quantity.
- C) a decrease in the equilibrium price of eggs; the equilibrium quantity may increase or decrease.
- D) a decrease in the equilibrium quantity of eggs; the equilibrium price may increase or decrease.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

93) An increase in the demand for peanuts due to changes in consumer tastes, accompanied by an increase in the supply of peanuts as a result of favorable growing conditions, will result in

- A) an increase in the equilibrium quantity of peanuts and no change in the equilibrium price.
- B) an increase in the equilibrium price of peanuts and no change in the equilibrium quantity.
- C) an increase in the equilibrium price of peanuts; the equilibrium quantity may increase or decrease.
- D) an increase in the equilibrium quantity of peanuts; the equilibrium price may increase or decrease.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



94) During the 1990s positive technological change in the production of chicken caused the price of chicken to fall. Holding everything else constant, how would this affect the market for pork (a substitute for chicken)?

- A) The supply of pork would increase and the equilibrium price of pork would decrease.
- B) The demand for pork would decrease and the equilibrium price of pork would decrease.
- C) The demand for pork would increase because consumers could afford to buy more chicken and pork.
- D) The demand for pork would decrease and the equilibrium price of pork would increase.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

95) A decrease in input costs in the production of LCD televisions caused the price of LCD televisions to decrease. Holding everything else constant, how would this affect the market for video game consoles (a complement to LCD televisions)?

- A) The supply of video game consoles would increase and the equilibrium price of video game consoles would decrease.
- B) The demand for video game consoles would decrease and the equilibrium price of video game consoles would decrease.
- C) The demand for video game consoles would decrease because consumers could afford to buy fewer LCD televisions and video game consoles.
- D) The demand for video game consoles would increase and the equilibrium price of video game consoles would increase.

Answer: D

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

96) Assume that both the demand curve and the supply curve for DVD players shift to the left but the demand curve shifts more than the supply curve. As a result

- A) both the equilibrium price and quantity of DVD players will decrease.
- B) the equilibrium price of DVD players will decrease; the equilibrium quantity may increase or decrease.
- C) the equilibrium price of DVD players may increase or decrease; the equilibrium quantity will decrease.
- D) the equilibrium price of DVD players will increase; the equilibrium quantity may increase or decrease.

Answer: A

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

97) Assume that both the demand curve and the supply curve for DVD players shift to the left but the supply curve shifts more than the demand curve. As a result

- A) both the equilibrium price and quantity of DVD players will decrease.
- B) the equilibrium price of DVD players will decrease; the equilibrium quantity may increase or decrease.
- C) the equilibrium price of DVD players may increase or decrease; the equilibrium quantity will increase.
- D) the equilibrium price of DVD players will increase; the equilibrium quantity will decrease.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

98) Assume that the demand curve for DVD players shifts to the left and the supply curve for DVD players shifts to the right, but the supply curve shifts more than the demand curve. As a result

- A) both the equilibrium price and quantity of DVD players will decrease.
- B) the equilibrium price of DVD players will decrease; the equilibrium quantity may increase or decrease.
- C) the equilibrium price of DVD players may increase or decrease; the equilibrium quantity will increase.
- D) the equilibrium price of DVD players will decrease; the equilibrium quantity will increase.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

99) Assume that the demand curve for DVD players shifts to the left and the supply curve for DVD players shifts to the right, but the supply curve shifts less than the demand curve. As a result

- A) both the equilibrium price and quantity of DVD players will decrease.
- B) the equilibrium price of DVD players will decrease; the equilibrium quantity may increase or decrease.
- C) the equilibrium price of DVD players may increase or decrease; the equilibrium quantity will increase.
- D) the equilibrium price of DVD players will decrease; the equilibrium quantity will increase.

Answer: A

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

100) "The price of digital cameras fell because of improvements in production technology. As a result, the demand for non-digital cameras decreased. This caused the price of non-digital cameras to fall; as the price of non-digital cameras fell the demand for non-digital cameras decreased even further." Evaluate this statement.

- A) The statement is false because the demand for non-digital cameras would increase as the price of digital cameras fell.
- B) The statement is false. A decrease in the price of digital cameras would decrease the demand for non-digital cameras, but a decrease in the price of non-digital cameras would not cause the demand for non-digital cameras to decrease.
- C) The statement is false because it confuses the law of demand with the law of supply.
- D) The statement is false because digital camera producers would not reduce their prices as a result of improvements in technology; doing so would reduce their profits.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

101) Which of the following statements is *true*?

- A) An increase in demand causes an increase in the equilibrium price; the increase in price causes supply to increase.
- B) A decrease in supply causes the equilibrium price to rise; the increase in price then results in a decrease in quantity demanded.
- C) If both demand and supply decrease, there must be a decrease in the equilibrium price; equilibrium quantity may either increase or decrease.
- D) If demand increases and supply decreases one cannot determine if the equilibrium price will increase or decrease without knowing which change is greater.

Answer: B

Diff: 3 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

102) Which of the following statements is *true*?

- A) A decrease in demand causes a decrease in the equilibrium price; the decrease in price causes supply to decrease.
- B) A decrease in demand causes the equilibrium price to fall; the decrease in price then results in a decrease in quantity supplied.
- C) If both demand and supply increase, there must be an increase in the equilibrium price; equilibrium quantity may either increase or decrease.
- D) If demand decreases and supply increases one cannot determine if the equilibrium price will increase or decrease without knowing which change is greater.

Answer: B

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 103) An increase in the equilibrium price for a product will result
- A) when the quantity of the product demanded exceeds the quantity supplied.
  - B) when there is a decrease in supply and an increase in demand for the product.
  - C) when there is a decrease in supply and a decrease in demand for the product.
  - D) when there is an increase in demand and an increase in the number of firms producing the product.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 104) An increase in the equilibrium quantity of a product will result
- A) when the quantity of the product supplied exceeds the quantity demanded.
  - B) when there is an increase in supply and an increase in demand for the product.
  - C) when there is an increase in supply and a decrease in demand for the product.
  - D) when there is a decrease in demand and a decrease in the cost of inputs used to make the product.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 105) When Toyota introduced its 2010 Prius, it announced that the average retail price of the 2010 model would be lower than the average retail price was for the equivalent 2009 model. Which of the following would explain the price differential?

- A) The demand for the Prius had increased, and the supply of the Prius remained unchanged.
- B) The supply of the Prius had decreased, and the demand for the Prius remained unchanged.
- C) The demand for the Prius had decreased, and the supply of the Prius had increased.
- D) The demand for the Prius had increased, and the supply of the Prius had decreased.

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

- 106) Which of the following would cause an increase in the equilibrium price and decrease in the equilibrium quantity of watermelon?

- A) a decrease in demand and an increase in supply
- B) a decrease in supply
- C) an increase in demand and an increase in supply greater than the increase in demand
- D) an increase in demand and an increase in supply

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

107) Which of the following would cause a decrease in the equilibrium price and decrease in the equilibrium quantity of papayas?

- A) a decrease in supply and an increase in demand
- B) a decrease in demand
- C) an increase in supply and an increase in demand greater than the increase in supply
- D) a decrease in supply and a decrease in demand

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

108) Select the phrase that correctly completes the following statement. "A decrease in the number of manufacturers caused a decrease in the supply of sailboats. As a result

- A) the price of sailboats increased and the demand for sailboats decreased."
- B) the equilibrium quantity of sailboats increased."
- C) the price of sailboats increased and the quantity of sailboats demanded decreased."
- D) the price of sailboats increased. The higher price caused the supply of sailboats to increase."

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

109) Select the phrase that correctly completes the following statement. "A decrease in the expected future price caused an increase in the supply of smartphones. As a result

- A) the price of smartphones decreased and the demand for smartphones increased."
- B) the equilibrium quantity of smartphones decreased."
- C) the price of smartphones decreased and the quantity of smartphones demanded increased."
- D) the price of smartphones decreased. The lower price caused the supply of smartphones to decrease."

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

110) What would happen in the market for knee replacement surgery if insurance companies started to cover a smaller portion of the cost of the surgery?

- A) Demand will decrease, but this will not shift the supply curve.
- B) Supply will decrease, but this will not shift the demand curve.
- C) Demand and supply will both decrease.
- D) Demand will decrease and supply will increase.

Answer: A

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

111) What would happen in the market for knee replacement surgery if insurance companies started to cover a smaller portion of the cost of the surgery, and fewer doctors decide to enter the field of joint replacement surgery?

- A) Demand will decrease, but this will not shift the supply curve.
- B) Supply will decrease, but this will not shift the demand curve.
- C) Demand and supply will both decrease.
- D) Demand will decrease and supply will increase.

Answer: C

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

112) In recent years, the demand for orange juice in the United States has fallen and the supply of orange juice has also fallen, with the decrease in supply being larger than the decrease in demand. In this situation, the equilibrium price of orange juice will have \_\_\_\_\_ and the equilibrium quantity of orange juice will have \_\_\_\_\_.

- A) decreased; increased
- B) decreased; decreased
- C) increased; decreased
- D) increased; increased

Answer: C

Diff: 2 Page Ref: 92-93

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: Lower Demand for Orange Juice-But Higher Prices?

113) Suppose consumer preference for organic corn starts to rise while the cost of growing organic corn continues to rise. In the market for organic corn, this would be represented by the equilibrium price \_\_\_\_\_ and the equilibrium quantity \_\_\_\_\_.

- A) increasing; increasing or decreasing
- B) decreasing; increasing or decreasing
- C) increasing or decreasing; increasing
- D) increasing or decreasing; decreasing

Answer: A

Diff: 1 Page Ref: 94-95/94-95

Topic: Shifts in Demand and Supply

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Solved Problem: Can We Predict Changes in the Price and Quantity of Organic Corn?

114) "Because Coke and Pepsi are substitutes, a decrease in the price of Pepsi will cause the demand for Coke to decrease. This initial shift in demand for Coke results in a lower price for Coke; this lower price will cause the demand curve for Coke to shift to the left." Which of the following correctly comments on this statement?

- A) The statement will be true if consumer tastes for Coke and Pepsi do not change.
- B) The statement is false because a change in the price of Coke would not change the demand for Coke.
- C) The statement is false because Pepsi is an inferior good; Coke is a normal good.
- D) The statement is false because one cannot assume that Coke and Pepsi are substitutes for all consumers.

Answer: B

Diff: 2 Page Ref: 96/96

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Don't Let This Happen to You: Remember: A Change in a Good's Price Does Not Cause the Demand or Supply Curve to Shift

115) Suppose that McDonald's successfully implements self-serve kiosks in their restaurants, and this investment in technology allows the company to reduce the number of employees at each location. All else equal, this technological improvement would \_\_\_\_\_ the equilibrium price for its products and \_\_\_\_\_ the equilibrium quantity consumed.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease

Answer: C

Diff: 2 Page Ref: 98-99/98-99

Topic: Shifts in Demand

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: An Inside Look: McDonald's Looks for New Ways to Attract Customers

116) Suppose a drought resulted in a major reduction in the California lettuce crop. In the market for lettuce

- A) the supply curve shifted to the left resulting in an increase in the equilibrium price.
- B) the supply curve shifted to the left resulting in a decrease in the equilibrium price.
- C) the demand curve shifted to the right resulting in an increase in the equilibrium price.
- D) the demand curve shifted to the left resulting in a decrease in the equilibrium price.

Answer: A

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

117) Studies have shown that smoking cigarettes can cause heart disease. Assume this is true, and favorable weather has increased the tobacco harvest in North Carolina. In the market for cigarettes, these two developments would

- A) decrease demand and decrease supply, resulting in an increase in the equilibrium quantity and a decrease in the equilibrium price of cigarettes.
- B) increase demand and increase supply resulting in an increase in the equilibrium quantity and an uncertain effect on the equilibrium price of cigarettes.
- C) decrease demand and increase supply, resulting in a decrease in the equilibrium price and an uncertain effect on the equilibrium quantity of cigarettes.
- D) decrease demand and increase supply, resulting in an increase in both the equilibrium price and the equilibrium quantity of cigarettes.

Answer: C

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

118) An increase in the demand for LED light bulbs due to changes in consumer tastes, accompanied by an increase in the supply of LED light bulbs as a result of government subsidies, will result in

- A) an increase in the equilibrium quantity of LED light bulbs and no change in the equilibrium price.
- B) an increase in the equilibrium price of LED light bulbs and no change in the equilibrium quantity.
- C) an increase in the equilibrium price of LED light bulbs; the equilibrium quantity may increase or decrease.
- D) an increase in the equilibrium quantity of LED light bulbs; the equilibrium price may increase or decrease.

Answer: D

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



119) Suppose a positive technological change in the production of disease-resistant corn caused the price of corn to fall. Holding everything else constant, how would this affect the market for wheat (a substitute for corn)?

- A) The supply of wheat would increase and the equilibrium price of wheat would decrease.
- B) The demand for wheat would decrease and the equilibrium price of wheat would decrease.
- C) The demand for wheat would increase because consumers could afford to buy more wheat and corn.
- D) The demand for wheat would decrease and the equilibrium price of wheat would increase.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

### *Article Summary*

**World Tourism Day 2017, with its official celebration on September 27 in Qatar, was focused on sustainable tourism. Established by the United Nations World Tourism Organization (UNWTO), World Tourism Day has been celebrated since 1980, and the theme for 2017 was the "International Year of Sustainable Tourism for Development". The event was designed with two sessions: one focused on 'Tourism as a driver of economic growth', and the other 'Tourism and the Planet: committed to a greener future'. With over 1.2 billion travellers crossing international borders in 2016, and that number expected to grow to 1.8 billion by 2030, sustainable tourism is viewed by many as an important catalyst for diversification and economic growth.**

**Source: Vicky Karantzavelou, " World Tourism Day 2017 celebrated on the theme Sustainable Tourism – a Tool for Development," [traveldailynews.com](http://traveldailynews.com), August 14, 2017**

120) *Refer to the Article Summary.* Assume that more global tourist destinations begin to offer and publicize sustainable tourism to American tourists and, due to the growing number of millennials attracted to sustainability, more Americans choose to embrace sustainable tourism. All else equal, what will happen to the equilibrium price and equilibrium quantity in the market for sustainable tourism as a result of these two factors?

- A) Equilibrium price may increase or decrease, and equilibrium quantity will decrease.
- B) Equilibrium price will increase and equilibrium quantity may increase or decrease.
- C) Equilibrium price will decrease and equilibrium quantity may increase or decrease.
- D) Equilibrium price may increase or decrease, and equilibrium quantity will increase.

Answer: D

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

Special Feature: Apply the Concept: World Tourism Day 2017 Celebrated on the Theme Sustainable Tourism - a Tool for Development

121) If the demand for a product increases and the supply of the same product increases, the equilibrium price will increase.

Answer: FALSE

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

122) As the number of firms in a market decreases, the supply curve will shift to the left and the equilibrium price will rise.

Answer: TRUE

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

123) If the number of firms producing mouthwash increases and consumer preference for mouthwash increases, the equilibrium price of mouthwash will definitely increase.

Answer: FALSE

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

124) If the demand curve for a product shifts to the left and the supply curve for the product shifts to the left, the equilibrium quantity will decrease.

Answer: TRUE

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

125) If the demand for a product decreases and the supply of the same product decreases, the equilibrium price will decrease.

Answer: FALSE

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

126) As the number of firms in a market increases, the supply curve will shift to the right and the equilibrium quantity will rise.

Answer: TRUE

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

127) If the population increases and input prices decrease, the equilibrium quantity of a product will definitely increase.

Answer: TRUE

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

128) If the demand for a product increases and the supply of the product does not change, equilibrium price and equilibrium quantity will both increase.

Answer: TRUE

Diff: 2 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

129) If the demand for a product increases and the supply of the same product decreases, the equilibrium price will increase.

Answer: TRUE

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

130) If the demand for a product decreases and the supply of the same product increases, the equilibrium quantity will increase.

Answer: FALSE

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

131) As the number of firms in a market increases, the supply curve will shift to the left and the equilibrium price will rise.

Answer: FALSE

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

132) As the number of firms in a market decreases, the supply curve will shift to the left and the equilibrium price will fall.

Answer: FALSE

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

133) If the population increases and input prices increase, the equilibrium price of a product will definitely increase.

Answer: TRUE

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

134) If the number of firms producing electric cars increases and consumer preference for electric cars increases, the equilibrium quantity of electric cars will definitely increase.

Answer: TRUE

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

135) If the demand for a product decreases and the supply of the product does not change, equilibrium price and equilibrium quantity will both increase.

Answer: FALSE

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

136) If the demand curve for a product shifts to the right and the supply curve for the product shifts to the left, equilibrium price and equilibrium quantity will both increase.

Answer: FALSE

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

137) Discuss the correct and incorrect economic analysis in the following statement.

"If good weather in Hawaii creates a bumper crop of pineapples, the supply of pineapples will increase. This will result in a price decrease, which will then cause the supply of pineapples to decrease."

Answer: The supply of pineapples will increase resulting in a lower equilibrium price and a higher equilibrium quantity but the lower price will not shift the supply curve for pineapples.

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

138) Explain how it would be possible for the equilibrium price and equilibrium quantity to both increase in the market for motorcycles if consumer preference for motorcycles increases and the number of motorcycle manufacturers decreases.

Answer: An increase in consumer preference will shift the demand curve to the right, which increases the equilibrium price and the equilibrium quantity. A decrease in the number of manufacturers will shift the supply curve to the left, which will increase the equilibrium price and decrease the equilibrium quantity. In both cases, the equilibrium price increases. For the equilibrium quantity to increase, the rightward shift in demand resulting from the increase in consumer preference must be more than the leftward shift in supply which results from the decrease in manufacturers.

Diff: 2 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

139) Discuss the correct and incorrect economic analysis in the following statement.

"The United Auto Workers Union has successfully negotiated a 9 percent increase in wages for its workers. This increase in the wage rate causes an increase in demand for automobiles, since many consumers now have greater incomes, and also a decrease in the supply of automobiles because the cost of production has increased. These effects cancel each other out resulting in no change in equilibrium price and quantity in the automobile market."

Answer: The wage rate is a determinant of the supply of automobiles, but not a determinant of the demand for automobiles. The increase in the wage rate will shift the automobile supply curve to the left along a given demand curve. This will result in a higher equilibrium price and a lower equilibrium quantity in the market for automobiles.

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

140) If a union successfully negotiates for higher wages and benefits for steel workers, what impact would this have on supply and demand in the market for steel, assuming no other changes take place in this market?

Answer: An increase in wages and benefits will shift the supply curve to the left, but will not shift the demand curve. This will increase the equilibrium price and decrease the equilibrium quantity in the market for steel.

Diff: 3 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

141) A growing number of cigar manufacturers in the Caribbean and Central America have begun producing and exporting cigars to the U.S. market. How has this affected the equilibrium price and quantity of cigars?

Answer: The supply curve for cigars shifted to the right resulting in a lower equilibrium price and higher equilibrium quantity.

Diff: 2 Page Ref: 90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

142) In 1984, the National Minimum Drinking Age Act was passed, raising the legal age to consume alcoholic beverages in the United States to 21. In much of Europe, the legal age to consume alcohol is 18. If the legal drinking age in the United States was changed back to 18, how would this affect the market for alcoholic beverages? What would happen to the equilibrium price and quantity of alcoholic beverages?

Answer: The demand for alcoholic beverages would increase, which would increase the equilibrium price and quantity.

Diff: 1 Page Ref: 90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

143) In each of the following situations, list what will happen to the equilibrium price and the equilibrium quantity for a particular product, which is a normal good.

- a. The population increases and the price of inputs increase.
- b. The price of a complement increases and technology advances.
- c. The number of firms in the market increases and income increases.
- d. Price is expected to increase in the future.
- e. Consumer preference increases and the price of a substitute in production decreases.

Answer:

- a. Price increases; Quantity may increase or decrease.
- b. Price decreases; Quantity may increase or decrease.
- c. Quantity increases; Price may increase or decrease.
- d. Price increases; Quantity may increase or decrease.
- e. Quantity increases; Price may increase or decrease.

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

144) In each of the following situations, list what will happen to the equilibrium price and the equilibrium quantity for a particular product, which is an inferior good.

- a. The population increases and productivity increases.
- b. Income increases and the price of inputs decrease.
- c. The number of firms in the market decreases and income increases.
- d. Consumer preference increases and the price of a complement decreases.
- e. The price of a substitute in consumption decreases and the price of a substitute in production decreases.

Answer:

- a. Quantity increases; Price may increase or decrease.
- b. Price decreases; Quantity may increase or decrease.
- c. Quantity decreases; Price may increase or decrease.
- d. Price increases; Quantity increases.
- e. Price decreases; Quantity may increase or decrease.

Diff: 3 Page Ref: 90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

145) Discuss the correct and incorrect economic analysis in the following statements.

"If a disease kills a large number of turkeys, the supply of turkeys will decrease. This will result in a price increase, which will then cause the supply of turkeys to increase."

Answer: The supply of turkeys will decrease resulting in a higher equilibrium price and a lower equilibrium quantity but the higher price will not shift the supply curve for turkeys.

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

146) If pilots and flight attendants agree to wage and benefit reductions in the wake of the financial difficulties in the airline industry, what impact would this have on the supply and demand in the market for airline service, assuming no other changes take place in this market?

Answer: A reduction of wages and benefits will shift the supply curve to the right, but will not shift the demand curve. This will decrease the equilibrium price and increase the equilibrium quantity in the market for airline service.

Diff: 3 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking



147) In most countries in South America, the legal driving age is 18. If the legal driving age in the United States was raised from 16 to 18, how would this affect the market for new and used automobiles? What would happen to the equilibrium price and quantity of new and used automobiles?

Answer: The demand for new and used automobiles would decrease, which would decrease the equilibrium price and quantity.

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

148) Shrimp is an increasingly popular part of the American diet. Louisiana shrimpers who represent the bulk of the U.S. industry were almost all put out of business by Hurricane Katrina. How did the hurricane affect the equilibrium price and quantity of shrimp?

Answer: The supply curve for shrimp shifted to the left resulting in a higher equilibrium price and lower equilibrium quantity.

Diff: 2 Page Ref: 90/90

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking

149) In each of the following situations, list what will happen to the equilibrium price and the equilibrium quantity for a particular product, which is an inferior good.

- a. The population decreases and productivity increases
- b. Income increases and the price of inputs increase
- c. The number of firms in the market decreases and income decreases
- d. Consumer preference decreases and the price of a complement increases
- e. The price of a substitute in consumption increases and the price of a substitute in production increases

Answer:

- a. Price decreases; Quantity may increase or decrease
- b. Quantity decreases; Price may increase or decrease
- c. Price increases; Quantity may increase or decrease
- d. Price decreases; Quantity decreases
- e. Price increases; Quantity may increase or decrease

Diff: 3 Page Ref: 90/90

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

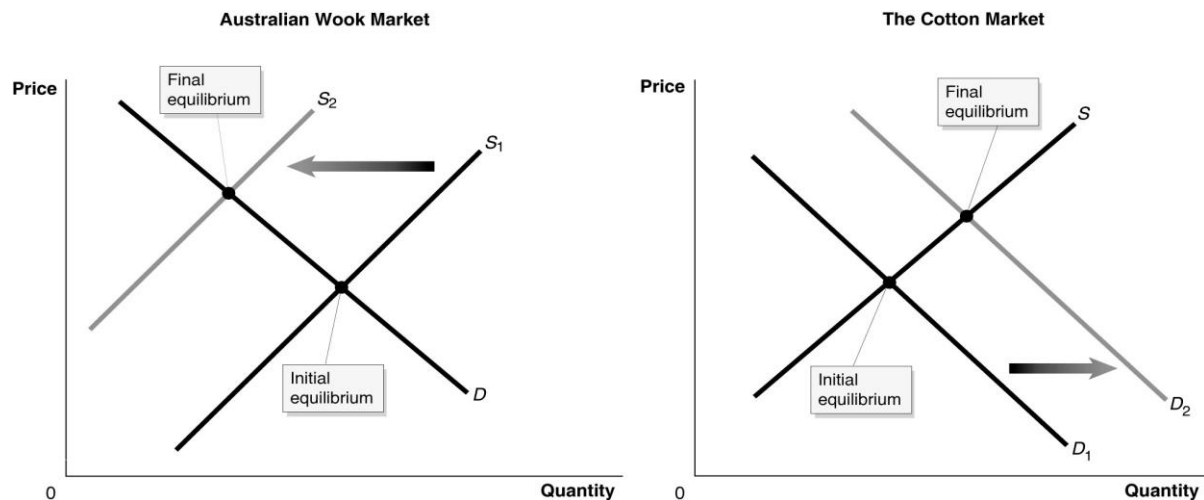
AACSB: Analytical thinking

150) According to the Australian Wool Innovation, severe drought conditions in Australia contributed to the lowest level of wool production in 50 years. This record low production has driven up prices sharply in Australian wool markets. Meanwhile, the price of raw cotton increased significantly for the first time in many years.

- Illustrate this observation with one demand and supply graph for the market for Australian wool and another demand and supply graph for raw cotton.
- Make sure that your graphs clearly show (1) the initial equilibrium before the decrease in the supply of Australian wool and (2) the final equilibrium.
- Use arrows to indicate any shifts in the demand and supply curves for each market.
- Label your graphs fully and write an explanation of your work.

Answer:

a., b., and c. See the figure below.



d. In the Australian wool market, the supply curve shifts to the left as a result of the drought. This leads to an increase in the equilibrium price of wool and a decrease in the equilibrium quantity. The higher price of wool causes buyers to substitute cotton for wool, thereby increasing the demand for cotton. In the cotton market, the demand curve for cotton moves to the right along a given supply curve resulting in a higher equilibrium price and higher equilibrium quantity of cotton.

Diff: 3 Page Ref: 90-91/90-91

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro-4: Explain how supply and demand function in competitive markets

AACSB: Analytical thinking