

## CHAPTER 3

# Demand, Supply, and Market Equilibrium

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## Chapter 3 Demand, Supply, and Market Equilibrium

1. Economists use the term "demand" as
- A) a particular price-quantity combination on a stable demand curve.
  - B) the total amount spent on a particular commodity over a stipulated time period.
  - C) an upsloping line on a graph which relates consumer purchases and product price.
  - D) a schedule of various combinations of market prices and amounts demanded.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 49  
Subtopic: Law of demand Type: Definition

2. The horizontal axis of a graph which shows a market demand curve indicates the:
- A) prices at which various levels of output can be sold.
  - B) number of consumers who are in the market for this product.
  - C) various quantities of output at which the market will be cleared.
  - D) quantities which consumers will be willing and able to buy at various prices.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 50  
Subtopic: Law of demand Type: Application

3. The law of demand states that:
- A) price and quantity demanded are inversely related.
  - B) the larger the number of buyers in a market, the lower will be product price.
  - C) price and quantity demanded are directly related.
  - D) consumers will buy more of a product at high prices than at low prices.

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 50  
Subtopic: Law of demand Type: Definition

4. The law of demand is illustrated by a demand curve that is:
- A) vertical.
  - B) horizontal.
  - C) upward sloping.
  - D) downward sloping.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 50  
Subtopic: Law of demand Type: Definition

5. When the price of a product increases, a consumer is able to buy less of it with a given money income. This describes:
- A) the cost effect.
  - B) the inflationary effect.
  - C) the income effect.
  - D) the substitution effect.

Ans: C Level: Easy Main Topic: 3.1 Demand Page: 50  
Subtopic: Law of demand Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

6. "When the price of a product falls, the purchasing power of our money income rises and thus permits us to purchase more of the product." This statement describes:
- A) an inferior good.
  - B) the rationing function of prices.
  - C) the substitution effect.
  - D) the income effect.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Definition

7. As a result of a decrease in the price of hamburger, consumers buy more hamburger and more T-bone steak. This is an illustration of:
- A) irrational consumer behaviour.
  - B) changing tastes and preferences.
  - C) the substitution effect.
  - D) the income effect.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

8. A result of a fall in the price of gasoline, consumers buy more gasoline and take more driving vacations. This situation is an illustration of:
- A) the income effect.
  - B) the substitution effect.
  - C) diminishing marginal utility.
  - D) the rationing function of prices.

Ans: A Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

9. An increase in the price of a product will reduce the amount of it purchased because:
- A) supply curves are upsloping.
  - B) the higher price means that real incomes have risen.
  - C) consumers will substitute other products for the one whose price has risen.
  - D) consumers substitute relatively high-priced for relatively low-priced products.

Ans: C Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Definition

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10. "When the price of a product rises, consumers shift their purchases to other products whose prices are now relatively lower." This statement describes:
- A) an inferior good.
  - B) the rationing function of prices.
  - C) the substitution effect.
  - D) the income effect.

Ans: C Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Definition

11. As a result of the decrease in the price of hamburger, consumers buy more hamburger and fewer frankfurters. This is an illustration of:
- A) consumer sovereignty.
  - B) the income effect.
  - C) the substitution effect.
  - D) changing tastes and preferences.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

12. When the price of one fruit increases, consumers buy more of another fruit. This situation is an illustration of:
- A) the income effect.
  - B) the substitution effect.
  - C) diminishing marginal utility.
  - D) the rationing function of prices.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

13. When product prices change, consumers are inclined to purchase larger amounts of the now cheaper products and less of the now dearer products. This describes:
- A) the cost effect.
  - B) the price effect.
  - C) the income effect.
  - D) the substitution effect.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

14. One reason why the quantity of a good demanded increases when its price falls is that the:

- A) price decline shifts the supply curve to the left.
- B) lower price shifts the demand curve to the left.
- C) lower price shifts the demand curve to the right.
- D) lower price increases the real incomes of buyers, enabling them to buy more.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

15. During the 1970s the price of oil rose dramatically, which in turn caused the price of coal to increase. This can best be explained by saying that oil and coal are:

- A) complementary goods and the higher price for oil increased the demand for coal.
- B) substitute goods and the higher price for oil increased the demand for coal.
- C) complementary goods and the higher price for oil decreased the supply of coal.
- D) substitute goods and the higher price for oil decreased the supply of coal.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

16. The income and substitution effects account for:

- A) the upward sloping supply curve.
- B) the downward sloping demand curve.
- C) movements along a given supply curve.
- D) the "other things equal" assumption.

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Law of demand Type: Application

17. The demand curve shows the relationship between:

- A) money income and quantity demanded.
- B) price and production costs.
- C) price and quantity demanded.
- D) consumer tastes and the quantity demanded.

Ans: C Level: Easy Main Topic: 3.2 Demand Page: 51  
Subtopic: The demand curve Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

18. A demand curve:

- A) shows the relationship between price and quantity demanded.
- B) indicates the quantity demanded at each price in a series of prices.
- C) graphs as a downsloping line.
- D) has all of the above characteristics.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: The demand curve Type: Definition

19. Graphically, the market demand curve is:

- A) steeper than any individual demand curve which comprises it.
- B) greater than the sum of the individual demand curves.
- C) the horizontal sum of individual demand curves.
- D) the vertical sum of individual demand curves.

Ans: C Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Market demand Type: Definition

20. A market demand schedule for a product indicates that:

- A) as the product's price falls, consumers buy less of the good.
- B) there is a direct relationship between price and quantity demanded.
- C) as a product's price rises, consumers buy less of other goods.
- D) there is an inverse relationship between price and quantity demanded.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Market demand Type: Application

21. Graphically, the horizontal sum of all individual demand curves is known as:

- A) consumers' tastes and preferences.
- B) the market demand curve.
- C) the equilibrium price.
- D) consumer sovereignty.

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 51  
Subtopic: Market demand Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

Use the following to answer questions 22-24:

The table below shows the market demand for a bushel of wheat in a market where there are just three buyers (data are hypothetical).

Price	Buyer 1 <i>Qd1</i>	Buyer 2 <i>Qd2</i>	Buyer 3 <i>Qd3</i>
\$6	7	4	6
5	9	7	8
4	15	10	12
3	21	15	16

22. Refer to the above table. The quantity demanded for wheat is:

- A) 17 bushels at \$6 and 37 bushels at \$5.
- B) 24 bushels at \$5 and 52 bushels at \$4.
- C) 37 bushels at \$4 and 52 bushels at \$3.
- D) 52 bushels at \$3 and 37 bushels at \$5.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 52  
Subtopic: Market demand Type: Calculation

23. Refer to the above table. At a price of \$6, the market demand for bushels of wheat among the three buyers in the market is:

- A) 17.
- B) 24.
- C) 37.
- D) 49.

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Market demand Type: Calculation

24. Refer to the above table. If there were 500 buyers with demand schedules similar to the market demand schedule for each of the three buyers in the table above, then the quantity of bushels of wheat demanded at \$5 by the 500 buyers would be:

- A) 8,500.
- B) 12,000.
- C) 18,500.
- D) 26,000.

Ans: B Level: Moderate Main Topic: 3.2 Demand Page: 52  
Subtopic: Market demand Type: Calculation

## Chapter 3 Demand, Supply, and Market Equilibrium

25. In presenting the notion of a demand curve economists presume that the most important variable in determining the quantity demanded is:
- A) the price of the product itself.
  - B) consumer income.
  - C) the prices of related goods.
  - D) consumer tastes.

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Determinants of demand Type: Definition

26. In constructing a stable demand curve for product X:
- A) consumer preferences are allowed to vary.
  - B) the prices of other goods are assumed constant.
  - C) money incomes are allowed to vary.
  - D) the supply curve of product X is assumed to be fixed.

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Determinants of demand Type: Definition

27. When an economist says that the demand for a product has increased, this means that:
- A) consumers are now willing to purchase more of this product at each possible price.
  - B) the product has become particularly scarce for some reason.
  - C) product price has fallen and as a consequence consumers are buying a larger quantity of the product.
  - D) the demand curve has shifted to the left.

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Changes in demand Type: Definition

28. By an "increase in demand" we mean:
- A) that product price has fallen so consumers move down to a new point on the demand curve.
  - B) the quantity demanded at each price in a set of prices is greater.
  - C) the quantity demanded at each price in a set of prices is smaller.
  - D) none of the above.

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Changes in demand Type: Definition



## Chapter 3 Demand, Supply, and Market Equilibrium

29. An "increase in demand" means that:

- A) given supply, the price of the product can be expected to decline.
- B) the demand curve has shifted to the right.
- C) price has declined and consumers therefore want to purchase more of the product.
- D) the demand curve has shifted to the left.

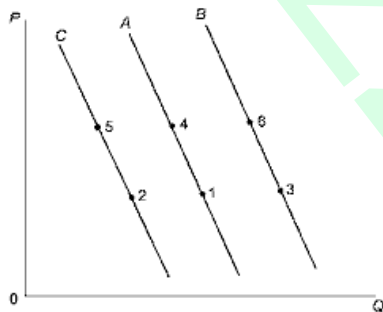
Ans: B Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Changes in demand Type: Definition

30. If consumers are willing to pay a higher price than previously for each level of output, we can say that there has occurred:

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

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Changes in demand Type: Application

31. Refer to the graph. An increase in demand would best be reflected by a change from:



- A) point 4 to 5.
- B) point 1 to 2.
- C) line A to B.
- D) line A to C.

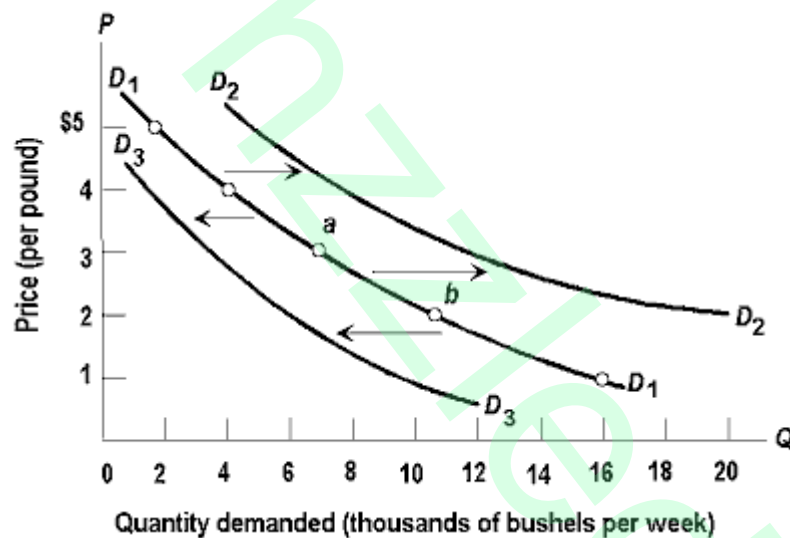
Ans: C Level: Easy Main Topic: 3.1 Demand Page: 52  
Subtopic: Changes in demand Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

32. A shift to the right in the demand curve for product A can be most reasonably explained by saying that:
- A) consumer incomes have declined and they now want to buy less of A at each possible price.
  - B) the price of A has increased and, as a result, consumers want to purchase less of it.
  - C) consumer preferences have changed in favour of A so that they now want to buy more at each possible price.
  - D) the price of A has declined and, as a result, consumers want to purchase more of it.

Ans: C Level: Difficult Main Topic: 3.1 Demand Page: 52  
Subtopic: Changes in demand Type: Application

33. Refer to the diagram, which shows three demand curves for coffee. Which of the following would cause the change in the demand for coffee illustrated by the shift from  $D_1$  to  $D_2$ ?



- A) a decrease in the price of tea
- B) an increase in consumer incomes
- C) an increase in the price of sugar
- D) a technological improvement in the production of coffee

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 53  
Subtopic: Changes in demand Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

34. An inferior good is:

- A) one whose demand curve will shift rightward as incomes rise.
- B) one whose price and quantity demanded varies directly.
- C) one which has not been approved by the federal Ministry of Agriculture.
- D) one whose demand curve will shift leftward as income rise.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

35. An economist predicts that in a bicycle company, other things equal, a rise in consumer incomes will increase the demand for bicycles. This prediction is based on the assumption that:

- A) there are many goods which are substitutes for bicycles.
- B) there are many goods which are complementary to bicycles.
- C) there are few goods which are substitutes for bicycles.
- D) bicycles are normal goods.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

36. A normal good is one:

- A) which all people like.
- B) which all normal people like.
- C) for which demand increases when price decreases.
- D) for which demand increases when income increases.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

37. An inferior good is one:

- A) that doesn't work.
- B) that costs too much.
- C) that won't be purchased at any price.
- D) for which demand increases as income decreases.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

38. Which goods would usually be an inferior good?

- A) French wines
- B) generic beer
- C) theatre tickets
- D) steak

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

39. Which of the following is most likely to be an inferior good?

- A) fur coats
- B) Porsches
- C) used clothing
- D) steak

Ans: C Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

40. If product Y is an inferior good, an increase in consumer incomes will:

- A) result in a surplus of product Y.
- B) not affect the sales of product Y.
- C) shift the demand curve for product Y to the left.
- D) shift the demand curve for product Y to the right.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

41. For most commodities, purchases tend to rise with increases in buyers' incomes, and to fall with decreases in buyers' incomes. Such commodities are known as:

- A) inferior goods.
- B) direct goods.
- C) average goods.
- D) normal goods.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

42. For some commodities, purchases tend to decrease as the buyer's income increases. Such commodities are known as:

- A) common goods.
- B) inferior goods.
- C) inverse goods.
- D) normal goods.

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

43. If an increase in consumer incomes causes the demand curve for product Z to shift to the left, then it can be said that product Z is a(n):

- A) normal good.
- B) luxury good.
- C) inferior good.
- D) inexpensive good.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 43  
Subtopic: Changes in demand Type: Definition

44. If Z is an inferior good, a decrease in money income will shift the:

- A) supply curve for Z to the left.
- B) supply curve for Z to the right.
- C) demand curve for Z to the left.
- D) demand curve for Z to the right.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

45. If consumer incomes increase, the demand for product X:

- A) will necessarily remain unchanged.
- B) may shift either to the right or left.
- C) will necessarily shift to the right.
- D) will necessarily shift to the left.

Ans: B Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

46. The demand for most products varies directly with changes in consumer incomes. Such products are known as:
- A) complementary goods.
  - B) competitive goods.
  - C) inferior goods.
  - D) normal goods.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

47. If X is a normal good, a rise in money income will shift the:
- A) supply curve for X to the left.
  - B) supply curve for X to the right.
  - C) demand curve for X to the left.
  - D) demand curve for X to the right.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

48. Assume the demand curve for product X shifts to the right. This might be caused by:
- A) a decline in income if X is an inferior good.
  - B) a decline in the price of Z if X and Z are substitute goods.
  - C) a change in consumer tastes which is unfavourable to X.
  - D) an increase in the price of Y if X and Y are complementary goods.

Ans: A Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

49. An increase in consumer incomes will:
- A) increase the demand for an inferior good.
  - B) increase the supply of an inferior good.
  - C) increase the demand for a normal good.
  - D) decrease the supply of a normal good.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

50. A normal good is defined as one:
- A) whose amount demanded will increase as its price decreases.
  - B) whose amount demanded will increase as its price increases.
  - C) whose demand curve will shift leftward as incomes rise.
  - D) the consumption of which varies directly with incomes.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

51. If the demand for a normal good (for example, steak) shifts to the left, the most likely reason is that:

- A) consumer incomes have fallen.
- B) cattle production has declined.
- C) the price of steak has risen.
- D) the price of cattle feed has gone up.

Ans: A Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

52. Which of the following will cause the demand curve for product A to shift to the left?

- A) population growth which causes an expansion in the number of persons consuming A
- B) an increase in money income if A is a normal good
- C) a decrease in the price of complementary product C
- D) an increase in money income if A is an inferior good

Ans: D Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

53. An increase in the price of product A will:

- A) reduce the demand for resources used in the production of A.
- B) increase the demand for complementary product C.
- C) increase the demand for substitute product B.
- D) reduce the demand for substitute product B.

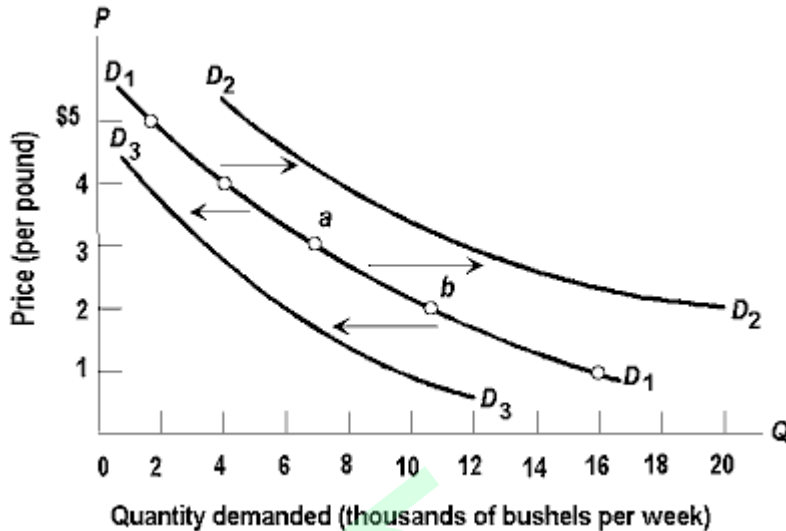
Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

54. If two goods are complements:

- A) they are consumed jointly.
- B) an increase in the price of one will reduce the demand for the other.
- C) a decrease in the price of one will increase the demand for the other.
- D) all of the above will be true.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium



55. Refer to the above diagram, which shows three demand curves for coffee. Which of the following would cause the change in the demand for coffee illustrated by the shift from  $D_1$  to  $D_3$ ?

- A) a decrease in the price of tea
- B) an increase in consumer incomes
- C) a decrease in the price of sugar
- D) a technological improvement in the production of coffee

Ans: A Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Graphic

56. Which factor will increase the demand for a product?

- A) an unfavourable report on the value of the product
- B) an increase in the price of a substitute product
- C) an increase in the price of a complementary product
- D) a decrease in the number of buyers

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application



## Chapter 3 Demand, Supply, and Market Equilibrium

57. Video cassette recorders and video cassettes are:

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

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

58. If the demand curve for product B shifts to the right as the price of product A declines, it can be concluded that:

- A) both A and B are inferior goods.
- B) A is a superior good and B is an inferior good.
- C) A is an inferior good and B is a superior good.
- D) A and B are complementary goods.

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

59. If the price of product L increases, the demand curve for close-substitute product J will:

- A) shift downward toward the horizontal axis.
- B) shift to the left.
- C) shift to the right.
- D) remain unchanged.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

60. If the price of K declines, the demand curve for the complementary product J will:

- A) shift to the left.
- B) decrease.
- C) shift to the right.
- D) remain unchanged.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

61. Which of the following statements is correct?

- A) An increase in the price of C will decrease the demand for complementary product D.
- B) A decrease in income will decrease the demand for an inferior good.
- C) An increase in income will reduce the demand for a normal good.
- D) A decline in the price of X will increase the demand for substitute product Y.

Ans: A Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

62. If L and M are complementary goods, an increase in the price of L will result in:

- A) an increase in the sales of L.
- B) no change in either the price or sales of M.
- C) a decrease in the sales of M.
- D) an increase in the sales of M.

Ans: C Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

63. Tennis rackets and ballpoint pens are:

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

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

64. If two goods are close substitutes:

- A) consumers will always buy the one that has the highest price.
- B) a fall in the price of one will decrease the demand for the other.
- C) an increase in the price of one causes the demand for the other to decrease.
- D) a decrease in the price of one causes an increase in the demand for the other.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

65. People demand more of product X when the price of product Y decreases. This means X and Y are:

- A) complements.
- B) substitutes.
- C) not related.
- D) both inexpensive.

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 54 Subtopic: Changes in demand Type: Definition

66. Cameras and film are:

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

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 54 Subtopic: Changes in demand Type: Application

67. A decrease in the price of cameras will:

- A) cause the demand curve for film to become vertical.
- B) shift the demand curve for film to the right.
- C) shift the demand curve for film to the left.
- D) not affect the demand for film.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54 Subtopic: Changes in demand Type: Application

68. If products A and B are complements and the price of B decreases:

- A) the demand curves for both A and B will shift to the left.
- B) the amount of B purchased will increase, but the demand curve for A will not shift.
- C) the demand for A will increase and the quantity demanded of B will increase.
- D) the demand for A will decline and the demand for B will increase.

Ans: C Level: Difficult Main Topic: 3.1 Demand Page: 54 Subtopic: Changes in demand Type: Application

69. Which are *not* generally considered to be complementary goods?

- A) gasoline and motor oil
- B) beef and chicken
- C) beer and pretzels
- D) razors and razor blades

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 54 Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

70. The following data show the relationship between the price of A and the quantities of two other products, B and C, demanded.

<u>Price of A per unit</u>	<u>Quantity of B demanded</u>	<u>Quantity of C demanded</u>
\$ 100	400	400
120	380	420

Refer to the data in the table. Which of the following is most likely to be true?

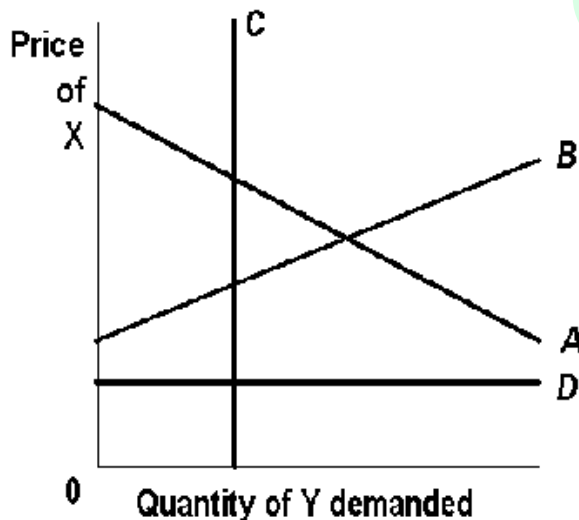
- A) B and C are both substitute products for A.
- B) B and C are both complementary products for A.
- C) C is a substitute for A; B is a complement to A.
- D) C is a complement to A; B is a substitute for A.

Ans: C Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Calculation

71. If products C and D are close substitutes, an increase in the price of C will:
- A) tend to cause the price of D to fall.
  - B) shift the demand curve of C to the left and the demand curve of D to the right.
  - C) shift the demand curve of D to the right.
  - D) shift the demand curves of both products to the right.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

Use the following to answer questions 72-74:



## Chapter 3 Demand, Supply, and Market Equilibrium

72. Refer to the above graph. X and Y are substitute products. Which one of the lines in the graph best illustrates this relationship?

A) *A*  
B) *B*  
C) *C*  
D) *D*

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Graphic

73. Refer to the above graph. X and Y are complementary products. Which one of the lines in the graph best illustrates this relationship?

A) *A*  
B) *B*  
C) *C*  
D) *D*

Ans: A Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Graphic

74. Refer to the above graph. X and Y are unrelated products. Which one of the lines in the graph best illustrates this relationship?

A) *A*  
B) *B*  
C) *C*  
D) *D*

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Graphic

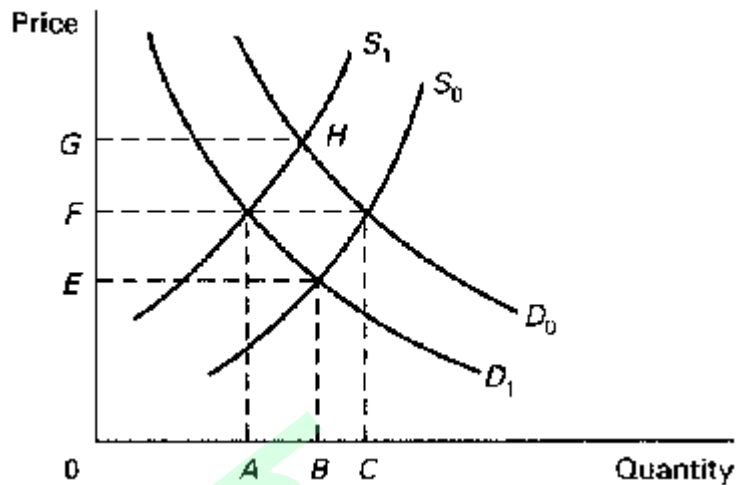
75. A and B are substitute goods, but A and C are complementary goods (in consumption). If the costs of production of A decrease, then the demand for:

A) both B and C will decrease.  
B) both B and C will increase.  
C) B will increase and the demand for C will decrease.  
D) B will decrease and the demand for C will increase.

Ans: D Level: Difficult Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

76. Refer to the diagram, which shows demand and supply conditions in the competitive market for product X. A shift in the demand curve from  $D_0$  to  $D_1$  might be caused by a(n):



- A) decrease in income if X is an inferior good.
- B) increase in the price of complementary good Y.
- C) increase in money incomes if X is a normal good.
- D) increase in the price of substitute product Y.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54  
Subtopic: Changes in demand Type: Graphic

77. The demand curve for a product might shift as the result of a change in:

- A) consumer tastes.
- B) consumer incomes.
- C) the prices of related goods.
- D) all of the above.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Definition

78. A rightward shift in the demand curve for product C might be caused by:

- A) an increase in income if C is a normal good.
- B) a decrease in income if C is an inferior good.
- C) an increase in the price of a product which is a close substitute for C.
- D) all of the above

Ans: D Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

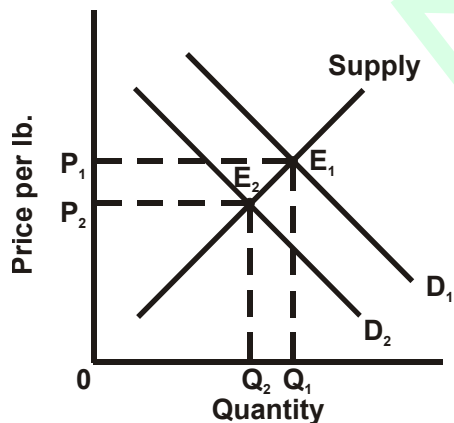
79. Which of the following would *not* shift the demand curve for beef?
- A) a widely publicized study which indicates beef increases one's cholesterol
  - B) a reduction in the price of cattle feed
  - C) an effective advertising campaign by pork producers
  - D) a change in the incomes of beef consumers

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Application

80. Other things equal, which of the following might shift the demand curve for gasoline to the left?
- A) the discovery of vast new oil reserves in Alberta
  - B) the development of a low-cost electric automobile
  - C) an increase in the price of train and air transportation
  - D) a large decline in the price of automobiles

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Application

Use the following to answer questions 81-82:



81. Refer to the above graph, which shows the market for chicken where  $D_1$  and  $D_2$  represent different demand curves. A change from  $E_1$  to  $E_2$  is most likely to result from:
- A) a decrease in consumer incomes.
  - B) an increase in the wages of chicken workers.
  - C) an increase in the price of beef products.
  - D) improved technology in the chicken industry.

Ans: A Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

82. Refer to the above graph, which shows the market for chicken where  $D_1$  and  $D_2$  represent different demand curves. A change from  $E_1$  to  $E_2$  is most likely to result from:
- A) an increase in expectations of higher future prices for chicken.
  - B) an increase in the cost of chicken feed to produce chickens.
  - C) a decrease in the price of beef products.
  - D) an increase in consumer incomes.

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Graphic

83. Which of the following would most likely cause a decrease in current consumer demand for normal good X?
- A) a decline in the price of product X
  - B) an increase in consumer income
  - C) a decrease in the prices of goods which are close substitutes for X
  - D) an increase in the price which consumers expect will prevail for product X in the future

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Application

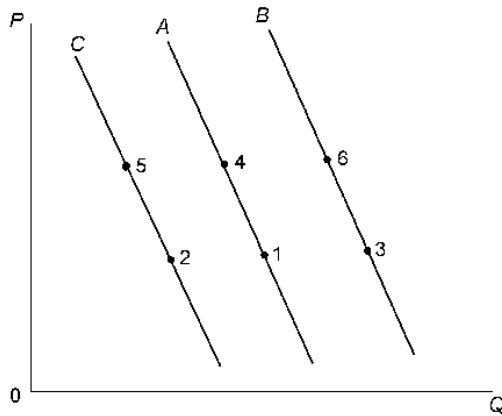
84. Which of the following will *not* cause the demand for product K to change?
- A) a change in the price of close-substitute product J
  - B) an increase in consumer incomes
  - C) a change in the price of K
  - D) a change in consumer tastes

Ans: C Level: Moderate Main Topic: 3.1 Demand Page: 54-55  
Subtopic: Changes in demand Type: Application



## Chapter 3 Demand, Supply, and Market Equilibrium

85. Refer to the graph. An increase in the quantity demanded would best be reflected by a change from:



- A) point 6 to 4.
- B) point 6 to 3.
- C) line *A* to *B*.
- D) line *A* to *C*.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 55  
Subtopic: Change in quantity demanded Type: Graphic

86. Assume that the demand schedule for product C is downsloping. If the price of C falls from \$2.00 to \$1.75:
- A) a smaller quantity of C will be demanded.
  - B) a larger quantity of C will be demanded.
  - C) the demand for C will increase.
  - D) the demand for C will decrease.

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 55  
Subtopic: Change in quantity demanded Type: Application

87. On a graph, an increase in quantity demanded is represented by a:
- A) leftward shift of the demand curve.
  - B) rightward shift of the demand curve.
  - C) movement upward and to the left along the demand curve.
  - D) movement downward and to the right along the demand curve.

Ans: D Level: Easy Main Topic: 3.1 Demand Page: 55  
Subtopic: Change in quantity demanded Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

88. An "increase in the quantity demanded" means that:

- A) given supply, the price of the product can be expected to decline.
- B) price has declined and consumers therefore want to purchase more of the product.
- C) the demand curve has shifted to the right.
- D) the demand curve has shifted to the left.

Ans: B Level: Easy Main Topic: 3.1 Demand Page: 55

Subtopic: Change in quantity demanded Type: Definition

89. An increase in product price will cause:

- A) quantity demanded to decrease.
- B) quantity supplied to decrease.
- C) quantity demanded to increase.
- D) the supply curve to shift to the right.

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 55

Subtopic: Change in quantity demanded Type: Application

90. In moving along a demand curve which of the following is *not* held constant?

- A) the price of the product for which the demand curve is relevant
- B) price expectations
- C) consumer incomes
- D) the prices of complementary goods

Ans: A Level: Easy Main Topic: 3.1 Demand Page: 55

Subtopic: Change in quantity demanded Type: Application

91. Which will *not* cause a shift in the demand for product A?

- A) a change in consumer preferences
- B) a change in the price of A
- C) a decline in consumer incomes
- D) a decrease in the price of close-substitute product B

Ans: B Level: Moderate Main Topic: 3.1 Demand Page: 55

Subtopic: Change in quantity demanded Type: Application

92. The law of supply indicates that:

- A) producers will offer more of a product at high prices than they will at low prices.
- B) the product supply curve is downsloping.
- C) consumers will purchase less of a good at high prices than they will at low prices.
- D) producers will offer more of a product at low prices than they will at high prices.

Ans: A Level: Easy Main Topic: 3.2 Supply Page: 56

Subtopic: Law of supply Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

93. The law of supply:

- A) reflects the amounts which producers will want to offer at each price in a series of prices.
- B) is reflected in an upsloping supply curve.
- C) shows that the relationship between price and quantity supplied is positive.
- D) is reflected in all of the above.

Ans: D Level: Easy Main Topic: 3.2 Supply Page: 56  
Subtopic: Law of supply Type: Definition

94. The upward slope of the supply curve reflects the:

- A) principle of specialization in production.
- B) law of supply.
- C) fact that price and quantity supplied are inversely related.
- D) law of diminishing marginal utility.

Ans: B Level: Easy Main Topic: 3.2 Supply Page: 56  
Subtopic: Law of supply Type: Definition

95. The law of supply is illustrated by a curve which is:

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

Ans: D Level: Easy Main Topic: 3.2 Supply Page: 56  
Subtopic: Law of supply Type: Definition

96. A firm's supply curve is upward sloping because:

- A) the expansion of production necessitates the use of qualitatively inferior techniques.
- B) mass production economies are associated with larger levels of output.
- C) consumers envision a positive relationship between price and quality.
- D) beyond some point the production costs of additional units of output will rise.

Ans: D Level: Moderate Main Topic: 3.2 Supply Page: 56  
Subtopic: Law of supply Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

97. A schedule that shows the various amounts of a product which producers are willing and able to produce at each price in a series of possible prices during a specified period of time is called:
- A) quantity supplied.
  - B) quantity demanded.
  - C) supply.
  - D) demand.

Ans: C Level: Easy Main Topic: 3.2 Supply Page: 56  
Subtopic: The supply curve Type: Definition

98. The supply curve shows the relationship between:
- A) price and quantity supplied.
  - B) production costs and the amount demanded.
  - C) total business revenues and quantity supplied.
  - D) physical inputs of resources and the resulting units of output.

Ans: A Level: Easy Main Topic: 3.2 Supply Page: 56  
Subtopic: The supply curve Type: Definition

99. Graphically, the market supply curve is:
- A) steeper than any individual producer's supply curve which comprises it.
  - B) greater than the sum of the individual producers' supply curves.
  - C) the horizontal sum of individual producers' supply curves.
  - D) the vertical sum of individual producers' supply curves.

Ans: C Level: Easy Main Topic: 3.2 Supply Page: 57  
Subtopic: Market supply Type: Definition

100. A market supply schedule for a product indicates that:
- A) as the product's price falls, producers produce more.
  - B) there is an inverse relationship between price and quantity supplied.
  - C) as a product's price rises, producers produce less.
  - D) there is a direct relationship between price and quantity supplied.

Ans: D Level: Easy Main Topic: 3.2 Supply Page: 57  
Subtopic: Market supply Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

101. The location of the supply curve of a product depends on:

- A) the technology used to produce it.
- B) the prices of resources used in its production.
- C) the number of sellers in the market.
- D) all of the above.

Ans: D Level: Easy Main Topic: 3.2 Supply Page: 57  
Subtopic: Determinants of supply Type: Definition

102. The location of the product supply curve depends on:

- A) production technology.
- B) the number of buyers in the market.
- C) the tastes of buyers.
- D) the location of the demand curve.

Ans: A Level: Easy Main Topic: 3.2 Supply Page: 57  
Subtopic: Determinants of supply Type: Application

103. Which is a determinant of supply?

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

Ans: B Level: Easy Main Topic: 3.2 Supply Page: 57  
Subtopic: Determinants of supply Type: Definition

104. If producers must obtain higher prices than previously to produce various levels of output, there has occurred:

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

Ans: C Level: Easy Main Topic: 3.2 Supply Page: 58  
Subtopic: Changes in supply Type: Application

105. A decrease in supply:

- A) refers to a leftward shift in the supply curve.
- B) refers to a downward movement along a supply curve.
- C) has the same meaning as the phrase "a decrease in quantity supplied."
- D) is likely to result from the decrease in the price of a productive resource.

Ans: A Level: Easy Main Topic: 3.2 Supply Page: 58  
Subtopic: Changes in supply Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

106. An unusually bountiful crop of coffee beans might:

- A) increase the supply of coffee.
- B) increase the price of coffee.
- C) decrease the quantity of coffee consumed.
- D) increase the price of tea.

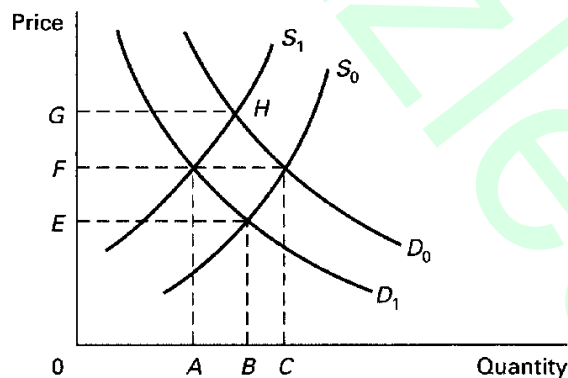
Ans: A Level: Easy Main Topic: 3.2 Supply Page: 58  
Subtopic: Changes in supply Type: Application

107. "Because of unseasonably cold weather, the supply of oranges has substantially decreased." This statement indicates that:

- A) the demand for oranges will necessarily rise.
- B) the equilibrium quantity of oranges will rise.
- C) the amount of oranges that will be available at various prices has declined.
- D) the price of oranges will fall.

Ans: C Level: Moderate Main Topic: 3.2 Supply Page: 58-59  
Subtopic: Changes in supply Type: Application

108. Refer to the diagram, which shows demand and supply conditions in the competitive market for product X. Other things equal, a shift of the supply curve from  $S_0$  to  $S_1$  might be caused by a(n):



- A) increase in the wage rates paid to the labours employed in the production of X.
- B) government subsidy per unit of output paid to firms producing X.
- C) decline in the price of the basic raw material used in producing X.
- D) increase in the number of firms producing X.

Ans: A Level: Moderate Main Topic: 3.2 Supply Page: 58-59  
Subtopic: Changes in supply Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

109. An improvement in production technology will:

- A) increase equilibrium price.
- B) shift the supply curve to the left.
- C) shift the supply curve to the right.
- D) shift the demand curve to the left.

Ans: C Level: Easy Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

110. Assume product A is an input in the production of product B. In turn product B is a complement to product C. We can expect a decrease in the price of A to:

- A) increase the supply of B and increase the demand for C.
- B) decrease the supply of B and increase the demand for C.
- C) decrease the supply of B and decrease the demand for C.
- D) increase the supply of B and decrease the demand for C.

Ans: A Level: Difficult Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

111. Assume a drought in the Great Plains reduces the supply of wheat. Noting that wheat is a basic ingredient in the production of bread and that potatoes are a consumer substitute for bread, we would expect the price of wheat to:

- A) rise, the supply of bread to increase, and the demand for potatoes to increase.
- B) rise, the supply of bread to decrease, and the demand for potatoes to increase.
- C) rise, the supply of bread to decrease, and the demand for potatoes to decrease.
- D) fall, the supply of bread to increase, and the demand for potatoes to increase.

Ans: B Level: Difficult Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

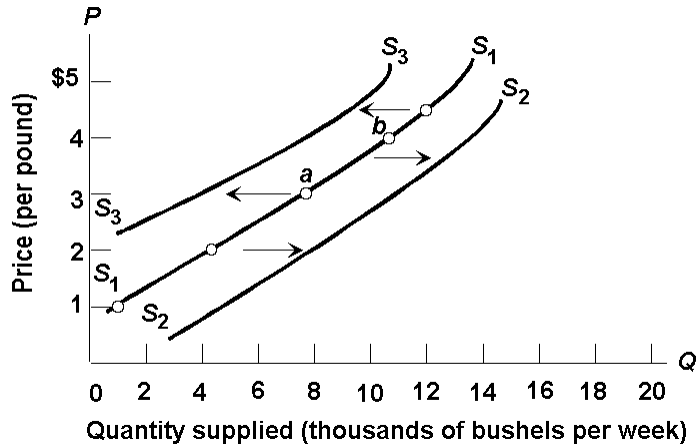
112. Suppose product X is an input in the production of product Y. Product Y in turn is a substitute **in production** for product Z. An increase in the price of X can be expected to:

- A) decrease the quantity demanded for Z.
- B) increase the quantity demanded for Z.
- C) have no effect on the quantity demanded for Z.
- D) decrease the supply of Z.

Ans: B Level: Difficult Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

Use the following to answer questions 113-114:



113. Refer to the above diagram, which shows three supply curves for corn. Which of the following would cause the change in the supply of corn illustrated by the shift from  $S_1$  to  $S_2$ ?

- A) an increase in the price of fertilizer
- B) a change in consumer tastes away from cornbread
- C) a decrease in consumer incomes
- D) the development of a more effective insecticide for corn rootworm

Ans: D Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Graphic

114. Refer to the above diagram, which shows three supply curves for corn. Which of the following would cause the change in the supply of corn illustrated by the shift from  $S_1$  to  $S_3$ ?

- A) a decrease in the price of fertilizer
- B) an increase in the price of irrigation equipment
- C) an increase in consumer incomes
- D) a change in consumer tastes in favour of cornbread

Ans: B Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Graphic



## Chapter 3 Demand, Supply, and Market Equilibrium

115. Which one of the following would cause a leftward shift in the supply curve for car washes?

- A) an increase in the number of cars on the street
- B) an increase in the price of car washing equipment
- C) a decrease in youth unemployment
- D) a decrease in the price of water

Ans: B Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

116. A fall in the price of milk, used in the production of ice cream, will:

- A) decrease the supply of ice cream, causing the supply curve of ice cream to shift to the left.
- B) increase the supply of ice cream, causing the supply curve of ice cream to shift to the right.
- C) cause a downward movement along the supply curve of ice cream.
- D) have no effect on the supply of ice cream.

Ans: B Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

117. Which of the following would cause an increase in the supply of a product at a given price?

- A) an increase in the price of the product
- B) a decrease in the cost of producing a substitute product
- C) an increase in the cost of resources to produce the product
- D) a reduction in the cost of resources to produce the product

Ans: D Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

118. Other things equal, an excise tax on a product will:

- A) increase its supply.
- B) increase its price.
- C) increase the quantity sold.
- D) increase its demand.

Ans: B Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

119. A leftward shift of a product supply curve might be caused by:

- A) an improvement in the relevant technique of production.
- B) a decline in the prices of needed inputs.
- C) an increase in consumer incomes.
- D) some firms leaving the industry.

Ans: D Level: Moderate Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

120. Other things equal, the provision of a per unit subsidy for a product will:

- A) increase its supply.
- B) increase its price.
- C) decrease the quantity sold.
- D) decrease its demand.

Ans: A Level: Easy Main Topic: 3.2 Supply Page: 59  
Subtopic: Changes in supply Type: Application

121. If the price of a product increases, we would expect:

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

Ans: B Level: Easy Main Topic: 3.2 Supply Page: 59-60  
Subtopic: Changes in quantity supplied Type: Application

122. An "increase in the quantity supplied" suggests a:

- A) rightward shift of the supply curve.
- B) movement up along the supply curve.
- C) movement down along the supply curve.
- D) leftward shift of the supply curve.

Ans: B Level: Easy Main Topic: 3.2 Supply Page: 59-60  
Subtopic: Changes in quantity supplied Type: Definition

123. In moving along a stable supply curve which of the following is *not* held constant?

- A) the number of firms producing this good
- B) expectations about the future price of the product
- C) techniques used in producing this product
- D) the price of the product for which the supply curve is relevant

Ans: D Level: Easy Main Topic: 3.3 Supply Page: 59-60  
Subtopic: Changes in quantity supplied Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

124. Which of the following will *not* cause the supply curve to shift?

- A) a change in resource costs
- B) a technological change
- C) a change in the price of the good
- D) a change in the prices of other goods

Ans: C Level: Easy Main Topic: 3.2 Supply Page: 59-60

Subtopic: Changes in quantity supplied Type: Application

125. All of the following are held to be constant when the supply curve for a product is drawn, *except* the:

- A) price of the product.
- B) state of technology.
- C) number of producers.
- D) price of inputs used to make the product.

Ans: A Level: Easy Main Topic: 3.2 Supply Page: 59-60

Subtopic: Changes in quantity supplied Type: Application

126. If the supply schedule for a product is upward sloping and the price of that product declines from \$100 to \$75, the:

- A) supply of the product will shift to the left.
- B) supply of the product will shift to the right.
- C) quantity supplied of the product will decline.
- D) quantity supplied of the product will increase.

Ans: C Level: Moderate Main Topic: 3.2 Supply Page: 60

Subtopic: Changes in quantity supplied Type: Application

127. Which would cause an increase in quantity supplied of product A?

- A) an improvement in technology affecting the production of A
- B) an increase in the price of product B, a complement in the production of A
- C) a decrease in the price of resources used in producing A
- D) an increase in the price of A

Ans: D Level: Moderate Main Topic: 3.2 Supply Page: 60

Subtopic: Changes in quantity supplied Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

128. A market is in equilibrium:

- A) provided there is no surplus of the product.
- B) at all prices above that shown by the intersection of the supply and demand curves.
- C) if the amount producers want to sell is equal to the amount consumers want to buy.
- D) whenever the demand curve is downsloping and the supply curve is upsloping.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 60  
Subtopic: Equilibrium price and quantity Type: Definition

129. At the point where the demand and supply curves intersect:

- A) the market is in equilibrium.
- B) there is neither a surplus nor a shortage of the product.
- C) quantity demanded equals quantity supplied.
- D) all of the above hold true.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 60  
Subtopic: Equilibrium price and quantity Type: Application

130. In a competitive market, if the existing price is below the equilibrium price, market forces will drive the price:

- A) up and quantity supplied up.
- B) up and quantity supplied down.
- C) up and supply up.
- D) down and demand down.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61  
Subtopic: Equilibrium price and quantity Type: Application

131. If we say that a price is "too high to clear the market," we mean that:

- A) quantity demanded exceeds quantity supplied.
- B) the equilibrium price is above the current price.
- C) quantity supplied exceeds quantity demanded.
- D) the price of the good is likely to rise.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61  
Subtopic: Equilibrium price and quantity Type: Application

132. A product market is in equilibrium:

- A) when there is no surplus of the product.
- B) when there is no shortage of the product.
- C) when consumers want to buy more of the product than producers offer for sale.
- D) where the demand and supply curves intersect.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

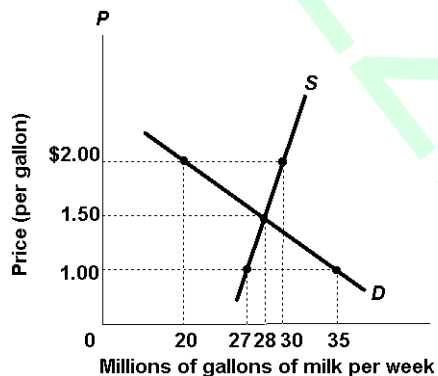
133. In a competitive market the equilibrium price and quantity occur where:
- A) the downward sloping demand curve intersects the upward sloping supply curve.
  - B) the upward sloping demand curve intersects the downward sloping supply curve.
  - C) consumers and suppliers bargain to a mutually acceptable price.
  - D) quantity demanded exceeds quantity supplied or vice versa.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Definition

134. At the point where the demand and supply curves for a product intersect:
- A) the "selling price" and the "buying price" need not be equal.
  - B) the market may, or may not, be in equilibrium.
  - C) either a shortage or a surplus of the product might exist, depending on the degree of competition.
  - D) the quantity which consumers want to purchase and the amount producers choose to sell are the same.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

135. Refer to the diagram. The equilibrium price and quantity for milk in this market are:

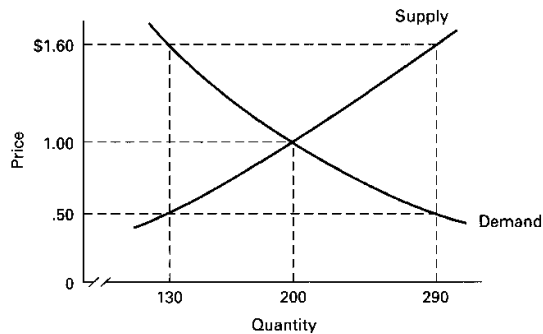


- A) \$1.50 and 28 million gallons.
- B) \$1.50 and 30 million gallons.
- C) \$2.00 and 20 million gallons.
- D) \$1.00 and 35 million gallons.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

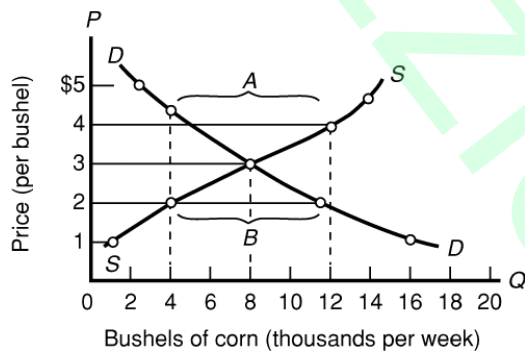
136. Refer to the diagram. The equilibrium price and quantity in this market will be:



- A) \$1.00 and 200.
- B) \$1.60 and 130.
- C) \$.50 and 130.
- D) \$1.60 and 290.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

137. Refer to the diagram below for the market for corn. The equilibrium price and quantity in this market are:



- A) \$4 and 10,000 bushels.
- B) \$3 and 8,000 bushels.
- C) \$2 and 4,000 bushels.
- D) \$2 and 11,000 bushels.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

138. At the equilibrium price:

- A) quantity supplied may exceed quantity demanded or vice versa.
- B) there are no pressures on price to either rise or fall.
- C) there are forces which cause price to rise.
- D) there are forces which cause price to fall.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

Use the following to answer questions 139-142:

<u>Price</u>	<u>Quantity supplied</u>	<u>Quantity demanded</u>
\$10	100	295
11	150	275
12	190	250
13	220	220
14	245	180
15	265	135

139. Refer to the above data. The equilibrium price in this market is:

- A) \$11.
- B) \$12.
- C) \$13.
- D) \$14.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

140. Refer to the above data. Equilibrium quantity will be:

- A) 150.
- B) 220.
- C) 245.
- D) 100.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

141. Refer to the above data. If the price in this market was \$14:

- A) farmers would reduce the number of acres allocated to the growing of wheat.
- B) buyers would want to purchase more wheat than is currently being supplied.
- C) farmers would not be able to sell all of their wheat.
- D) there would be a shortage of wheat.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

142. Refer to the above data. If price was initially \$14, we would expect:

- A) quantity supplied to continue to exceed quantity demanded.
- B) the quantity of wheat supplied to decline as a result of the subsequent price change.
- C) the quantity of wheat demanded to fall as a result of the subsequent price change.
- D) the price of wheat to rise.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

143. With a downward sloping demand curve and an upward sloping supply curve for a product, placing an excise tax on this product will:

- A) increase equilibrium price and quantity.
- B) decrease equilibrium price and quantity.
- C) decrease equilibrium price and increase equilibrium quantity.
- D) increase equilibrium price and decrease equilibrium quantity.

Ans: D Level: Moderate Main Topic: 3.2 Supply Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

144. A surplus of any given commodity can be expected whenever the:

- A) prevailing price of the good is below the equilibrium price.
- B) prevailing price of the good is above the equilibrium price.
- C) prevailing price of the good is equal to the equilibrium price.
- D) amount demanded exceeds the amount supplied.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61- 62  
Subtopic: Equilibrium price and quantity Type: Application



## Chapter 3 Demand, Supply, and Market Equilibrium

145. If a product is in surplus supply, we can conclude that its price:

- A) is below the equilibrium level.
- B) is above the equilibrium level.
- C) will rise in the near future.
- D) is in equilibrium.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

146. A surplus of a product will arise when price is:

- A) above equilibrium with the result that quantity demanded exceeds quantity supplied.
- B) above equilibrium with the result that quantity supplied exceeds quantity demanded.
- C) below equilibrium with the result that quantity demanded exceeds quantity supplied.
- D) below equilibrium with the result that quantity supplied exceeds quantity demanded.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

147. If price is above the equilibrium level, competition among sellers to reduce the resulting:

- A) surplus will increase quantity demanded and decrease quantity supplied.
- B) shortage will decrease quantity demanded and increase quantity supplied.
- C) surplus will decrease quantity demanded and increase quantity supplied.
- D) shortage will increase quantity demanded and decrease quantity supplied.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

148. There will be a surplus of a product when:

- A) price is below the equilibrium level.
- B) the supply curve is downward sloping and the demand curve is upward sloping.
- C) the demand and supply curves fail to intersect.
- D) consumers want to buy less than producers offer for sale.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

149. There is a surplus in a market for a product when:

- A) the decrease in supply is greater than the increase in demand.
- B) the increase in demand is greater than the decrease in supply.
- C) quantity supplied is less than quantity demanded.
- D) quantity demanded is less than quantity supplied.

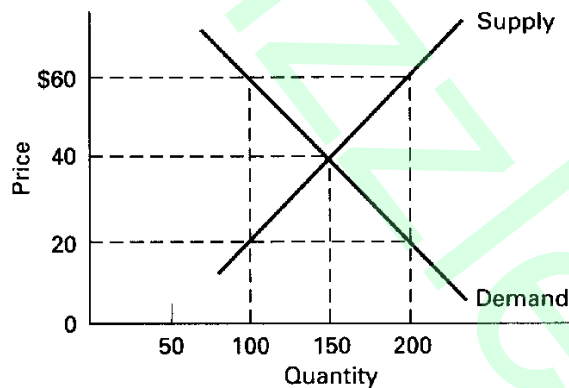
Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

150. If the market price is above the equilibrium price:

- A) a shortage will occur and producers will produce more and lower prices.
- B) a surplus will occur and producers will produce less and lower prices.
- C) a surplus will result and consumers will bid prices up.
- D) producers will make extremely high profits.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61- 62  
Subtopic: Equilibrium price and quantity Type: Application

151. Refer to the diagram. A price of \$60 in this market will result in:

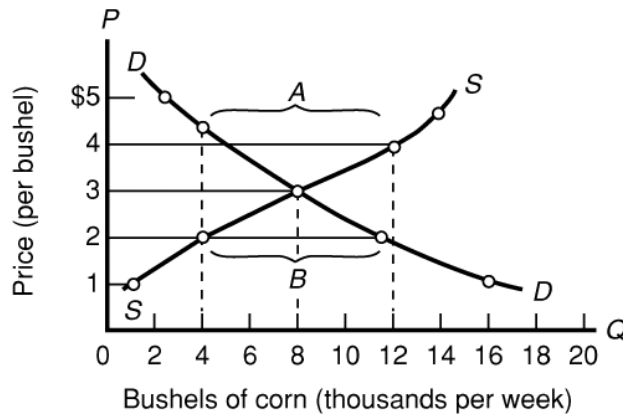


- A) equilibrium.
- B) a shortage of 50 units.
- C) a surplus of 50 units.
- D) a surplus of 100 units.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

152. Refer to the diagram illustrating the market for corn. If the price in this market were to be fixed at \$4 per bushel, the part of the line marked A would represent a:



- A) surplus of 8,000 bushels.
- B) shortage of 8,000 bushels.
- C) surplus of 7,000 bushels.
- D) shortage of 7,000 bushels.

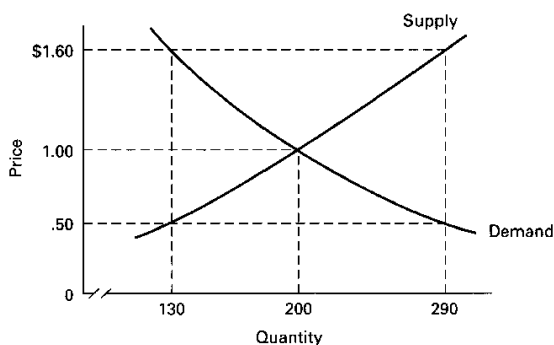
Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
 Subtopic: Equilibrium price and quantity Type: Graphic

153. Assume in a competitive market that price is initially above the equilibrium level. We can predict that price will:

- A) decrease, quantity demanded will decrease, and quantity supplied will increase.
- B) decrease and quantity demanded and quantity supplied will both decrease.
- C) decrease, quantity demanded will increase, and quantity supplied will decrease.
- D) increase, quantity demanded will decrease, and quantity supplied will increase.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 61-62  
 Subtopic: Equilibrium price and quantity Type: Application

Use the following to answer questions 154-155:



## Chapter 3 Demand, Supply, and Market Equilibrium

154. Refer to the above diagram. A surplus of 160 units would be encountered if price was:

- A) \$1.10, that is, \$1.60 minus \$.50.
- B) \$1.60.
- C) \$1.00.
- D) \$.50.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

155. Refer to the above diagram. A shortage of 160 units would be encountered if price was:

- A) \$1.10, that is, \$1.60 minus \$.50.
- B) \$1.60.
- C) \$1.00.
- D) \$.50.

Ans: D Level: Easy Main Topic: 3.4 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

156. Refer to the diagram. A price of \$2.00 in this market will result in:



- A) a shortage of 10 million gallons of milk per week.
- B) a surplus of 8 million gallons of milk per week.
- C) a surplus of 10 million gallons of milk per week.
- D) a shortage of 8 million gallons of milk per week.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

157. Assume in a competitive market that price is initially below the equilibrium level. We can predict that price will:

- A) decrease, quantity demanded will decrease, and quantity supplied will increase.
- B) decrease and quantity demanded and quantity supplied will both decrease.
- C) decrease, quantity demanded will increase, and quantity supplied will decrease.
- D) increase, quantity demanded will decrease, and quantity supplied will increase.

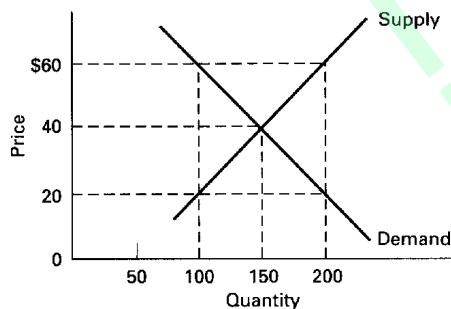
Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

158. There is a shortage in a market for a product when:

- A) the increase in supply is greater than the increase in demand.
- B) the increase in demand is greater than the increase in supply.
- C) quantity demanded is less than quantity supplied.
- D) quantity demanded is greater than quantity supplied.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

Use the following to answer questions 159-160:



159. Refer to the above diagram. A price of \$20 in this market will result in:

- A) equilibrium.
- B) a shortage of 50 units.
- C) a surplus of 50 units.
- D) a shortage of 100 units.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

160. Refer to the above diagram. The highest price that buyers will be willing and able to pay for 100 units of this product is:

- A) \$30.
- B) \$60.
- C) \$40.
- D) \$20.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Graphic

161. There is a shortage in a market for a product when:

- A) the increase in supply is greater than the increase in demand.
- B) the increase in demand is greater than the increase in supply.
- C) quantity demanded is less than quantity supplied.
- D) quantity demanded is greater than quantity supplied.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 61-62  
Subtopic: Equilibrium price and quantity Type: Application

162. The rationing function of prices refers to the:

- A) tendency of supply and demand to shift in opposite directions.
- B) fact that ration coupons are needed to alleviate wartime shortages of goods.
- C) capacity of a competitive market to equate the quantity demanded and the quantity supplied.
- D) ability of the market system to generate an equitable distribution of income.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Rationing function of prices Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

163. Refer to the table.

Price per unit	Quantity demanded/year	Quantity supplied/year
\$ 5	2,000	0
10	1,800	300
15	1,600	600
20	1,400	900
25	1,200	1,200
30	1,000	1,500

In a free-market economy, according to the rationing function of prices, the market price and quantity will adjust to:

- A) \$10 and 2,000 units.
- B) \$15 and 1,600 units.
- C) \$20 and 900 units.
- D) \$25 and 1,200 units.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Rationing function of prices Type: Application

164. The market system automatically corrects a surplus condition in a competitive market by:

- A) raising the price of the commodity in question while increasing the quantity demanded.
- B) raising the price of the commodity in question while decreasing the quantity demanded.
- C) reducing the price of the commodity in question while increasing the quantity demanded.
- D) reducing the price of the commodity in question while decreasing the quantity demanded.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Rationing function of prices Type: Application

165. The market system corrects a shortage by:

- A) lowering the product price to decrease production.
- B) raising the product price to increase production.
- C) lowering the product price to increase production.
- D) raising the product price to decrease production.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Rationing function of prices Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

166. In competitive markets a surplus or shortage will:

- A) never exist.
- B) cause buyer and seller reactions which tend to eliminate the surplus or shortage.
- C) cause shifts in the demand and supply curves.
- D) cause buyer and seller reactions which tend to intensify the surplus or shortage.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62

Subtopic: Rationing function of prices Type: Application

167. According to the rationing function of prices, a competitive market will:

- A) achieve an equilibrium price.
- B) eliminate shortages.
- C) eliminate surplus.
- D) do all of the above.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62

Subtopic: Rationing function of prices Type: Application

168. The concept of economic efficiency is primarily concerned with:

- A) the limited wants-unlimited resources dilemma.
- B) considerations of equity in the distribution of wealth.
- C) obtaining the maximum output from available resources.
- D) the conservation of irreplaceable natural resources.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62

Subtopic: Efficient allocation Type: Definition

169. Because of their scarcity, the efficient use of resources is:

- A) an important issue in all economies.
- B) an important issue only in centrally planned economies.
- C) an important issue only in market economies.
- D) not an important issue.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62

Subtopic: Efficient allocation Type: Definition

170. An "increase in efficiency" suggests that an economy:

- A) has moved from a point outside of, to a point on, its production possibilities curve.
- B) has decided to produce more consumer goods and fewer capital goods.
- C) has moved from a point on, to a point inside, its production possibilities curve.
- D) is able to get more output from a given amount of inputs.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 62

Subtopic: Efficient allocation Type: Application



## Chapter 3 Demand, Supply, and Market Equilibrium

171. Assuming an economy has fixed quantities of resources, that economy:
- A) is more efficient, the larger the amount of goods and services it produces.
  - B) is able to satisfy all consumer wants.
  - C) will produce the same output whether or not resources are used efficiently.
  - D) is able to produce the same amount of output regardless of the production technologies it chooses.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Efficient allocation Type: Application

172. "Productive efficiency" refers to:
- A) the use of the least-cost method of production.
  - B) the production of the product-mix most wanted by society.
  - C) the full employment of all available resources.
  - D) production at some point inside of the production possibilities curve.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Efficient allocation Type: Definition

173. If an economy produces its most wanted goods but uses outdated production methods, it is:
- A) achieving productive efficiency, but not allocative efficiency.
  - B) not achieving productive efficiency.
  - C) achieving both productive and allocative efficiency.
  - D) achieving the least-cost method of production.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Efficient allocation Type: Application

174. To realize "full production" a society must achieve:
- A) income inequality.
  - B) productive efficiency only.
  - C) both allocative and productive efficiency.
  - D) any output lying inside of its production possibilities curve.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Efficient allocation Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

175. When an economy achieves both allocative and productive efficiency, it implies that there is:

- A) income equality.
- B) price stability.
- C) full production.
- D) fixed technology.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Efficient allocation Type: Application

176. With allocative efficiency:

- A) the state of technology, or methods used to produce output, do not change.
- B) the available supplies of factors of production are fixed in both quantity and quality.
- C) there is production of any particular mix of goods and services in the least costly way.
- D) there is production of that particular mix of goods and services most wanted by society.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 62  
Subtopic: Efficient allocation Type: Application

177. A news story states that "Videotapes lose their appeal as consumers switch to DVDs for movies." In a competitive market for the purchase of videotapes of movies, this situation would lead to a(n):

- A) increase in the price of videotapes and the quantity sold.
- B) decrease in the price of videotapes and the quantity sold.
- C) increase in the price of videotapes and decrease in the quantity sold.
- D) decrease in the price of videotapes and increase in the quantity sold.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 63  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

178. A headline reads "Soccer is the new popular sport among youth." In a competitive market, this situation would lead to a(n):

- A) increase in the price of soccer shoes and quantity sold.
- B) decrease in the price of soccer shoes and quantity sold.
- C) increase in the price of soccer shoes and decrease in quantity sold.
- D) decrease in the price of soccer shoes and increase in quantity sold.

Ans: A Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 63  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

179. Given a downward sloping demand curve and an upward sloping supply curve for product X, an increase in the price of a substitute good (in consumption) will:
- A) increase equilibrium price and quantity of X.
  - B) decrease equilibrium price and quantity of X.
  - C) increase equilibrium price and decrease equilibrium quantity of X.
  - D) decrease equilibrium price and increase equilibrium quantity of X.

Ans: A Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 63-64  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

180. "In the corn market, demand often exceeds supply and supply sometimes exceeds demand".  
"The price of corn rises and falls in response to changes in supply and demand."  
In which of these two statements are the terms "demand" and "supply" being used correctly?

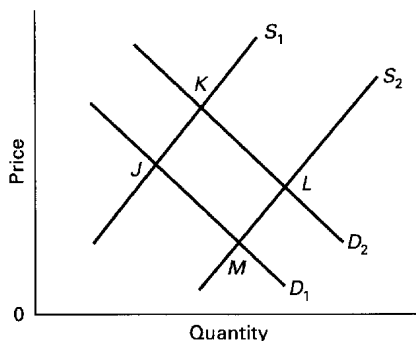
- A) in neither statement
- B) in the second statement
- C) in the first statement
- D) in both statements

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

181. A headline reads "Gasoline Prices Are Higher." A likely explanation for this event would be a(n):
- A) increase in the demand for and the supply of gasoline.
  - B) decrease in the demand for and the supply of gasoline.
  - C) increase in the supply of gasoline and a decrease in the demand for gasoline.
  - D) decrease in the supply of gasoline and an increase in the demand for gasoline.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

Use the following to answer questions 182-185:



## Chapter 3 Demand, Supply, and Market Equilibrium

182. Refer to the above diagram, in which  $S_1$  and  $D_1$  represent the original supply and demand curves and  $S_2$  and  $D_2$  the new curves. In this market:

- A) supply has decreased and equilibrium price has increased.
- B) demand and Supply have increased and equilibrium price has decreased.
- C) demand has decreased and equilibrium price has decreased.
- D) demand has increased and equilibrium price has increased.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

183. Refer to the above diagram, in which  $S_1$  and  $D_1$  represent the original supply and demand curves and  $S_2$  and  $D_2$  the new curves. In this market the indicated shift in supply may have been caused by:

- A) an increase in the wages paid to workers producing this good.
- B) the development of more efficient machinery for producing this commodity.
- C) this product becoming less fashionable.
- D) an increase in consumer incomes.

Ans: B Level: Easy Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

184 Refer to the above diagram, in which  $S_1$  and  $D_1$  represent the original supply and demand curves and  $S_2$  and  $D_2$  the new curves. In this market:

- A) the equilibrium position has shifted from  $M$  to  $K$ .
- B) an increase in supply is more than the increase in demand.
- C) the new equilibrium price and quantity are both greater than originally.
- D) point  $M$  shows the new equilibrium position.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

185. Refer to the above diagram, in which  $S_1$  and  $D_1$  represent the original supply and demand curves and  $S_2$  and  $D_2$  the new curves. In this market the indicated shift in demand may have been caused by:

- A) a decline in the number of buyers in the market.
- B) a decline in the price of a substitute good.
- C) an increase in incomes if the product is a normal good.
- D) an increase in incomes if the product is an inferior good.

Ans: C Level: Easy Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

Use the following to answer questions 186-195:

You are asked to determine, other things equal, the effects of a given change in a determinant of demand or supply for product  $X$  upon (1) the demand ( $D$ ) for, or supply ( $S$ ) of,  $X$ , (2) the equilibrium price ( $P$ ) of  $X$  and (3) the equilibrium quantity ( $Q$ ) of  $X$ .

186. Refer to the above. An increase in income, if  $X$  is a normal good, will:

- A) increase  $D$ , increase  $P$ , and increase  $Q$ .
- B) increase  $D$ , increase  $P$ , and decrease  $Q$ .
- C) increase  $S$ , increase  $P$ , and increase  $Q$ .
- D) decrease  $D$ , increase  $P$ , and increase  $Q$ .

Ans: A    Level: Moderate    Main Topic: 3.3 Market Equilibrium    Page: 64  
Subtopic: Changes in supply, demand, and equilibrium    Type: Graphic

187. Refer to the above. An increase in the price of a product which is a close substitute for  $X$  will:

- A) decrease  $D$ , increase  $P$ , and decrease  $Q$ .
- B) increase  $D$ , increase  $P$ , and decrease  $Q$ .
- C) increase  $D$ , increase  $P$ , and increase  $Q$ .
- D) increase  $D$ , decrease  $P$ , and increase  $Q$ .

Ans: C    Level: Moderate    Main Topic: 3.3 Market Equilibrium    Page: 64  
Subtopic: Changes in supply, demand, and equilibrium    Type: Graphic

188. Refer to the above. A decrease in the number of consumers of product  $X$  will:

- A) decrease  $S$ , decrease  $P$ , and decrease  $Q$ .
- B) increase  $D$ , increase  $P$ , and increase  $Q$ .
- C) decrease  $D$ , decrease  $P$ , and decrease  $Q$ .
- D) decrease  $D$ , decrease  $P$ , and increase  $Q$ .

Ans: C    Level: Moderate    Main Topic: 3.3 Market Equilibrium    Page: 64  
Subtopic: Changes in supply, demand, and equilibrium    Type: Graphic

189. Refer to the above. An increase in the tastes and preferences for  $X$  will:

- A) increase  $S$ , decrease  $P$ , and increase  $Q$ .
- B) decrease  $S$ , decrease  $P$ , and decrease  $Q$ .
- C) increase  $D$ , increase  $P$ , and increase  $Q$ .
- D) decrease  $D$ , decrease  $P$ , and decrease  $Q$ .

Ans: C    Level: Moderate    Main Topic: 3.3 Market Equilibrium    Page: 64  
Subtopic: Changes in supply, demand, and equilibrium    Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

190. Refer to the above. An increase in the prices of resources used to produce  $X$  will:

- A) increase  $S$ , increase  $P$ , and increase  $Q$ .
- B) increase  $D$ , increase  $P$ , and increase  $Q$ .
- C) decrease  $S$ , decrease  $P$ , and decrease  $Q$ .
- D) decrease  $S$ , increase  $P$ , and decrease  $Q$ .

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

191. Refer to the above. An improvement in the technology used to produce  $X$  will:

- A) decrease  $S$ , increase  $P$ , and decrease  $Q$ .
- B) decrease  $S$ , increase  $P$ , and increase  $Q$ .
- C) increase  $S$ , decrease  $P$ , and increase  $Q$ .
- D) decrease  $D$ , decrease  $P$ , and decrease  $Q$ .

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

192. Refer to the above. A reduction in the number of firms producing  $X$  will:

- A) increase  $D$ , increase  $P$ , and increase  $Q$ .
- B) increase  $S$ , decrease  $P$ , and increase  $Q$ .
- C) decrease  $S$ , increase  $P$ , and decrease  $Q$ .
- D) decrease  $S$ , decrease  $P$ , and increase  $Q$ .

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

193. Refer to the above. An increase in the price of a product which is a complement (in consumption) to  $X$  will:

- A) decrease  $S$ , decrease  $P$ , and decrease  $Q$ .
- B) increase  $D$ , increase  $P$ , and increase  $Q$ .
- C) decrease  $D$ , decrease  $P$ , and decrease  $Q$ .
- D) increase  $D$ , increase  $P$ , and decrease  $Q$ .

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

194. Refer to the above. If  $X$  is an inferior good, a decrease in income will:

- A) decrease  $D$ , decrease  $P$ , and decrease  $Q$ .
- B) decrease  $D$ , decrease  $P$ , and increase  $Q$ .
- C) increase  $S$ , decrease  $P$ , and increase  $Q$ .
- D) increase  $D$ , increase  $P$ , and increase  $Q$ .

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

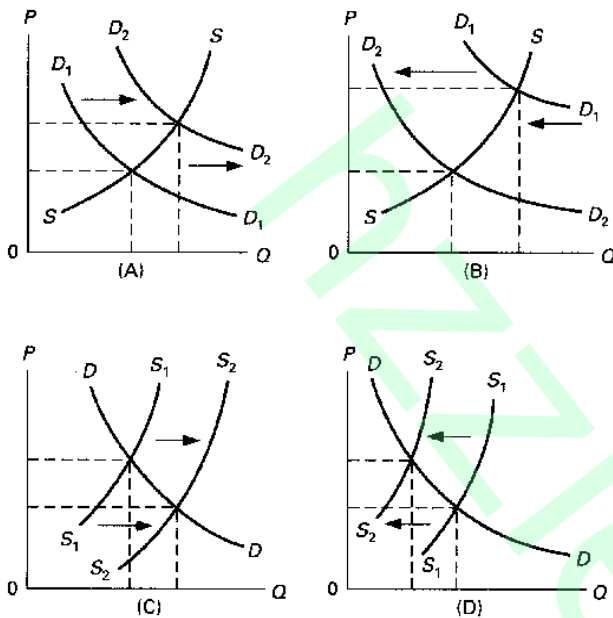
## Chapter 3 Demand, Supply, and Market Equilibrium

195. Refer to the above. Consumer expectations that the price of  $X$  will rise sharply in the future will:

- A) increase  $S$ , increase  $P$ , and increase  $Q$ .
- B) increase  $D$ , increase  $P$ , and increase  $Q$ .
- C) decrease  $S$ , increase  $P$ , and increase  $Q$ .
- D) increase  $D$ , decrease  $P$ , and increase  $Q$ .

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

Use the following to answer questions 196-200:



196. Which of the above diagrams illustrate(s) the effect of an increase in automobile worker wages on the market for automobiles?

- A) A only
- B) B only
- C) C only
- D) D only

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

197. Which of the above diagrams illustrate(s) the effect of an increase in the price of Molson upon the market for Labatt?

- A) A and C
- B) A only
- C) B only
- D) C only

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

198. Which of the above diagrams illustrate(s) the effect of a decrease in incomes upon the market for secondhand clothing?

- A) A and C
- B) A only
- C) B only
- D) C only

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

199. Which of the above diagrams illustrate(s) the effect of a governmental subsidy on the market for AIDS research?

- A) A only
- B) B only
- C) C only
- D) D only

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

200. Which of the above diagrams illustrate(s) the effect of a decline in the price of irrigation equipment upon the market for corn?

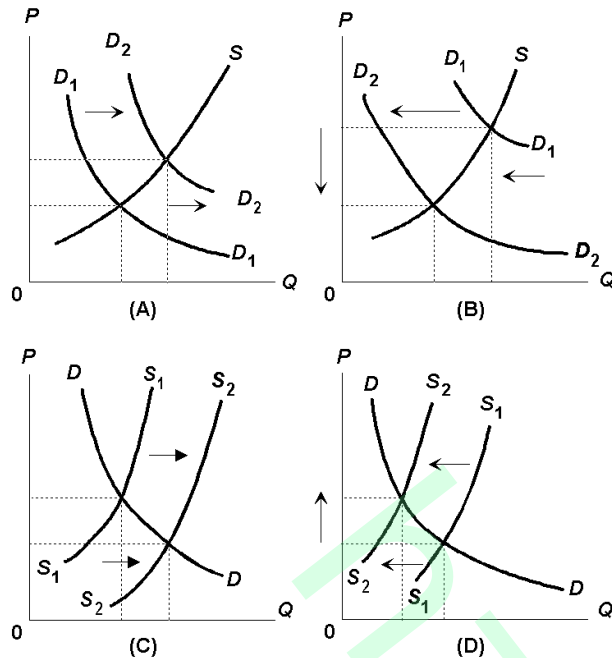
- A) B only
- B) C only
- C) B and C
- D) D only

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic



## Chapter 3 Demand, Supply, and Market Equilibrium

Use the following to answer questions 201-204:



201. If peanut butter and grape jelly are complementary products, which diagram above illustrates the effect on the peanut butter market as a result of a decrease in the price of grape jelly?

- A) A
- B) B
- C) C
- D) D

Ans: A Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

202. Which diagram above illustrates the effects on the peanut butter market as a result of a higher wage rate for peanut workers?

- A) A
- B) B
- C) C
- D) D

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

203. Which diagram above illustrates the effect on the peanut butter market as a result of a technological advance which reduces the costs of harvesting peanuts?

- A) A
- B) B
- C) C
- D) D

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

204. If peanut butter and cheese spread are substitute products, which diagram above illustrates the effect on the peanut butter market of a decrease in the price of cheese spread?

- A) A
- B) B
- C) C
- D) D

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

205. Assuming competitive markets with typical supply and demand curves, which of the following statements is *correct*?

- A) An increase in supply with a decrease in demand will result in an increase in price.
- B) An increase in supply with no change in demand will result in an increase in price.
- C) An increase in supply with no change in demand will result in a decline in sales.
- D) An increase in demand with no change in supply will result in an increase in sales.

Ans: D Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

206. Data from the registrar's office at Informed University indicate that over the past twenty years tuition and enrollment have both increased. From this information we can conclude that:

- A) higher education is an exception to the law of demand.
- B) the supply of education provided by IU has also increased over the twenty-year period.
- C) school-age population, incomes, and preferences for education have changed over the twenty-year period.
- D) IU's supply curve of education is downward sloping.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

207. We observe a market in which the price has risen and the quantity sold has risen as well. This could be caused by a(n):
- A) increase in demand.
  - B) increase in supply.
  - C) decrease in demand.
  - D) decrease in supply.

Ans: A Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

208. If demand for a good decreases and supply remains constant equilibrium price:
- A) and quantity will both increase.
  - B) will increase, and equilibrium quantity will decrease.
  - C) will decrease, and equilibrium quantity will increase.
  - D) and quantity will both decrease.

Ans: D Level: Easy Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

209. Given the supply curve for butter, a reduction in the price of margarine will tend to:
- A) increase the demand for butter.
  - B) increase the demand for margarine.
  - C) raise the price of butter.
  - D) lower the price of butter.

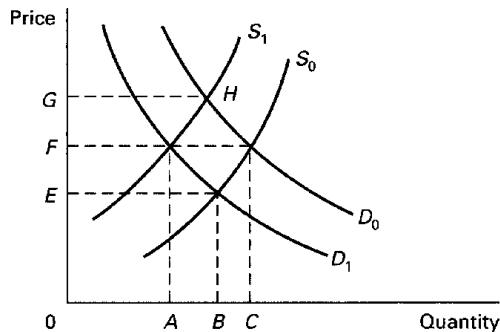
Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

210. With a downward sloping demand curve and an upward sloping supply curve for a product, an increase in incomes will:
- A) increase equilibrium price and quantity if the product is a normal good.
  - B) decrease equilibrium price and quantity if the product is a normal good.
  - C) have no effect on equilibrium price and quantity.
  - D) reduce the quantity demanded, but not shift the demand curve.

Ans: A Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

Use the following to answer questions 211-213:



211. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. If the initial demand and supply curves are  $D_0$  and  $S_0$ , equilibrium price and quantity will be:
- A)  $0F$  and  $0C$  respectively.
  - B)  $0G$  and  $0B$  respectively.
  - C)  $0F$  and  $0A$  respectively.
  - D)  $0E$  and  $0B$  respectively.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

212. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. If supply is  $S_1$  and demand  $D_0$ , then
- A) at any price above  $0G$  a shortage would occur.
  - B)  $0F$  represents a price which would result in a surplus of  $AC$ .
  - C) a surplus of  $GH$  would occur.
  - D)  $0F$  represents a price which would result in a shortage of  $AC$ .

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

213. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. Given  $D_0$ , if the supply curve moved from  $S_0$  to  $S_1$ , then:
- A) supply has increased and equilibrium quantity has decreased.
  - B) supply has decreased and equilibrium quantity has decreased.
  - C) there has been an increase in the quantity supplied.
  - D) supply has increased and price has risen to  $0G$ .

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

214. Refer to the table below.

Price	Quantity supplied	Quantity demanded
\$10	100	295
11	150	275
12	190	250
13	220	220
14	245	180
15	265	135

If a technological advance lowers production costs such that the quantity supplied increases by 60 units of this product at each price, the new equilibrium price would be:

- A) \$11.
- B) \$12.
- C) \$13.
- D) \$14.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Calculation

215. Assuming conventional supply and demand curves, changes in the determinants of supply and demand will:

- A) in all likelihood alter both equilibrium price and quantity.
- B) alter equilibrium quantity, but not equilibrium price.
- C) alter equilibrium price, but not equilibrium quantity.
- D) have no effect upon equilibrium price or quantity.

Ans: A Level: Easy Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

216. Which of the following will cause a decrease in market equilibrium price and an increase in equilibrium quantity?

- A) an increase in supply
- B) an increase in demand
- C) a decrease in supply
- D) a decrease in demand

Ans: A Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

217. Suppose in each of four successive years producers sell more of their product and at lower prices. This could be explained:
- A) by small annual increases in supply accompanied by large annual increases in demand.
  - B) in terms of a stable supply curve and increasing demand.
  - C) in terms of a stable demand curve and increasing supply.
  - D) as an exception to the law of supply.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

218. A headline reads "Storms destroy half of the lettuce crop." This situation would lead to a(n):
- A) increase in the price of lettuce and quantity purchased.
  - B) decrease in the price of lettuce and quantity purchased.
  - C) increase in the price of lettuce and decrease in quantity purchased.
  - D) decrease in the price of lettuce and increase in quantity purchased.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

219. A newspaper reports that in an urban area the average price of new homes had decreased, but the number of new homes sold had increased. This situation would best be explained by a(n):
- A) increase in demand.
  - B) increase in supply.
  - C) decrease in demand.
  - D) decrease in supply.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

220. A headline reads "Lumber Prices Up Sharply." In a competitive market, this situation would lead to a(n):
- A) increase in the price and quantity of new homes.
  - B) decrease in the price and quantity of new homes.
  - C) increase in the price of new homes and decrease in quantity of them.
  - D) decrease in the price of new homes and increase in quantity of them.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

221. A television station reports that the price of coffee has increased but the quantity sold in the market has decreased. This situation would be caused by a(n):

- A) increase in demand.
- B) increase in supply.
- C) decrease in demand.
- D) decrease in supply.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

222. A television station reports that the price of orange juice has declined but the quantity sold has increased. This situation would be caused by a(n):

- A) increase in demand.
- B) increase in supply.
- C) decrease in demand.
- D) decrease in supply.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

223. We observe a market where the price has risen and the quantity being sold has declined. This could be caused by a(n):

- A) increase in demand.
- B) increase in supply.
- C) decrease in demand.
- D) decrease in supply.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

224. With a downward sloping demand curve and an upward sloping supply curve for a product, a decrease in resource prices will:

- A) increase equilibrium price and quantity.
- B) decrease equilibrium price and quantity.
- C) decrease equilibrium price and increase equilibrium quantity.
- D) increase equilibrium price and decrease equilibrium quantity.

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64-65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

225. Which of the following statements is *correct*?

- A) If demand increases and supply decreases, equilibrium price will fall.
- B) If supply increases and demand decreases, equilibrium price will fall.
- C) If demand decreases and supply increases, equilibrium price will rise.
- D) If supply declines and demand remains constant, equilibrium price will fall.

Ans: B Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

226. In which of the following instances will the effect on equilibrium price be dependent on the magnitude of the shifts in supply and demand?

- A) demand rises and supply rises
- B) supply falls and demand remains constant
- C) demand rises and supply falls
- D) supply rises and demand falls

Ans: A Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

227. One can say with certainty that equilibrium price will decline when supply:

- A) and demand both decrease.
- B) increases and demand decreases.
- C) decreases and demand increases.
- D) and demand both increase.

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

228. One can say with certainty that equilibrium quantity will increase when supply:

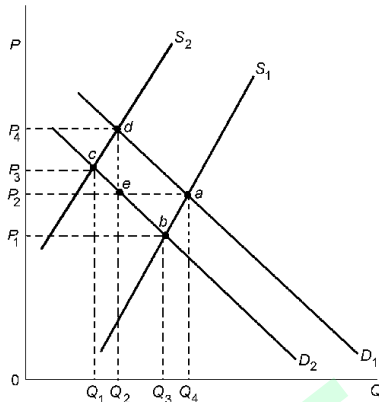
- A) and demand both decrease.
- B) increases and demand decreases.
- C) decreases and demand increases.
- D) and demand both increase.

Ans: D Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application



## Chapter 3 Demand, Supply, and Market Equilibrium

229. Refer to the graph below, showing the market supply and demand for a product. Assume that the market is initially in equilibrium where  $D_1$  and  $S_1$  intersect. If consumer incomes decreased and production costs increased, then new equilibrium would be at:



- A)  $P_1$  and  $Q_3$ .
- B)  $P_2$  and  $Q_2$ .
- C)  $P_3$  and  $Q_1$ .
- D)  $P_4$  and  $Q_2$ .

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Graphic

230. What combination of changes in supply and demand would most likely increase the equilibrium quantity?
- A) when supply increases and demand increases
  - B) when supply decreases and demand decreases
  - C) when supply decreases and demand increases
  - D) when supply increases and demand decreases

Ans: A Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

231. What combination of changes would most likely decrease the equilibrium price?
- A) when supply decreases and demand increases
  - B) when demand increases and supply increases
  - C) when demand decreases and supply decreases
  - D) when supply increases and demand decreases

Ans: D Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

232. What combination of changes in supply and demand would most likely increase the equilibrium price?

- A) when supply increases and demand decreases
- B) when supply decreases and demand increases
- C) when supply decreases and demand decreases
- D) when supply increases and demand increases

Ans: B Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

233. What combination of changes would most likely decrease the equilibrium quantity?

- A) when supply increases and demand decreases
- B) when demand increases and supply decreases
- C) when demand decreases and supply decreases
- D) when supply increases and demand increases

Ans: C Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

234. Which statement is *not* correct?

- A) If demand increases and supply decreases, price will rise and the quantity exchanged may either rise or fall.
- B) If supply increases and demand decreases, price will fall and the quantity exchanged may either rise or fall.
- C) If supply declines and demand remains constant, price will rise and the quantity exchanged will fall.
- D) If demand decreases and supply increases, price will fall and the quantity exchanged will fall.

Ans: D Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

235. An increase in demand for oil and an increase in supply of oil will:

- A) decrease price and increase quantity.
- B) increase price and decrease quantity.
- C) increase quantity, but whether it increases price depends on how much each curve shifts.
- D) increase price, but whether it increases quantity depends on how much each curve shifts.

Ans: C Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

236. An increase in demand and an increase in supply will:
- A) affect price in an indeterminate way and decrease the equilibrium quantity.
  - B) increase price and increase the equilibrium quantity.
  - C) affect price in an indeterminate way and increase the equilibrium quantity.
  - D) decrease price and increase the equilibrium quantity.

Ans: C Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

237. A decrease in demand and an increase in supply will:
- A) increase the equilibrium quantity and decrease price.
  - B) decrease the equilibrium quantity and affect price in an indeterminate way.
  - C) decrease price and affect the equilibrium quantity in an indeterminate way.
  - D) increase price and affect the equilibrium quantity in an indeterminate way.

Ans: C Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

238. What is the likely effect on the market for wine of a simultaneous increase in both consumer incomes and producer taxes on wine?
- A) an increase in both price and quantity
  - B) an increase in price and a decrease in output
  - C) a decrease in price and an indeterminate effect on quantity
  - D) an increase in price and an indeterminate effect on quantity

Ans: D Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

239. If the supply and demand curves for a product both decrease, we can say that equilibrium:
- A) quantity must fall and equilibrium price must rise.
  - B) price must fall, but equilibrium quantity may either rise, fall, or remain unchanged.
  - C) quantity must decline, but equilibrium price may either rise, fall, or remain unchanged.
  - D) quantity and equilibrium price must both decline.

Ans: C Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

240. If the supply of a product decreases and the demand for that product simultaneously increases, we can conclude that equilibrium:
- A) price must rise, but equilibrium quantity may either rise, fall, or remain unchanged.
  - B) price must rise and equilibrium quantity must fall.
  - C) price and equilibrium quantity must both increase.
  - D) price and equilibrium quantity must both decline.

Ans: A Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Subtopic: Changes in supply, demand, and equilibrium Type: Application

241. An effective ceiling price will:
- A) induce new firms to enter the industry.
  - B) result in a product surplus.
  - C) result in a product shortage.
  - D) clear the market.

Ans: C Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 66 Subtopic: Price ceilings Type: Application

242. A price ceiling means that:
- A) there is currently a surplus of the relevant product.
  - B) government is imposing a legal price which is below the equilibrium price.
  - C) government wants to stop a deflationary spiral.
  - D) government is imposing a legal price which is above the equilibrium price.

Ans: B Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 66 Subtopic: Price ceilings Type: Definition

243. Students at Informed University pay \$40 per year for a parking permit but many complain that they are unable to find a parking place in University lots. In terms of equilibrium, this suggests that:
- A) student incomes are too low.
  - B) parking permits are underpriced.
  - C) parking permits are overpriced.
  - D) the University should make parking free.

Ans: B Level: Moderate Main Topic: 3.4 Application: Government-Set Prices  
Page: 66 Subtopic: Price ceilings Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

244. Superstar rock singers may set concert ticket prices below the equilibrium level because:
- A) it is too costly to estimate the equilibrium price.
  - B) equilibrium ticket prices would be illegal.
  - C) it lowers their gross income which has consequent tax advantages.
  - D) the behaviour of fans in attempting to get tickets generates publicity and sold-out concerts promote record sales.

Ans: D Level: Moderate Main Topic: 3.4 Application: Government-Set Prices  
Page: 66 Subtopic: Price ceilings Type: Application

245. If a legal ceiling price for gasoline is set above the equilibrium price:
- A) a shortage of the gasoline will occur.
  - B) a surplus of the gasoline will occur.
  - C) a black market will evolve.
  - D) neither the equilibrium price nor equilibrium quantity will be affected.

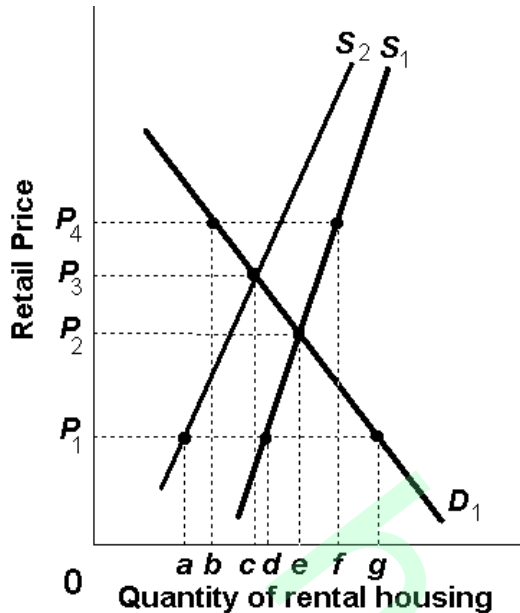
Ans: D Level: Difficult Main Topic: 3.4 Application: Government-Set Prices  
Page: 66 Subtopic: Price ceilings Type: Application

246. If an effective ceiling price is placed on gasoline then:
- A) the quantity demanded will exceed the quantity supplied.
  - B) a black market for gasoline may evolve.
  - C) the federal government must establish some formal system for rationing it to consumers.
  - D) all of the above are likely outcomes.

Ans: D Level: Moderate Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67 Subtopic: Price ceilings Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

Use the following to answer questions 247-248:



247. Refer to the above graph, which shows the supply and demand for rental housing in a city. Given the demand  $D_1$  and the supply  $S_1$  for rental housing, if the government established rent controls in the city at below the equilibrium, then the price of housing would most likely be at:
- A)  $P_1$  and there would be a shortage of rental housing.
  - B)  $P_2$  and there would be a shortage of rental housing.
  - C)  $P_3$  and there would be a surplus of rental housing.
  - D)  $P_4$  and there would be a surplus of rental housing.

Ans: A Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67 Subtopic: Price ceilings Type: Graphic

248. Refer to the above graph, which shows the supply and demand for rental housing in a city. If over time the supply curve shifts to  $S_2$  because landlords abandon rental units, but rent controls remain, the quantity demanded for housing would be at point:
- A)  $d$  and the quantity supplied at point  $a$ .
  - B)  $g$  and the quantity supplied at point  $b$ .
  - C)  $f$  and the quantity supplied at point  $d$ .
  - D)  $g$  and the quantity supplied at point  $a$ .

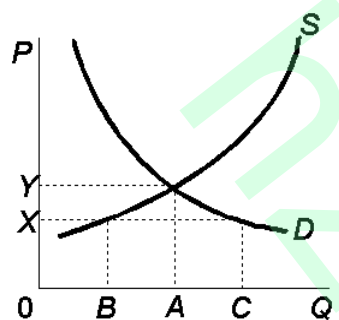
Ans: D Level: Moderate Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67 Subtopic: Price ceilings Type: Graphic

## Chapter 3 Demand, Supply, and Market Equilibrium

249. Which is most likely to be observed in a community where legal ceilings are imposed on residential rents?
- A) Poor people will be able to find adequate housing.
  - B) Tenants will reduce their use of housing space, making more available for others.
  - C) Those whose needs for housing are most urgent will be able to obtain the space they want.
  - D) People moving into the community will have difficulty locating residential space to rent.

Ans: D Level: Difficult Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67 Subtopic: Price ceilings Type: Application

250. Refer to the following graph, under a legal price ceiling of  $X$ , the price and quantity traded would be:



- A) price  $X$  and quantity  $C$ .
- B) price  $X$  and quantity  $B$ .
- C) price  $Y$  and quantity  $A$ .
- D) price  $X$  and quantity  $A$ .

Ans: B Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67 Subtopic: Price ceilings Type: Graphic

251. "Black markets" are associated with:
- A) price floors and the resulting product surpluses.
  - B) price floors and the resulting product shortages.
  - C) ceiling prices and the resulting product shortages.
  - D) ceiling prices and the resulting product surpluses.

Ans: C Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 67 Subtopic: Price ceilings Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

252. A "black market" could arise as a result of:

- A) an increase in demand.
- B) a decrease in supply.
- C) the imposition of a legal price floor above the equilibrium price.
- D) the imposition of a legal price ceiling below the equilibrium price.

Ans: D Level: Easy Main Topic: 3.4 Applications: Government-Set Prices  
Page: 67 Subtopic: Price ceilings Type: Application

253. Which would be an example of a government price ceiling?

- A) limits on interest rates charged by credit card companies
- B) subsidies for apartment rent in major cities
- C) minimum-wage laws for unskilled workers
- D) price supports for agricultural products

Ans: A Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 67 Subtopic: Price ceilings Type: Application

254. If an effective legal ceiling is imposed on credit card interest rates:

- A) such credit would be less readily available.
- B) annual credit card fees would fall.
- C) the product prices charged by merchants who issue credit cards would fall.
- D) more credit cards will be issued.

Ans: A Level: Moderate Main Topic: 3.4 Application: Government-Set Prices  
Page: 67

Subtopic: Price ceilings Type: Application

255. A price floor means that:

- A) force some firms in this industry to go out of business.
- B) result in a product surplus.
- C) result in a product shortage.
- D) clear the market.

Ans: B Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 68 Subtopic: Price floors Type: Application

256. An effective price floor will:

- A) force some firms in this industry to go out of business.
- B) result in a product surplus.
- C) result in a product shortage.
- D) clear the market.

Ans: B Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 68 Subtopic: Price floors Type: Application



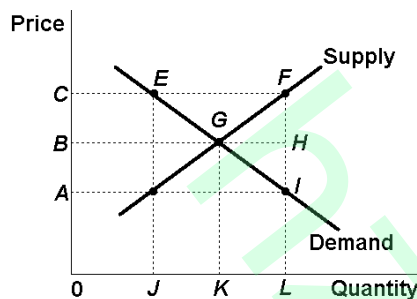
## Chapter 3 Demand, Supply, and Market Equilibrium

257. An effective price floor on wheat will:

- A) force otherwise profitable farmers out of business.
- B) result in a shortage of wheat.
- C) result in a surplus of wheat.
- D) clear the market for wheat.

Ans: C Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 68 Subtopic: Price floors Type: Application

258. The following graph represents a competitive market for a product where the government now has introduced a price floor of  $0C$ . Which area in the graph represents the producers' revenue after the imposition of the price floor?



- A)  $0CFL$
- B)  $0CEJ$
- C)  $0BGK$
- D)  $0BHL$

Ans: A Level: Moderate Main Topic: 3.4 Application: Government-Set Prices  
Page: 68-69 Subtopic: Price floors Type: Graphic

259. Price ceilings and price floors:

- A) cause surpluses and shortages respectively.
- B) make the rationing function of free markets more efficient.
- C) interfere with the rationing function of prices.
- D) shift demand and supply curves and therefore have no effect on the rationing function of prices.

Ans: C Level: Moderate Main Topic: 3.5 Applications: Government-Set Prices  
Page: 69 Subtopic: Price floors Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

260. Price floors and ceiling prices:

- A) both cause shortages.
- B) both cause surpluses.
- C) cause the supply and demand curves to shift until equilibrium is established.
- D) interfere with the rationing function of prices.

Ans: D Level: Moderate Main Topic: 3.5 Application: Government-Set Prices  
Page: 69 Subtopic: Price floors Type: Application

261. The supply of donated human organs is:

- A) Perfectly elastic because the quantity demanded of organs is fixed.
- B) Perfectly inelastic because there is a fixed quantity of human organs donated through consent.
- C) Perfectly elastic because the price of donated organs is fixed.
- D) Perfectly inelastic because the price of donated organs is fixed.

Ans: B Level: Easy Main Topic: Last word Page: 70  
Subtopic: A legal market for human organs Type: Application

262. A market for human organs would greatly increase the cost of health care because rather than paying a zero price for donated organs:

- A) Patients would have to pay market price and at the same time the supply of human organs decreases.
- B) Patients would pay a price higher than the market price and at the same time the supply of human organs decreases.
- C) Patients would have to pay the market price and at the same time the increase in demand would boost the price.
- D) Patients would pay a price below the equilibrium and at the same time the supply of donated organs increases.

Ans: C Level: Moderate Main Topic: Last word Page: 70  
Subtopic: A legal market for human organs Type: Application

263. The law of demand states that as price increases, other things being equal, the quantity of the product demanded decreases.

Ans: True Level: Easy Main Topic: 3.1 Demand Page: 50 Type: Definition

264. The law of demand states that, *ceteris paribus*, there is an inverse relationship between the price of a good and the quantity demanded of the good.

Ans: True Level: Moderate Main Topic: 3.1 Demand Page: 50  
Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

265. If consumer tastes or preferences for a product increase, the demand for the product will tend to decrease.

Ans: False   Level: Easy   Main Topic: 3.1 Demand   Page: 53  
Type: Application

266. An increase in consumer incomes will cause a decrease in the demand for an inferior good.

Ans: True   Level: Moderate   Main Topic: 3.1 Demand   Page: 54  
Type: Definition

267. If two goods are substitutes in consumption, a decline in the price of one will cause an increase in the demand for the other.

Ans: False   Level: Easy   Main Topic: 3.1 Demand   Page: 54   Type: Definition

268. If two goods are complements (in consumption), a decline in the price of one will cause an increase in the demand for the other.

Ans: True   Level: Easy   Main Topic: 3.1 Demand   Page: 54   Type: Definition

269. The law of supply states that, *ceteris paribus*, there is an inverse relationship between the price of a good and the quantity supplied of the good.

Ans: False   Level: Easy   Main Topic: 3.2 Supply   Page: 56   Type: Definition

270. A decrease in the prices of resources for producing a product will increase the supply of the product.

Ans: False   Level: Easy   Main Topic: 3.2 Supply   Page: 58   Type: Application

271. The development of a new production technique that lowers the cost of producing product X will shift the supply curve of product X to the right.

Ans: True   Level: Easy   Main Topic: 3.2 Supply   Page: 59   Type: Application

272. A surplus indicates that the quantity demanded is greater than the quantity supplied at that price.

Ans: False   Level: Easy   Main Topic: 3.3 Market Equilibrium   Page: 61  
Type: Definition

## Chapter 3 Demand, Supply, and Market Equilibrium

273. Surpluses drive market prices up; shortages drive them down.

Ans: False Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 61  
Type: Application

274. If the supply of a product decreases and demand increases, the equilibrium price and quantity will increase.

Ans: False Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 64  
Type: Application

275. An increase in supply and demand will lead to an increase in the equilibrium price and an indeterminate change in the equilibrium quantity.

Ans: False Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 65  
Type: Application

276. If demand increases and supply simultaneously decreases, equilibrium price will rise.

Ans: True Level: Difficult Main Topic: 3.3 Market Equilibrium Page: 65  
Type: Application

277. An increase in the supply of product X, with demand held constant, will increase the price of product X.

Ans: False Level: Easy Main Topic: 3.2 Supply Page: 66-67  
Type: Application

278. A price fixed above the equilibrium price of a product will cause a shortage of that product.

Ans: False Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 66-67  
Type: Application

279. A price fixed below the equilibrium price of a product will cause a shortage of that product.

Ans: True Level: Moderate Main Topic: 3.3 Market Equilibrium Page: 66-67  
Type: Application

280. A ceiling price in a competitive market will result in persistent surpluses of a product.

Ans: False Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67 Type: Application

## Chapter 3 Demand, Supply, and Market Equilibrium

281. The further a ceiling price is below the equilibrium price, the smaller will be the shortage of the product.

Ans: False    Level: Easy    Main Topic: 3.4 Application: Government-Set Prices  
Page: 66-67    Type: Application

282. A price floor in a competitive market will result in persistent shortages of a product.

Ans: False    Level: Easy    Main Topic: 3.4 Application: Government-Set Prices  
Page: 68-69    Type: Application

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## Chapter 3 Demand, Supply, and Market Equilibrium

283. The higher a price floor is above the equilibrium price, the greater will be the surplus output.

Ans: True Level: Easy Main Topic: 3.4 Application: Government-Set Prices  
Page: 68-69 Type: Application

284. Suppose that a severe freeze destroys a sizable portion of the lettuce crop. As a result:

- B) supply will decrease, equilibrium price will fall and, demand will increase.
- C) supply will decrease, equilibrium price will increase and, quantity demanded will decrease.
- D) cannot be determined from the information given.

Ans: C Level: Moderate Main Topic: Appendix: Additional examples of supply and demand Page: 74 Type: Application

285. A rapid increase in the price of corn in recent years:

- A) will eventually increase the cost of corn-fed beef and, the price of hamburgers.
- B) will eventually decrease the price of corn syrup and, the price of soft drinks.
- C) will eventually reduce the price of corn-tortillas.
- D) will eventually decrease the cost of corn-fed beef and, increase the price of steak.

Ans: A Level: Moderate Main Topic: Appendix: Additional examples of supply and demand Page: 75 Type: Application

286. In recent years, there has been a rapid increase in consumption of sushi in Canada and yet, the price of sushi has remained relatively stable. An explanation for this phenomenon could be:

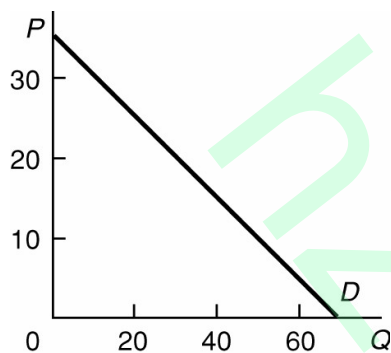
- A) although the demand for sushi has gone up, the supply of fish ( an input in the production of sushi) has declined as well.
- B) while the demand for sushi has gone up, the supply of sushi has increase by about the same magnitude and therefore, the price has stayed relatively stable.
- C) while the demand for sushi has gone up, the supply of sushi has decreased by about the same magnitude and therefore, the price has stayed relatively stable.
- D) while the demand for sushi has gone up, the supply of sushi has not changed and therefore, the price has stayed relatively stable.

Ans: B Level: Moderate Main Topic: Appendix: Additional examples of supply and demand Page: 76

## Chapter 3 Demand, Supply, and Market Equilibrium

287. Shortages and surpluses can occur in markets other than those in which government imposes the price floors and ceilings. This phenomenon could be explained by the action of seller(s):
- A) because they set the prices in advance of sales and these prices happen to be below the equilibrium prices.
  - B) because they set the prices in advance of sales and these prices happen to be above the equilibrium prices.
  - C) because they do not set the prices in advance.
  - D) because they set the prices in advance of sales and these prices happen to be below or above equilibrium prices.

Ans: D Level: Moderate Main Topic: Appendix: Additional examples of supply and demand Page: 77

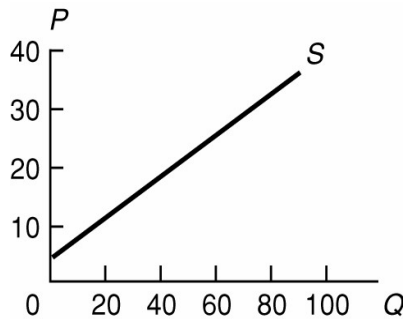


288. The equation for the demand curve in the above diagram:

- A) is  $P = 70 - Q$ .
- B) is  $P = 35 - 2Q$ .
- C) is  $P = 35 - .5Q$ .
- D) cannot be determined from the information given.

Ans: C Level: Difficult Main Topic: A3.1 The mathematics of market equilibrium  
Page: 80 Type: Formula

## Chapter 3 Demand, Supply, and Market Equilibrium



289. The equation for the supply curve in the above diagram:

- A) is  $P = 5 + \frac{1}{3}Q$ .
- B) is  $P = 5 + 2Q$ .
- C) is  $P = 5 + 3Q$ .
- D) is  $P = 5 - 3Q$ .

Ans: A Level: Difficult Main Topic: A3.1 The mathematics of market equilibrium  
Page: 80 Type: Formula

Use the following to answer questions 290-294:

The demand for commodity X is represented by the equation  $P = 10 - 0.2Q$  and supply by the equation  $P = 2 + 0.2Q$ .

290. Refer to the above information. The equilibrium quantity is:

- A) 10.
- B) 20.
- C) 15.
- D) 30.

Ans: D Level: Difficult Main Topic: A3.1 The mathematics of market equilibrium  
Page: 81 Type: Formula

291. Refer to the above information. The equilibrium price for X is:

- A) \$2.
- B) \$4.
- C) \$6.
- D) \$7.

Ans: B Level: Difficult Main Topic: A3.1 The mathematics of market equilibrium  
Page: 81 Type: Formula



## Chapter 3 Demand, Supply, and Market Equilibrium

292. Refer to the above information. If demand changes from  $P = 10 - .2Q$  to  $P = 7 - .3Q$ , we can conclude that:

- A) demand has increased.
- B) demand has declined.
- C) supply will increase
- D) supply will decrease.

Ans: B Level: Moderate Main Topic: A3.1 The mathematics of market equilibrium  
Page: 81 Type: Formula

293. Refer to the above information. After the change in demand, the new equilibrium quantity is:

- A) 10.
- B) 20.
- C) 15.
- D) 30.

Ans: A Level: Difficult Main Topic: A3.1 The mathematics of market equilibrium  
Page: 81 Type: Formula

294. Refer to the above information. After the change in demand, the new equilibrium price is:

- A) \$2.
- B) \$4.
- C) \$6.
- D) \$7.

Ans: B Level: Difficult Main Topic: A3.1 The mathematics of market equilibrium  
Page: 81 Type: Formula