

Economics Today: The Macro View, 5Ce (Miller)

Chapter 3 Demand and Supply

1) In economics, the term "demand" refers to

A) the quantity of a good or service that people will buy at a particular price.

B) the intensity of desire for a good or service.

C) the quantity of a good or service that people want to consume.

D) the quantities of a good or service people would be willing and able to buy at various prices.

Answer: D

Diff: 1 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

2) The quantity of a good or service people would be willing and able to purchase at each possible price during a specified time period, other things constant, is the definition of _____.

Answer: demand.

Diff: 2 Type: SA Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

3) The law of demand states that, other things being equal,

A) the quantity of a good or service demanded is inversely related to its price.

B) the quantity of a good or service demanded is directly related to its price.

C) changes in price and changes in quantity demanded move in the same direction.

D) people always demand less at lower prices and more at higher prices.

Answer: A

Diff: 1 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

4) The law of demand states that, *ceteris paribus*,

A) a higher price will lead to increased sales.

B) the price can never be too high for some consumers.

C) consumers have unlimited demands for a good.

D) quantity demanded will vary inversely with the price of the good.

Answer: D

Diff: 1 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 5) In determining the demand for a good, economists
- A) hold constant all other influences on demand except the product price.
 - B) assume no consumer will allocate all of her income to one good.
 - C) allow income to change at each point on the demand schedule.
 - D) assume consumers have equal incomes to allocate among goods.

Answer: A

Diff: 1 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 6) The term *ceteris paribus* means _____.

Answer: other influences the same.

Diff: 1 Type: SA Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 7) The "other things" constant when we examine the effects of prices on quantities demanded do NOT include

- A) the price of the product itself.
- B) the price of substitutes.
- C) the price of complements.
- D) consumer incomes.

Answer: A

Diff: 3 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 8) Bill quits his job to pursue an MBA degree full time. Tickets for the theatre fall in price, but he does not renew his season tickets for the new season. Bill's decision not to renew is most likely due to

- A) failure to follow the law of demand, which would say he would buy more tickets at the lower price.
- B) a reduction in his income while he is in graduate school.
- C) a change in tastes on Bill's part.
- D) the opportunity to buy football tickets at the university.

Answer: B

Diff: 3 Type: MC Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

9) Which of the following will cause a decrease in the quantity of shoes demanded, *ceteris paribus*?

- A) an increase in income
- B) a decrease in the price of socks
- C) an increase in the price of shoes
- D) an expected increase in shoe prices

Answer: C

Diff: 2 Type: MC Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

10) If other factors remain constant, the Canadian government's lowering of taxes on consumer electronic products would result in

- A) a decrease in demand for consumer electronic products in Canadian border towns.
- B) a decrease in demand for consumer electronic products by Canadians in U. S. border towns.
- C) an increase in demand for consumer electronic products in United States border towns.
- D) no change in demand for consumer electronic products.

Answer: B

Diff: 2 Type: MC Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

11) An increase in the price of coffee, holding other things constant, will

- A) increase the demand for coffee.
- B) decrease the supply of coffee.
- C) decrease the quantity of coffee demanded.
- D) decrease the demand for coffee.

Answer: C

Diff: 2 Type: MC Page Ref: 61

Skill: Applied

Objective: L.O. 2.6

Graph: No graph

Numerical: Non-numerical

12) Which of the following is most likely to be an example of the law of demand in action?

- A) A decrease in the price of milk has no effect on the amount of milk consumed.
- B) The amount of candy sold increases while the price of candy remains constant.
- C) An increase in the price of eggs is followed by an increase in the sales of eggs.
- D) An increase in the price of gasoline is followed by a reduction in gasoline sales.

Answer: D

Diff: 2 Type: MC Page Ref: 61

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

13) The relative price of a good is its price

- A) expressed in constant 1990 dollars.
- B) that is equal to the equilibrium price.
- C) expressed in today's dollars.
- D) expressed in terms of the price of another good.

Answer: D

Diff: 1 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

14) The price of a new car is \$20 000 while the price of a five-year old car of the same brand is \$8 000. The next year the price of the new car increases to \$22 000 and the price of a five-year old car of the same brand is \$8 800. The relative price of the used car

- A) increased by \$800.
- B) decreased by 10 percent.
- C) increased by 10 percent.
- D) remained constant at 0.4.

Answer: D

Diff: 3 Type: MC Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

- 15) The price of a movie increased from \$5 to \$7 while the price of renting a movie video increased from \$2 to \$3.50. The price of attending a movie relative to the price of renting a video
- A) decreased, but we need more information to know by how much.
 - B) increased, but we need more information to know by how much.
 - C) increased from 0.4 to 0.5.
 - D) decreased from 2.5 to 2.0.

Answer: D

Diff: 3 Type: MC Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

- 16) The price of a new textbook was \$60 in one year and \$75 two years later. Over the same period, the price of a used copy of the text rose from \$25 to \$37.50. Over the two years, the relative price of a new textbook

- A) increased by 25 percent.
- B) decreased from 2.4 to 2.0.
- C) increased from 2.4 to 3.
- D) decreased from 1.4 to 1.25

Answer: B

Diff: 3 Type: MC Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

- 17) The price of a new textbook increases from \$60 to \$75 while over the same period the price of a used textbook increased by 25 percent. What happened to the relative price of a used textbook?

Answer: It remained constant.

Diff: 3 Type: SA Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

18) The money price of a good is also known as its

- A) absolute price.
- B) subjective price.
- C) relative price.
- D) case price.

Answer: A

Diff: 1 Type: MC Page Ref: 63

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

19) The money price of a good (in dollars) is that price

- A) expressed in constant 1980 dollars.
- B) that would clear the market.
- C) expressed in today's dollars.
- D) expressed in purchasing power against a common item like bread.

Answer: C

Diff: 1 Type: MC Page Ref: 63

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

20) When the term "price" is used in the law of demand, price means

- A) the price of the good relative to the price of another good or to the average price of all other goods.
- B) the nominal price of the good relative to its nominal price in the previous year.
- C) the absolute price of the good.
- D) the dollar price of the good.

Answer: A

Diff: 2 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

21) A demand schedule holds

- A) product price constant.
- B) equilibrium constant.
- C) product quantity constant.
- D) product quality constant.

Answer: D

Diff: 1 Type: MC Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

22) A demand schedule is a way of recording

- A) the amount of a good that a person wants to sell during a given time period.
- B) the amount of a good that a person wants at different times of the day.
- C) the quantities of a good that people are willing to sell every year.
- D) the alternative quantities of a good demanded in a given time period at different possible prices.

Answer: D

Diff: 1 Type: MC Page Ref: 63

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

23) When economists talk about a demand schedule for a product, they mean a schedule recording _____.

Answer: the amounts of a good that consumers would be willing and able to purchase at each of various possible prices in a given time period.

Diff: 1 Type: SA Page Ref: 63

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

24) A demand curve is a graphical representation of

- A) consumer tastes.
- B) relative prices.
- C) a demand schedule.
- D) national income.

Answer: C

Diff: 1 Type: MC Page Ref: 63

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 25) A market demand schedule for a product indicates that
- A) as a product's price rises, consumers buy more of that good.
 - B) there is a direct (positive) relationship between price and quantity demanded.
 - C) as the product's price falls, consumers buy less of the good.
 - D) there is an inverse (negative) relationship between price and quantity demanded.

Answer: D

Diff: 1 Type: MC Page Ref: 63

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 26) Suppose that the demand curve for apples is downward sloping, and that with other things remaining equal, the price per tonne increases from \$234 to \$244. We would then expect

- A) the demand curve for apples to shift leftward toward the origin.
- B) the demand for apples to decrease.
- C) an increase in the quantity of apples demanded.
- D) a fall in the quantity of apples demanded.

Answer: D

Diff: 2 Type: MC Page Ref: 63

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

Table 3-1

Price Per CD	Quantity Demanded by:			
	Buyer 1	Buyer 2	Buyer 3	Buyer 4
\$20	0	0	1	0
18	0	1	3	0
16	1	2	5	1
14	2	4	7	3
12	3	6	9	6
10	4	8	11	10
8	5	11	13	15

27) In Table 3-1, each of the four buyers in this market

- A) has a positively sloped demand curve for CDs.
- B) has a negatively sloped demand curve for CDs.
- C) considers CDs to be a normal good.
- D) considers CDs to be an inferior good.

Answer: B

Diff: 2 Type: MC Page Ref: 65

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

28) In Table 3-1, what quantity of CDs would be demanded at a price of \$12?

- A) 6
- B) 9
- C) 12
- D) 24

Answer: D

Diff: 2 Type: MC Page Ref: 65

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

29) In Table 3-1, what is the highest price at which a producer could sell 24 CDs?

- A) \$16
- B) \$10
- C) \$14
- D) \$12

Answer: D

Diff: 2 Type: MC Page Ref: 65

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

30) In Table 3-1, how many additional CDs could a retailer sell by cutting the price from \$18 to \$16?

- A) 4
- B) 5
- C) 7
- D) 9

Answer: B

Diff: 3 Type: MC Page Ref: 64

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

31) In table 3-1, what is the market quantity demanded at a price of \$8?

- A) 5
- B) 15
- C) 35
- D) 44

Answer: D

Diff: 2 Type: MC Page Ref: 64

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

32) In Table 3-1, if Buyer 2 leaves the market, what market quantity would be demanded at a price of \$10?

- A) 33
- B) 25
- C) 22
- D) 8

Answer: B

Diff: 3 Type: MC Page Ref: 64

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Numerical

33) In Table 3-1, at a price of \$8, market quantity demanded would be _____ units.

Answer: 44

Diff: 3 Type: SA Page Ref: 64

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

34) In Table 3-1, if the price is increased from \$16 to \$18, *ceteris paribus*, market quantity demanded will fall by _____ units.

Answer: 5

Diff: 3 Type: SA Page Ref: 64

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Numerical

35) Adding the quantities of a good or service demanded by each consumer at every price will yield

- A) the total substitution effect from a price change.
- B) the number of consumers.
- C) the market-clearing price.
- D) the market demand curve.

Answer: D

Diff: 1 Type: MC Page Ref: 64

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 36) The market demand curve for a particular good
- A) is the horizontal sum of each individual demand curve for the good.
 - B) may be less than an individual demand curve for the good.
 - C) will not be affected by any of the determinants of individual demand.
 - D) may or may not show a direct relationship between price and quantity demanded.

Answer: A

Diff: 1 Type: MC Page Ref: 64

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 37) The market demand curve for a commodity is found by
- A) summing the quantities demanded by each individual at each possible price.
 - B) studying census data.
 - C) summing the prices each consumer would pay for each quantity.
 - D) taking the average of the individual demand curves.

Answer: A

Diff: 1 Type: MC Page Ref: 64

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

- 38) If a particular good or service is an inferior and an increase in consumer income occurs, *ceteris paribus*, which of the following statements is FALSE?

- A) At a given price, less will be spent on the good.
- B) There will be a decrease in demand for the good.
- C) The demand curve for the good will shift toward the origin.
- D) There will be an increase in demand for the good.

Answer: D

Diff: 2 Type: MC Page Ref: 67

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 39) An inferior good is one for which
- A) the demand curve is vertical.
 - B) demand decreases as income increases.
 - C) the demand curve slope is positive.
 - D) demand increases as income increases.

Answer: B

Diff: 1 Type: MC Page Ref: 67

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 40) An increase in consumer income would lead to which of the following for a normal good?

- I. a movement along the demand curve
- II. an outward shift in the demand curve
- III. an increase in supply

- A) I only
- B) II only
- C) III only
- D) Both II and III

Answer: B

Diff: 2 Type: MC Page Ref: 66

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 41) Sarah gets a raise in pay of twenty percent. Before her raise, she purchased 5 kilograms of hamburger and 1 kilogram of steak a month. After her raise, she consumes 3 kilograms of steak and 2 kilograms of hamburger a month. If no other relevant influence has changed, we know that for Sarah

- A) both steak and hamburger are normal goods.
- B) hamburger is an inferior good and steak is a normal good.
- C) hamburger is a normal good and steak is an inferior good.
- D) both steak and hamburger are inferior goods.

Answer: B

Diff: 3 Type: MC Page Ref: 67

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

42) The demand curve for a normal good

- A) is constructed based on the assumption that income is rising.
- B) shifts to the right when income increases, *ceteris paribus*.
- C) slopes upward and to the right.
- D) shifts to the left when income increases, *ceteris paribus*.

Answer: B

Diff: 1 Type: MC Page Ref: 66

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

43) Which of the following statements about demand is FALSE?

- A) An increase in income causes an increase in the demand for a normal good.
- B) A decrease in income causes the demand curve for a normal good to shift to the left.
- C) An increase in income causes a decrease in the demand for an inferior good.
- D) An increase in income causes the demand curve for an inferior good to shift to the right.

Answer: D

Diff: 3 Type: MC Page Ref: 67

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

44) If macaroni and cheese is an inferior good and an increase in consumer income occurs, then which of the following statements is TRUE?

- A) At a given price, more will be spent on macaroni and cheese.
- B) There will be an increase in demand for macaroni and cheese.
- C) The demand curve for macaroni and cheese will shift farther away from the origin.
- D) There will be a decrease in demand for macaroni and cheese.

Answer: D

Diff: 2 Type: MC Page Ref: 67

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 45) In economic terminology, a normal good is a good or service
- A) that is liked only by normal people.
 - B) for which demand increases when price increases.
 - C) for which demand increases when income increases.
 - D) for which quantity demanded increases when income increases.

Answer: C

Diff: 3 Type: MC Page Ref: 67

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 46) In economic terminology, an inferior good is a good or service for which _____.

Answer: demand increases as income decreases.

Diff: 3 Type: SA Page Ref: 67

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

- 47) Which one of the following goods would most likely be an inferior good?

- A) Bordeaux wines
- B) Broadway theater tickets
- C) corn meal
- D) filet mignon

Answer: C

Diff: 2 Type: MC Page Ref: 66

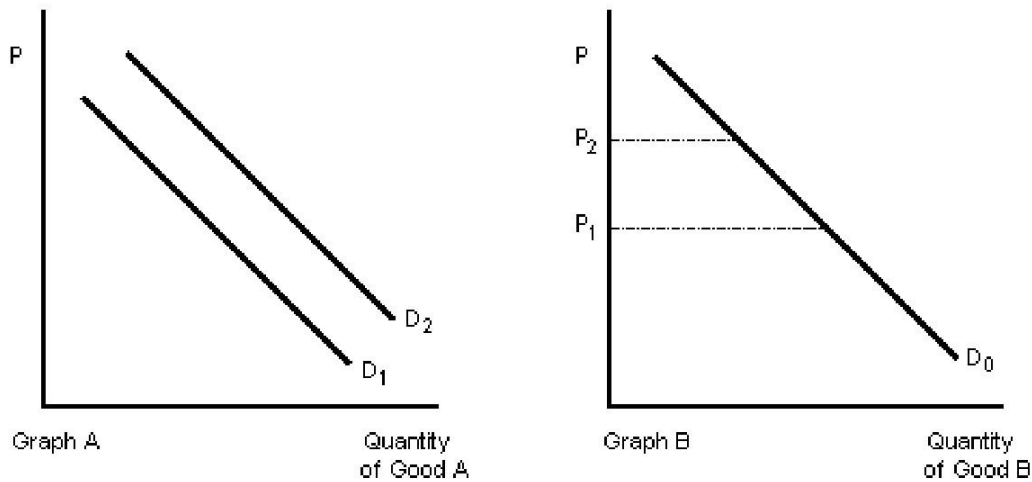
Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

Figure 3-1



48) In Figure 3-1, if both A and B are normal goods, the effect of an increase in income is best shown by the

- A) shift of D_2 to D_1 in Graph A.
- B) movement along D_0 from P_2 to P_1 in Graph B.
- C) movement along D_0 from P_1 to P_2 in Graph B.
- D) shift of D_1 to D_2 in Graph A.

Answer: D

Diff: 2 Type: MC Page Ref: 67

Skill: Applied

Objective: L.O. 3.2

Graph: With graph

Numerical: Non-numerical

49) In Figure 3-1, if both A and B are inferior goods, the effect of an increase in income is best shown by the

- A) shift of D_2 to D_1 in Graph A.
- B) movement along D_0 from P_2 to P_1 in Graph B.
- C) movement along D_0 from P_1 to P_2 in Graph B.
- D) shift of D_1 to D_2 in Graph A.

Answer: A

Diff: 2 Type: MC Page Ref: 66

Skill: Applied

Objective: L.O. 3.2

Graph: With graph

Numerical: Non-numerical

50) Which of the following is NOT a determinant of consumer demand?

- A) tastes and preferences
- B) household income
- C) the state of technology
- D) prices of related goods

Answer: C

Diff: 2 Type: MC Page Ref: 66-68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

51) Which of the following is a determinant of demand?

- A) cost of production
- B) income
- C) technology
- D) number of suppliers

Answer: B

Diff: 2 Type: MC Page Ref: 66-68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

52) Which one of the following is NOT a determinant of demand?

- A) income
- B) future price expectations
- C) the prices of related goods
- D) the cost of inputs in production

Answer: D

Diff: 3 Type: MC Page Ref: 66-68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

53) The position of the market demand curve will be affected by all of the following EXCEPT

- A) tastes and preferences.
- B) consumer incomes.
- C) changes in expectations of future relative prices.
- D) prices of the resources used to produce the product.

Answer: D

Diff: 3 Type: MC Page Ref: 66-68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

54) If two goods are substitutes for one another, then

A) if the price of one good falls, the demand for the other good falls.

B) there is an inverse relationship between changes in the price of one good and changes in the demand for the other.

C) an increase in the price of one causes the demand for the other to fall.

D) changes in the quantity demanded of one good will not affect the demand for the other.

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

55) Suppose that goods X and Y are substitutes and the price of good Y falls. We would then expect

A) a decrease in the demand for good X and an increase in the quantity of good Y demanded.

B) an increase in the demand for good Y and a decrease in the demand for good X.

C) the quantity demanded of good Y to increase and the demand for good X to increase also.

D) an increase in demand for both good X and good Y.

Answer: A

Diff: 1 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

56) We observe that people buy less steak and more hamburger when the relative price of steak increases. This indicates that steak and hamburger are

A) substitutes.

B) complements.

C) non-economic goods.

D) nondirectional goods.

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

57) Assume that beef and chicken are substitutes. Given a downward sloping demand curve for beef, a fall in beef prices will result in _____.

Answer: a decrease in the demand for chicken.

Diff: 3 Type: SA Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

58) The demand for a coffee _____ when the price of cream decreases.

- A) will fall.
- B) will shift outward.
- C) remains constant.
- D) will shift inward.

Answer: B

Diff: 3 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

59) If X and Y are substitute goods, then an increase in the price of Y, other things constant,

- A) has no effect on the quantity demanded of good Y, but increases the demand for X.
- B) results in a decrease in the quantity of Y demanded and an increase in the demand for X.
- C) results in a decrease in the quantity Y demanded and a decrease in the demand for X.
- D) decreases the quantity demanded of Y, but has no effect on the demand for X.

Answer: B

Diff: 3 Type: MC Page Ref: 68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

60) If goods X and Y are substitute goods, then a decrease in the price of Y, other things constant,

- A) has no real effect on the quantity demanded of good Y, but increases the demand for X.
- B) results in an increase in the quantity of Y demanded and a decrease in the demand for X.
- C) results in a decrease in the amounts of both X and Y demanded.
- D) increases the quantity of Y demanded, but has no effect on the amount of X demanded.

Answer: B

Diff: 3 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

61) If bagels and croissants are substitute goods, which of the following is likely to occur if the price of bagels falls?

- A) a leftward movement along the bagel demand curve
- B) a shift to the right in the demand curve for croissants
- C) a shift to the left in the demand curve for bagels
- D) a shift to the left in the demand curve for croissants

Answer: D

Diff: 3 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

62) Which of the following would most likely be complementary goods?

- A) beef and chicken.
- B) beer and pretzels.
- C) margarine and butter.
- D) tea and coffee.

Answer: B

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

63) Which of the following pairs of goods would most likely be substitutes?

- A) beer and wine
- B) razors and razor blades
- C) gasoline and motor oil
- D) hot dog buns and hot dogs

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

64) When the price of coffee beans increased in the mid-1970s, restaurants that raised the price of a cup of coffee experienced a decrease in demand for donuts because donuts and coffee are

- A) complementary goods.
- B) economic goods.
- C) inferior goods.
- D) substitute goods.

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

65) When the price of beef rises, the demand for chicken increases because beef and chicken are

- A) consumer goods.
- B) inferior goods.
- C) complementary goods.
- D) substitute goods.

Answer: D

Diff: 2 Type: MC Page Ref: 70

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

66) An increase in demand for cheese would be caused by

- A) an increase in the price of a complement such as biscuits.
- B) a decrease in the price of a complement.
- C) a reduction in income, given that cheese is a normal good.
- D) a decrease in the price of apples.

Answer: B

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

67) If the price of hot dogs increases, the demand for hot dog buns will

- A) shift to the right.
- B) increase.
- C) decrease.
- D) remain constant.

Answer: C

Diff: 1 Type: MC Page Ref: 69

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

68) Two goods are substitutes if

- A) the two goods have the same price.
- B) the more you buy of one, the less you buy of the other.
- C) the two goods are used together.
- D) the more you have of one, the more you want the other.

Answer: B

Diff: 1 Type: MC Page Ref: 68

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

69) After a fall in the price of songs downloaded from the Internet, Phil purchases fewer CDs and buys a new MP3 player. For Phil,

- A) MP3 players and CDs are complements.
- B) CDs, downloaded music and MP3 players are all substitutes.
- C) CDs and downloaded songs are substitutes; downloaded songs and MP3 players are complements.
- D) MP3 players, CDs and CD players all are complements.

Answer: C

Diff: 3 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

70) If the price of apples goes down, then the demand for pears will

- A) decrease if apples and pears are complements.
- B) remain constant if apples and pears are related goods.
- C) decrease if apples and pears are substitutes.
- D) increase if apples and pears are substitutes.

Answer: C

Diff: 3 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

71) There is an increase in the quantity of cream demanded when the price of coffee falls. If other things have remained constant, we can conclude that coffee and cream are

- A) complementary goods.
- B) inferior goods.
- C) independent goods.
- D) substitute goods.

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

72) If the price of butter increases, the demand for margarine

- A) will shift outward.
- B) will kink into an S-curve.
- C) will be unchanged.
- D) will shift inward.

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

73) An increase in perks offered to potential college students could be the result of

- A) the high price of a college education.
- B) a new "social consciousness" on the part of colleges.
- C) a decrease in the number of college-entry aged Canadians.
- D) a higher percentage of high school graduates going on to college.

Answer: C

Diff: 3 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

74) An expected increase in the price of automobiles will lead to

- A) no predictable impact on today's demand for automobiles.
- B) a movement down the demand schedule for automobiles.
- C) an outward shift in demand for automobiles today.
- D) a reduction in the demand for gasoline today.

Answer: C

Diff: 2 Type: MC Page Ref: 69

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

75) An expected increase in the price of a good next month is likely to

- A) increase demand now.
- B) decrease demand now.
- C) decrease the quantity demanded now.
- D) increase the quantity demanded now.

Answer: A

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

76) The expectation of a future increase in the price of gasoline is likely to

- A) make gasoline an inferior good.
- B) increase gasoline demand now.
- C) increase the supply of gasoline now.
- D) decrease gasoline demand now.

Answer: B

Diff: 2 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

77) When the price of a good falls, there will be

- A) no change in quantity demanded.
- B) an outward shift in the demand for the good.
- C) a movement along the good's demand curve.
- D) both an outward shift in the demand for the good and a movement along the good's demand curve.

Answer: C

Diff: 2 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

78) An increase in the price of corn, *ceteris paribus*, will lead to

- A) an upward (and leftward) movement along the demand curve.
- B) an inward shift in demand.
- C) an increase in the quantity of corn consumed.
- D) an outward shift in the supply of corn.

Answer: A

Diff: 1 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

79) Suppose a college increases the wages paid to its student employees. Which of the following is the most likely effect of the wage increases on the market for college logo sweat shirts in the bookstore?

- A) a leftward movement along the demand curve
- B) the demand curve shifts to the right
- C) the demand curve shifts to the left
- D) a rightward movement along the demand curve

Answer: B

Diff: 3 Type: MC Page Ref: 67

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

80) A large increase in the price of tennis balls will most likely lead to

- A) an inward shift in the demand for tennis balls.
- B) an increase in the demand for tennis racquets.
- C) an inward shift in the demand for tennis racquets.
- D) a movement along the demand curve for tennis racquets.

Answer: C

Diff: 3 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

81) If more buyers come into the market for extra lean ground beef, *ceteris paribus*, we would expect to see the market demand curve

- A) shift downward and to the left.
- B) to reflect a positive relationship between price and quantity demanded.
- C) shift upward and to the right.
- D) remain unchanged since none of the determinants of individual demand changed.

Answer: C

Diff: 2 Type: MC Page Ref: 68

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

82) An increase in demand is shown graphically by

- A) a movement up along the existing curve.
- B) a shift of the demand curve to the left.
- C) a movement down the existing curve.
- D) a shift of the demand curve to the right.

Answer: D

Diff: 1 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

83) A decrease in demand is shown graphically by

- A) a decrease in the cost of production.
- B) a shift of the supply curve to the left.
- C) a shift of the demand curve to the left.
- D) a movement up along the demand curve.

Answer: C

Diff: 2 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

84) Which of the following statements is FALSE?

- A) A change in the demand for a product is caused by factors other than changes in the product's price.
- B) A decrease in demand shifts the demand curve leftward toward the origin, while a decrease in quantity demanded involves a movement upward along a particular demand curve.
- C) If there is an increase in the demand for a product, consumers want to buy more of the product at each and every possible price.
- D) If the price of a good rises, quantity demanded of the good decreases and the demand curve shifts toward the origin.

Answer: D

Diff: 3 Type: MC Page Ref: 69

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Numerical

85) Which of the following statements is TRUE, *ceteris paribus*?

- A) If price goes down, demand decreases.
- B) If price goes down, demand increases.
- C) If demand increases, then the demand curve shifts to the left.
- D) If demand decreases, then the demand curve shifts to the left.

Answer: D

Diff: 2 Type: MC Page Ref: 69

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

86) For a normal good, an increase in consumer income will lead to

- I. A movement down the demand curve
- II. An outward shift in the demand curve
- III. An increase in supply

- A) I only
- B) II only
- C) III only
- D) Both II and III

Answer: B

Diff: 3 Type: MC Page Ref: 67

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

87) Other things constant, quantity supplied of a product is determined by

- A) input prices.
- B) the product's price.
- C) taxes and subsidies.
- D) price expectations.

Answer: B

Diff: 2 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

88) The relationship between quantity supplied and the price of output is such that

- A) an increase in price will lead to an increase in quantity supplied.
- B) quantity will decrease as the number of firms increases.
- C) an increase in price will produce an inward shift in the supply curve.
- D) an increase in quantity will automatically lead to a reduction in price.

Answer: A

Diff: 2 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

89) Which one of the following statements is FALSE?

- A) There is some price at or below which the quantity supplied of a product is zero.
- B) As product price increases, producers are willing to offer more of the good for sale.
- C) To entice producers to offer more of a product on the market for sale, product price must rise.
- D) There is an inverse (negative) relationship between product price and quantity supplied.

Answer: D

Diff: 3 Type: MC Page Ref: 72

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

90) If the price of a product increases, *ceteris paribus*, we would expect

- A) supply to increase.
- B) an increase in quantity demanded.
- C) quantity supplied to increase.
- D) demand to decrease.

Answer: C

Diff: 2 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

91) The quantity supplied of a particular good is the amount of the good that

- A) firms will actually end up buying at a particular price during a given time period.
- B) households are willing to consume at each particular price.
- C) households want firms to sell at each price during a particular time period.
- D) firms are willing to sell at a specific price during a particular time period.

Answer: D

Diff: 2 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

92) Other things being equal, the relationship between price and quantity supplied is

- A) negative.
- B) non-existent.
- C) positive.
- D) constant.

Answer: C

Diff: 1 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

93) The cause-and-effect relationship between quantity supplied and price is usually

- A) a negative relationship.
- B) an inverse relationship.
- C) a direct relationship.
- D) impossible to determine.

Answer: C

Diff: 1 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

94) For typical goods and services, supply curves are

- A) vertical.
- B) horizontal.
- C) downward sloping.
- D) upward sloping.

Answer: D

Diff: 1 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

95) Which of the following statements about a supply curve is TRUE?

- A) It typically has a positive slope.
- B) It shows the quantity demanded at each specific price.
- C) It shows an inverse relationship between price and quantity supplied.
- D) It typically slopes downward.

Answer: A

Diff: 2 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

96) The market supply curve is found by

- A) surveys of consumer groups.
- B) horizontally summing up the supply curves of individual suppliers.
- C) estimating what the supply curve would be of one huge firm large enough to serve the entire market.
- D) vertically summing up the equilibrium prices of individual suppliers.

Answer: B

Diff: 1 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

97) The market supply curve for a good or service is found by

- A) plotting the supply curves of individual firms.
- B) summing up and plotting the supply curves of individual firms.
- C) plotting the supply curves of individual consumers.
- D) taking the supply curve of the representative firm.

Answer: B

Diff: 1 Type: MC Page Ref: 71

Skill: Recall

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

98) Any improvement in production technology that permits more of a good or service to be produced with the same level of inputs causes

- A) a rightward shift of the supply curve so that more is offered for sale at each price.
- B) a leftward shift of the supply curve so that less is offered for sale at each price.
- C) no movement of the supply curve, but a fall in price and a decrease in quantity supplied.
- D) a movement up the supply curve resulting in both a higher price and greater quantity supplied.

Answer: A

Diff: 2 Type: MC Page Ref: 73

Skill: Recall

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

- 99) All of the following will cause the supply curve of good A to shift rightward EXCEPT
- A) a reduction in the prices of inputs used to produce good A.
 - B) an increase in the market price of good A.
 - C) a decrease in the sales tax on good A which producers must pay.
 - D) an increase in the number of firms in the industry producing good A.

Answer: B

Diff: 2 Type: MC Page Ref: 74

Skill: Recall

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

- 100) Which of the following will NOT affect the market supply curve for a good?
- A) an increase in the number of sellers in the market
 - B) an increase in the price of the good
 - C) a new government subsidy to producers for each unit of the good that they produce
 - D) an increase in the prices of the inputs used in production

Answer: B

Diff: 3 Type: MC Page Ref: 74

Skill: Applied

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

- 101) Which of the following is a determinant of supply?

- A) tastes and preferences
- B) technology
- C) number of consumers
- D) consumer incomes

Answer: B

Diff: 1 Type: MC Page Ref: 74

Skill: Recall

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

- 102) Which of the following will shift today's supply curve to the right?

- A) Input prices rise
- B) Prices are expected to be lower in the future
- C) Sales taxes increase
- D) Prices are expected to be higher in the future

Answer: B

Diff: 2 Type: MC Page Ref: 74

Skill: Applied

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

103) If other things are held constant, an increase in wages earned by workers in the steel industry will cause

- A) the demand for autos to decrease.
- B) the supply of autos to decrease.
- C) the quantity supplied of steel to decrease.
- D) the quantity of autos supplied to decrease.

Answer: B

Diff: 3 Type: MC Page Ref: 74

Skill: Applied

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

104) If the price of cotton used in making blue jeans increases, which of the following will definitely occur?

- A) There will be a movement along the original blue jean supply curve.
- B) The supply curve for jeans will shift outward, followed by a movement along the curve.
- C) The supply curve for jeans will shift leftward.
- D) The supply curve for jeans will shift rightward.

Answer: C

Diff: 2 Type: MC Page Ref: 74

Skill: Applied

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

105) A new government subsidy paid to the producers of butter would

- A) have no effect on the supply of butter
- B) shift the supply curve to the left.
- C) reduce the supply of butter.
- D) shift the supply curve to the right.

Answer: D

Diff: 2 Type: MC Page Ref: 74

Skill: Applied

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

106) In the long run, the number of producers in an industry may change. If the number of farmers growing soybeans increases, *ceteris paribus*, then

- A) the supply curve of soybeans will shift inward to the left.
- B) the demand curve of soybeans will shift inward to the left.
- C) the demand curve of soybeans will shift outward to the right.
- D) the supply curve of soybeans will shift outward to the right.

Answer: D

Diff: 2 Type: MC Page Ref: 74

Skill: Applied

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

107) Which of the following will cause a rightward shift in the supply curve?

- A) technological progress
- B) a reduction in the price of the good
- C) an increase in the price of labour
- D) increase in the number of consumers

Answer: A

Diff: 2 Type: MC Page Ref: 74

Skill: Recall

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

108) Other things constant, the only way to move along a given supply curve for a product is for

- A) the product's relative price to increase or decrease.
- B) technological changes to occur.
- C) the future relative price of related goods to change.
- D) the number of sellers to increase or decrease.

Answer: A

Diff: 2 Type: MC Page Ref: 75

Skill: Recall

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

- 109) At a commodity's market-clearing price,
A) there will be an excess demand.
B) the quantity demanded will just equal the quantity supplied.
C) the demand function should shift out.
D) there will be a tendency for price to rise over time.

Answer: B

Diff: 1 Type: MC Page Ref: 76

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

- 110) In any given market, prices are determined by
A) comparative advantage.
B) transactions costs.
C) the interaction of supply and demand.
D) specialization of labour.

Answer: C

Diff: 1 Type: MC Page Ref: 77

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

- 111) The excess supply of spaces for potential students in the early 1990s at Canadian universities would probably have disappeared if
A) tuition rates had increased.
B) the supply curve had not shifted to the right.
C) tuition rates had been decreased.
D) the supply curve had not shifted to the left.

Answer: C

Diff: 2 Type: MC Page Ref: 77

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

112) The equilibrium or market-clearing price occurs where

- A) quantity demanded equals quantity supplied.
- B) there is a shortage of the desired good.
- C) the supply curve intersects the horizontal axis.
- D) the demand curve intersects the vertical axis.

Answer: A

Diff: 1 Type: MC Page Ref: 77

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

Table 3-2

Price per Constant- Quality Unit	Quantity Demanded of Constant-Quality Units per Year	Quantity Supplied of Constant-Quality Units per Year
\$1.00	1 000	200
2.00	800	400
3.00	600	600
4.00	400	800
5.00	200	1 000

113) According to Table 3-2, at a price of \$2 per unit, which of the following would occur?

- A) a shortage of 200 units
- B) a shortage of 800 units
- C) a surplus of 800 units
- D) a shortage of 400 units

Answer: D

Diff: 1 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

114) In a free market economy, the market clearing (equilibrium) price in Table 3-2 would be

- A) \$4.
- B) \$3.
- C) \$1.
- D) \$5.

Answer: B

Diff: 1 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

115) According to Table 3-2, a surplus exists when

- A) the price is \$2 per unit.
- B) the price is \$3 per unit.
- C) the price is \$1 per unit.
- D) the price is greater than \$3 per unit.

Answer: D

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

116) According to Table 3-2, at a price of \$4 per unit

- A) quantity demanded will exceed quantity supplied.
- B) scarcity will exist.
- C) a shortage will exist.
- D) a surplus will exist.

Answer: D

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

117) In the market described by Table 3-2 there will be a shortage of the product if price is below _____.

Answer: \$3

Diff: 2 Type: SA Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

118) In the market described by Table 3-2 there will be a surplus of the product if price is above _____.

Answer: \$3

Diff: 2 Type: SA Page Ref: 8076

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

Table 3-3

Price per Constant- Quality of X per Time Period	Quantity of X Demanded per Time Period	Quantity of X Supplied per Time Period
\$10	0	150
8	20	120
6	40	90
4	60	60
2	80	30
0	100	0

119) In Table 3-3, at a price of \$8 per unit,

- A) a surplus of 100 units will exist on the market.
- B) a shortage of 80 units will exist on the market.
- C) there will be no tendency for the market to approach a stable equilibrium.
- D) consumers will continue to bid prices upward.

Answer: A

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

120) In Table 3-3, at a price of \$2 per unit,

- A) a surplus of 50 will exist.
- B) a shortage of 50 will exist.
- C) consumers will bid prices downward.
- D) the market will be in equilibrium.

Answer: B

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

121) In Table 3-3, if other influences remain constant and the market is free to adjust, a stable equilibrium price will be established at

- A) \$4.
- B) \$6.
- C) \$8.
- D) \$2.

Answer: A

Diff: 1 Type: MC Page Ref: 76

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

122) In Table 3-3 if the price is \$2 there will be a shortage of _____ units.

Answer: 50

Diff: 1 Type: SA Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

Table 3-4

Price per CD	Quantity Demanded per Month	Quantity Supplied per Month
\$20	500	9,000
18	1,000	6,000
16	1,500	4,500
14	2,000	3,500
12	2,500	2,500
10	3,000	1,500
8	3,500	800
6	4,000	100

123) In Table 3-4, the equilibrium price for CDs is

- A) \$12.
- B) \$16.
- C) \$10.
- D) \$14.

Answer: A

Diff: 1 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

124) According to Table 3-4, at a price of \$16 per CD, there is

- A) an equilibrium.
- B) a shortage of 3,000 CDs.
- C) an excess demand of 3,000 CDs.
- D) an excess supply of 3,000 CDs.

Answer: D

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

125) According to Table 3-4, there is an excess demand of 1500 CDs at price

- A) \$10.
- B) \$12.
- C) \$8.
- D) \$14.

Answer: A

Diff: 3 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

126) In Table 3-4, if price rises from \$8 to \$10

- A) quantity demanded rises by 500 and quantity supplied falls by 700.
- B) quantity demanded falls by 500 and quantity supplied rises by 700.
- C) quantity demanded rises by 1000 and quantity supplied falls by 1700.
- D) quantity demand falls by 500 but quantity supplied does not change.

Answer: B

Diff: 2 Type: MC Page Ref: 76

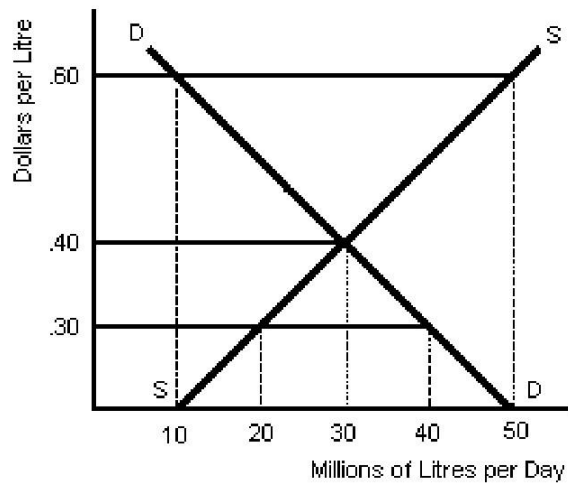
Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Numerical

Figure 3-2



127) In Figure 3-2, if gasoline were selling for twenty cents a litre, quantity demanded per day would be

- A) zero.
- B) 50 million litres.
- C) 30 million litres.
- D) 10 million litres.

Answer: B

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Numerical

128) In Figure 3-2, if 40 million litres were supplied, the maximum price at which they could be sold is

- A) \$0.30
- B) \$0.40
- C) \$0.60
- D) zero

Answer: A

Diff: 3 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

- 129) According to Figure 3-2, an increase in the price from \$0.40 to \$0.60 will result in
- A) an increase in quantity supplied of 20 million litres.
 - B) a shortage of 30 million litres.
 - C) an increase in demand of 20 million litres.
 - D) an increase in quantity demanded of 10 million litres.

Answer: A

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

- 130) According to Figure 3-2, at a price of \$0.30/litre, there would be
- A) a surplus of 50 million litres.
 - B) a shortage of 20 million litres
 - C) a shortage of 30 million litres.
 - D) a surplus of 30 million litres.

Answer: B

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

- 131) If Figure 3-2 represents a free market economy, market price and quantity will adjust to equilibrium at

- A) \$0.60 and 10 million litres.
- B) \$0.40 and 60 million litres.
- C) \$0.30 and 50 million litres.
- D) \$0.40 and 30 million litres.

Answer: D

Diff: 1 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

132) In Figure 3-2, a surplus exists in the gasoline market when the price is

- A) \$0.40/litre.
- B) \$0.60/litre.
- C) \$0.30/litre.
- D) below \$0.40/litre.

Answer: B

Diff: 1 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

133) According to Figure 3-2, a shortage will occur at any price for which

- A) quantity supplied exceeds quantity demanded.
- B) government sets a price above equilibrium.
- C) quantity demanded exceeds quantity supplied.
- D) quantity demanded equals quantity supplied.

Answer: C

Diff: 2 Type: MC Page Ref: 76

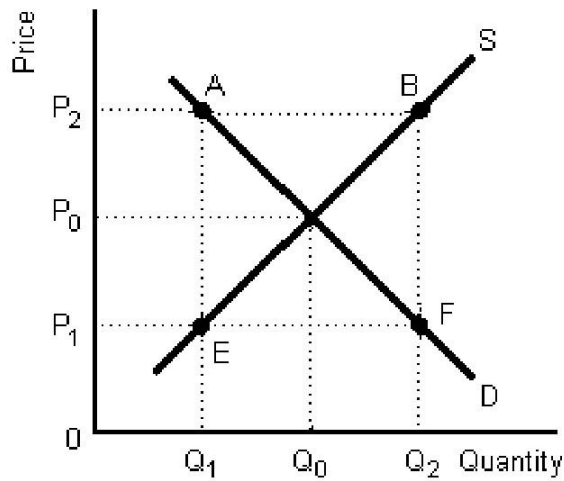
Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

Figure 3-3



134) According to Figure 3-3, the highest price that consumers would be willing and able to pay for quantity Q_2 is

- A) P_2 .
- B) P_1 .
- C) P_0 .
- D) not shown on the diagram.

Answer: B

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

135) In Figure 3-3, the lowest price that would persuade suppliers to offer quantity Q_2 for sale is

- A) P_2 .
- B) P_1 .
- C) P_0 .
- D) not shown on the diagram.

Answer: A

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

136) In Figure 3-3, if the market price is reduced from P_0 to P_1 , then

- A) there will be a shortage of Q_2 units minus Q_1 units.
- B) there will be a further tendency for price to fall.
- C) there will be a surplus equal to Q_2 units minus Q_1 units.
- D) price will rise to P_2 in the next period.

Answer: A

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

137) In Figure 3-3, other things constant, if price was at P_2 we would expect

- A) consumers to reduce their offering price for the good.
- B) an excess quantity supplied to remain on the market.
- C) price to drift downward until a stable equilibrium at P_0 was achieved.
- D) consumers to bid against each other for goods and force the price still higher.

Answer: C

Diff: 2 Type: MC Page Ref: 76

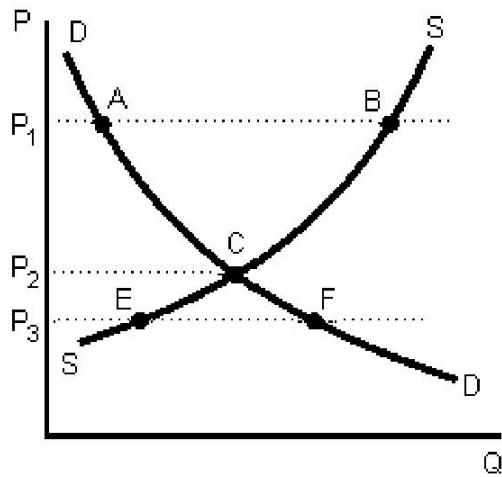
Skill: Recall

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

Figure 3-4



138) In Figure 3-4, there would be a shortage at which price?

- A) P_1
- B) P_2
- C) P_3
- D) any price above P_2

Answer: C

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

139) In Figure 3-4, at which price is there equilibrium?

- A) P_3
- B) P_1
- C) P_2
- D) zero

Answer: C

Diff: 1 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

140) In Figure 3-4, there would be a surplus at which price?

- A) P1
- B) P2
- C) P3
- D) any price below P2

Answer: A

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

141) In Figure 3-4, at which price is there neither excess demand nor excess supply?

- A) P3
- B) P1
- C) P2
- D) zero

Answer: C

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

142) In Figure 3-4, a surplus is shown as the distance between which two points?

- A) C and B
- B) A and C
- C) E and F
- D) B and A

Answer: D

Diff: 2 Type: MC Page Ref: 76

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

143) If there is a shortage in a free market, then

- A) suppliers will decrease their output to match demand.
- B) consumers competing for a limited quantity supplied will drive down the price.
- C) suppliers will accept any price below equilibrium.
- D) consumers competing for a limited quantity supplied will drive up the price of the good.

Answer: D

Diff: 2 Type: MC Page Ref: 77

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

- 144) A shortage will occur when
- A) the price is below the market-clearing level.
 - B) the price equals the market-clearing level.
 - C) there is excess supply.
 - D) the price is above the market-clearing level.

Answer: A

Diff: 2 Type: MC Page Ref: 77

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

- 145) When the actual price is above the equilibrium price there will be
- A) a shortage.
 - B) an incentive for consumers to increase their purchases.
 - C) excess supply.
 - D) neither an excess nor a shortage.

Answer: C

Diff: 2 Type: MC Page Ref: 77

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

- 146) A shortage will occur whenever
- A) the supply curve is upward sloping.
 - B) price is set equal to the equilibrium price.
 - C) price is set below the equilibrium price.
 - D) price is set above the equilibrium price.

Answer: C

Diff: 1 Type: MC Page Ref: 81

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

- 147) Shortages occur because
- A) our wants are greater than can be satisfied with the resources available.
 - B) the price of a good or service is too high for people to afford it.
 - C) the price of a good or service is set by firms trying to make large profits.
 - D) the price of a good or service is below its equilibrium level.

Answer: D

Diff: 3 Type: MC Page Ref: 77

Skill: Recall

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

148) Suppose that the price of corn was above its equilibrium price. *Ceteris paribus*, we would expect to see

- A) sellers raising their prices.
- B) a decrease in supply.
- C) sellers lowering their prices.
- D) a leftward shift of the demand curve.

Answer: C

Diff: 2 Type: MC Page Ref: 81

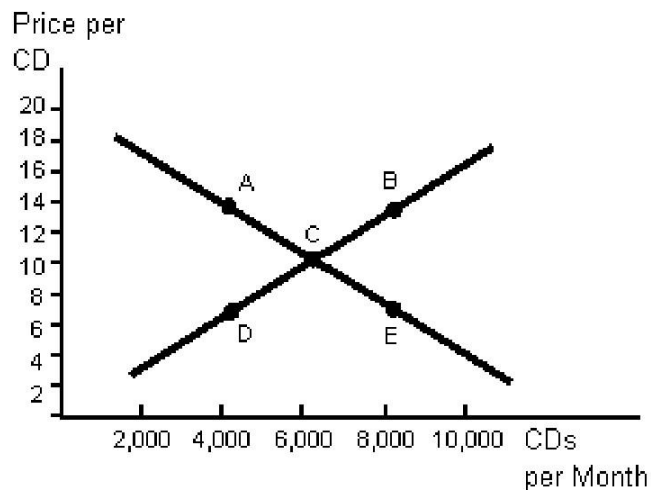
Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

Figure 3-5



149) According to Figure 3-5, market equilibrium for CDs is at point

- A) D.
- B) B.
- C) E.
- D) C.

Answer: D

Diff: 1 Type: MC Page Ref: 76

Skill: Recall

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

150) In Figure 3-5, suppose a change takes place and as a result a new equilibrium occurs at point E. The change could have been caused by

- A) a decrease in the price of CDs.
- B) a reduction in the wages paid to workers in the CD industry.
- C) an increase in the tax on CDs.
- D) an increase in demand for CDs.

Answer: B

Diff: 3 Type: MC Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

151) In Figure 3-5, suppose a change takes place and as a result a new equilibrium occurs at point D. The change could have been caused by

- A) a reduction in the wages paid to workers in the CD industry.
- B) a decrease in the incomes of consumers.
- C) an increase in the tax on CDs.
- D) an increase in demand for CDs.

Answer: B

Diff: 3 Type: MC Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

152) Suppose a change takes place and as a result the new equilibrium is at A in Figure 3-5. This change could have been caused by

- A) a reduction in the wages paid to workers in the CD industry.
- B) a decrease in the income of consumers.
- C) an increase in the wages paid to workers in the CD industry.
- D) a reduction in the price of CD players.

Answer: C

Diff: 3 Type: MC Page Ref: 79

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

153) In Figure 3-5, suppose a change takes place and as a result a new equilibrium occurs at point B. The change could have been caused by

- A) a reduction in the wages paid to workers in the CD industry.
- B) a decrease in the incomes of consumers.
- C) an increase in the tax on CDs.
- D) an increase in demand for CDs.

Answer: D

Diff: 2 Type: MC Page Ref: 79

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

Table 3-5

Price Per TV	Quantity Demanded Per Month	Quantity Supplied Per Month
\$800	2,000	12,000
750	3,000	11,000
700	4,000	10,000
650	5,000	9,000
600	6,000	8,000
550	7,000	7,000
500	8,000	6,000
450	9,000	5,000
400	10,000	4,000

154) Refer to Table 3-5. Suppose technological change occurs in the television set industry. The new equilibrium market price will be

- A) \$550.
- B) \$750.
- C) less than \$550.
- D) between \$550 and \$750.

Answer: C

Diff: 2 Type: MC Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Numerical

155) In Table 3-5, if there is a shortage of 2000 televisions we can tell that the current price must be _____.

Answer: \$500

Diff: 2 Type: SA Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Numerical

156) In Table 3-5, if there is a surplus of 4000 televisions, we know that the current price must be _____.

Answer: \$650

Diff: 2 Type: SA Page Ref: 78

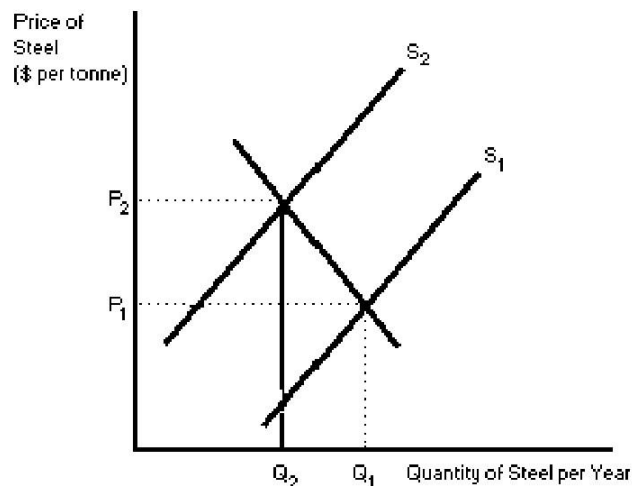
Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Numerical

Figure 3-6



157) According to Figure 3-6, if steel mills ignore the cost of pollution (shown as the difference between S₂ and S₁) the equilibrium quantity of steel will be

A) Q₂.

B) Q₂ - Q₁.

C) Q₁.

D) Q₂ + Q₁.

Answer: C

Diff: 2 Type: MC Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

158) In Figure 3-6 the a shift from S₁ to S₂ would be

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

Answer: A

Diff: 3 Type: MC Page Ref: 79

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

159) In Figure 3-6 the shift from S₂ to S₁ would be

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

Answer: B

Diff: 3 Type: MC Page Ref: 79

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

160) According to Figure 3-6, if steel mills shift from ignoring the cost of pollution to bearing that cost, then the supply curve would

- A) remain at S₁.
- B) shift from S₁ to S₂.
- C) shift from S₂ to S₁.
- D) shift, but it is impossible to say in which direction without more information.

Answer: B

Diff: 2 Type: MC Page Ref: 79

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

161) When market demand and supply both increase

- A) equilibrium price will increase and equilibrium quantity will decrease.
- B) equilibrium quantity will increase but equilibrium price may increase or decrease.
- C) equilibrium quantity will increase and equilibrium price will increase.
- D) equilibrium price will decrease and equilibrium quantity will decrease.

Answer: B

Diff: 3 Type: MC Page Ref: 80

Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Non-numerical

162) When demand decreases and supply increases, it is certain that

- A) equilibrium quantity will fall.
- B) equilibrium price will fall.
- C) equilibrium quantity will rise.
- D) equilibrium price will rise.

Answer: B

Diff: 2 Type: MC Page Ref: 80

Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Non-numerical

163) When demand decreases and supply increases

- A) equilibrium price will rise and equilibrium quantity will fall.
- B) equilibrium price will fall and equilibrium quantity will fall.
- C) equilibrium price will fall but equilibrium quantity may rise or fall.
- D) equilibrium price will fall and equilibrium quantity will rise.

Answer: C

Diff: 3 Type: MC Page Ref: 80

Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Non-numerical

164) Explain the difference between wanting a pizza and demanding it.

Answer: People who demand a pizza are "willing and able" to buy it. They want one, but that is not enough. First, they must be able to buy it, meaning they must have enough money to pay the price. Second, they are willing only if they want the pizza enough to spend the money on the pizza rather than on the most valuable alternative they could purchase instead.

Diff: 2 Type: ES Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

165) Explain the relationship between the money price of a good and its relative price.

Answer: The relative price of a good is its price in terms of another commodity. In a market setting, that means it is the ratio of their money prices. If one good costs \$100 and another \$25, the relative price of the first in terms of the second is 4:1 and the relative price of the second in terms of the first is 1:4. When economists examine the effect of a change in price of a good on its quantity demanded or supplied, they always "hold other things constant" and that includes the price of other goods. So, "an increase in price" of just one good means an increase in the relative price of that good brought about by an increase in its money price.

Diff: 2 Type: ES Page Ref: 62

Skill: Recall

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

166) Explain how a market demand curve can be found if we know the demand curves of each individual in the market.

Answer: The market demand curve is the horizontal summation of the individual demand curves. Select a price and add up the quantities demanded at that price by each person in the market. Then choose another price and sum the quantities demanded at the second price. Following this procedure for a series of additional prices will trace out points along the market demand curve.

Diff: 1 Type: ES Page Ref: 64

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

167) Briefly explain the determinants of demand for a good or service other than its price.

Answer: *Ceteris paribus*, an increase in income causes demand for normal goods to increase and demand for inferior goods to decrease. An increase in the price of a related good causes demand to increase if the two goods are substitutes and demand to decrease if they are complements. An increase in the number of people in the market causes demand to increase. Demand increases if preferences of consumers for the good increase. Expectations about the future also matter. If consumers think price will increase in the future, current demand for storable goods will increase. If consumers think price will fall in the future, current demand will decrease.

Diff: 2 Type: ES Page Ref: 66

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

168) Explain what inferior goods are and give an example of an inferior good.

Answer: Inferior goods are goods for which, *ceteris paribus*, quantity demanded at each possible price (demand) is lower when consumer incomes are higher. Having more of the product gives consumers greater satisfaction, just as for any other good. However, buyers switch to substitutes when their incomes are higher, all other influences on demand being the same. Hamburger is an example of an inferior good for many consumers. Someone getting a raise in pay often buys more steak and thus less hamburger. For others, it may be a normal good.

Diff: 2 Type: ES Page Ref: 67

Skill: Recall

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

169) Using a graph, explain how expectations of future price changes affect the demand curve for a product.

Answer: If consumers expect the price of a commodity to rise in the future, they will have an incentive to buy more of it today at the lower price to store it up for future use. That will shift today's demand curve outward. If they expect prices to fall, they will have a reason to put off purchases today in order to buy after prices have fallen. That will shift today's demand curve to the left.

Diff: 3 Type: ES Page Ref: 69

Skill: Applied

Objective: L.O. 3.2

Graph: With graph

Numerical: Non-numerical

170) Explain why there normally would be a direct relationship between price and quantity supplied.

Answer: To produce more of a good per time period, a firm must hire more workers (or perhaps pay overtime to current employees) and purchase more materials and other inputs. Studies of real-world businesses have found that as more and more is produced, the cost of extra units of output rises. Because of this increase in marginal cost, unless a product's price is higher it will not be worth expanding. Another way of looking at the same question is to note that at higher prices, firms see opportunities to make higher profits by expanding output.

Diff: 3 Type: ES Page Ref: 71

Skill: Applied

Objective: L.O. 3.3

Graph: No graph

Numerical: Non-numerical

171) Briefly explain the determinants of a good's supply curve.

Answer: *Ceteris paribus*, an increase in the prices of inputs used to produce the good will cause supply to decrease. That is, it will shift the supply curve to the left. An advance in technology will cause supply to increase, meaning its supply curve shifts right. The imposition of a tax on the good would cause supply to decrease, while a subsidy on it would cause supply to increase. An increase in the number of firms producing the good causes the market supply to increase. A change in expectations about future prices also might cause current supply to change. (Remember that the good's price will affect its quantity supplied, not its supply curve.)

Diff: 2 Type: ES Page Ref: 74

Skill: Recall

Objective: L.O. 3.4

Graph: No graph

Numerical: Non-numerical

172) Use a graph to answer each of the following: How is the equilibrium price in a market determined? What happens if the current price is above the equilibrium price? What happens if the current price is below the equilibrium price?

Answer: The equilibrium price is determined at the point where the demand curve and the supply curve intersect. At this price, quantity demanded and quantity supplied are equal. At a price greater than the equilibrium there is an excess quantity supplied, or surplus, since an increase in price leads to a reduction in the quantity demanded but an increase in quantity supplied. At prices below the equilibrium price, quantity demanded will be greater than quantity supplied, so there is an excess quantity demanded or shortage.

Diff: 2 Type: ES Page Ref: 77

Skill: Applied

Objective: L.O. 3.5

Graph: With graph

Numerical: Non-numerical

173) Explain what it means for a market to be in equilibrium.

Answer: Equilibrium is a situation of balance. In equilibrium, nothing will change unless a new force is added or the strength of an old force changes. In free markets, the forces are two: demand and supply. Their interaction determines the equilibrium price, the price for which quantity demanded and quantity supplied are equal. The outcome is an equilibrium because neither price nor quantity will change unless there is a change in either demand or supply conditions.

Diff: 3 Type: ES Page Ref: 77

Skill: Recall

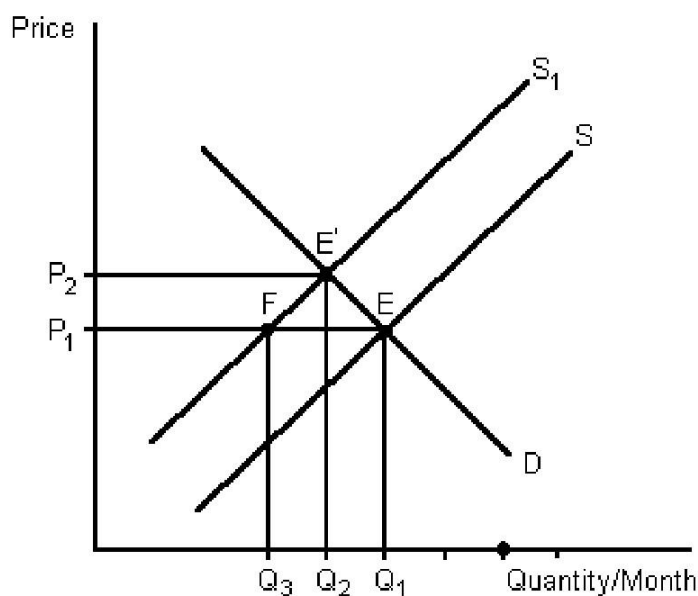
Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

174) Using a graph, show a market equilibrium. Next, show how the graph changes when input costs increase, *ceteris paribus*. Explain what happens in the market as a result.

Answer: In the graph, the original equilibrium is at E, where the demand curve D and the supply curve S intersect. Equilibrium price is P_1 and equilibrium quantity is Q_1 . When input costs increase, they cause supply to decrease, shown by a shift of the supply curve to the left from S to S_1 . At the original equilibrium price P_1 there now is an excess demand of $Q_1 - Q_3$ units. This shortage causes price to be bid up, causing quantity demanded to decrease and quantity supplied to increase again until a new equilibrium is reached at E'. The new equilibrium price is P_2 and new equilibrium quantity Q_2 .



Diff: 2 Type: ES Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: With graph

Numerical: Non-numerical

175) Using a graph to help you, explain the difference between a consumer's "want" for and her "demand" for a good or service.

Answer: Demand is a technical term used only in situations involving choices in markets. Demand refers to the quantities of a good or service that the individual would both want enough and be able (that is, have enough money) to purchase at various possible prices, other things being constant. Those other things include the person's "tastes and preferences" -- their wants -- but also the person's current and expected income and wealth levels and the prices of other goods and services. (Want is sometimes identified as the quantity of a good that someone would 'buy' if the price were zero, but since goods can be substitutes or complements, all prices would have to be zero for that to work.)

Diff: 3 Type: ES Page Ref: 62

Skill: Applied

Objective: L.O. 3.1

Graph: No graph

Numerical: Non-numerical

176) Using graphs, explain the difference between a change in demand and a change in quantity demanded.

Answer: A change in demand always involves a change in the location of (a "shift in") a demand curve. A change in quantity demanded refers to a movement from one point on a demand curve to another point on the same curve. Demand curves are set up to show the cause-and-effect relationship between price (cause) and quantity demanded (effect.) So, looking at the effects on quantity demanded of two different prices, holding constant other things (like consumer incomes, or their tastes, or the prices of other goods) means looking at two points on the same curve. Considering the effects of those other influences on consumer demand thus means looking at points on different curves.

Diff: 3 Type: ES Page Ref: 69

Skill: Applied

Objective: L.O. 3.2

Graph: No graph

Numerical: Non-numerical

177) Not long ago the papers announced that there was a surplus of apples produced in the Okanagan Valley of British Columbia. Explain how there can be surpluses in a world of scarcity.

Answer: Surpluses and shortages are terms referring to market outcomes. They concern the quantities of individual products that people both want AND are able to pay for compared with the amounts that are offered for sale. Scarcity refers to the fact that, whether resource use decisions are made in market settings or elsewhere, it is not possible to satisfy all of everyone's wants for all goods all at the same time. There would be a shortage of most goods if their prices were zero, because the quantities supplied also would be zero. At higher prices, greater quantities would be offered for sale, and at high enough prices, more would be made available than people would be willing to buy. In the case of apples and other agricultural products, a good harvest can easily mean that there is temporarily more of the product available for sale than people are willing and able to buy at the current price.

Diff: 3 Type: ES Page Ref: 77

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

178) Using a graph to help you, explain the usefulness of the concept of market equilibrium in answering "what would happen if?" questions in economics.

Answer: Equilibrium in economics is essentially the same as in physics or any other science. In markets, equilibrium is a situation from which there will be no movement unless supply or demand changes -- that is, P and Q will stay the same unless the supply or demand curves change locations. In free markets, shortages and surpluses tend to move markets toward equilibrium. A price below equilibrium leads price to rise, while a price above equilibrium causes it to fall. If we then begin with a market in equilibrium and introduce a change in incomes, or production costs, or taxes, or any other influence on demand or supply, we can identify the effects of that change by comparing the new equilibrium with the old. [Graph showing initial equilibrium with S₁ and D₁ and a new equilibrium after shift to a new S or D curve.]

Diff: 3 Type: ES Page Ref: 78

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical

179) In 2007, the price of gasoline in Canada was higher than it had been in 2006. Also in 2007, more gasoline was purchased in Canada than had been in 2006. According to the law of demand, higher prices cause lower quantities demanded, not higher. Use graphs to explain what might have happened to bring about a higher price and a higher quantity sold in 2007 than in 2006 if the supply and demand curves had their normal shapes.

Answer: One possibility is that there was an increase in demand and no change in supply.

[Graph showing negatively-sloped demand curve shifted to the right from D1 to D2, no change in S1.] A second possibility is that there was an increase in demand and an increase in supply by a lesser amount. [Graph showing demand curve D2 shifted to the right, S2 shifted to the right by a smaller distance.] A third is that there was an increase in demand accompanied by a smaller decrease in supply. [Graph showing demand curve D2 shifted to the right and S2 shifted to the left by an amount small enough to leave equilibrium Q2 higher than Q1.]

Diff: 3 Type: ES Page Ref: 78

Skill: Applied

Objective: L.O. 3.6

Graph: No graph

Numerical: Non-numerical

180) Explain what is wrong with saying that market equilibrium occurs when "supply equals demand."

Answer: "Supply" refers to the entire supply *curve*. "Demand" means the demand *curve*. What are equal in equilibrium are quantity demanded and quantity supplied. Quantities can be equal but unless the two curves overlap exactly on the graph, supply never equals demand.

Diff: 3 Type: ES Page Ref: 77

Skill: Applied

Objective: L.O. 3.5

Graph: No graph

Numerical: Non-numerical