

1. Suppose that the quantity of a good demanded rises from 90 units to 110 units when the price falls from \$1.20 to 80 cents per unit. The price elasticity of demand for this product is
 - a. 0.5
 - b. 1.0
 - c. 1.5
 - d. 2.0
 - e. 4.0

2. When the price of automobiles decreases, the demand for gasoline is likely to
 - a. increase.
 - b. decrease.
 - c. remain unchanged.
 - d. remain unchanged, although tire prices are likely to fall.
 - e. remain unchanged, although tire prices are likely to rise.

3. The demand curve for apples will NOT shift if there is a change in the
 - a. income of apple eaters.
 - b. price of apples.
 - c. hourly wage rate of workers.
 - d. price of pears.
 - e. households' knowledge that bananas are a better source of healthful nutrients than apples.

4. Which of the following would cause a movement along the demand curve, other things being equal?
 - a. A change in tastes in favour of the good
 - b. A shift in the supply curve to the left
 - c. A rise in the price of a substitute good
 - d. A rise in average household income
 - e. An increase in population

5. Given a positively sloped supply curve, a rise in the demand for that commodity causes
 - a. a shortage of other goods.
 - b. a fall in sales of that commodity.
 - c. an increase in both the equilibrium price and the equilibrium quantity bought and sold.
 - d. a decrease in the equilibrium price and an increase in the equilibrium quantity bought and sold.
 - e. a decrease in both the equilibrium price and the equilibrium quantity exchanged.

6. Suppose that in 1997, 100,000 cell phones were sold at a price of \$30 each, and in 1998, 200,000 cell phones were sold at a price of \$50 each. One possible explanation for this is that from 1997 to 1998 the _____ curve shifted to the _____.
 - a. Supply; left
 - b. Supply; right
 - c. Demand; left
 - d. Demand; right

7. Given a standard supply and demand diagram, which of the following statements is correct?
 - a. If the supply curve shifts left and demand remains constant, equilibrium quantity will rise.
 - b. If the supply curve shifts right and the demand curve remains constant, equilibrium price will rise.
 - c. If the demand curve shifts left and the supply curve shifts right, equilibrium price will rise.
 - d. If the demand curve shifts right and the supply curve shifts left, equilibrium price will fall.
 - e. none of the above.

The supply and demand schedules for the umbrella market are given below:

TABLE 1

| <u>Price</u> | <u>Quantity Supplied</u> | <u>Quantity Demand</u> |
|--------------|--------------------------|------------------------|
| \$10 | 400 | 700 |
| \$15 | 500 | 650 |
| \$20 | 600 | 600 |
| \$25 | 700 | 550 |
| \$30 | 800 | 500 |

8. In Table 1, at a price of _____ there would be an excess _____ of umbrellas.
- \$10; supply
 - \$20; supply
 - \$10; demand
 - \$30; demand
 - \$20; demand
9. Steel is an important element in the production of automobiles. Tires and automobiles are used together. What will occur in the market for tires when there is an increase in the price of steel?
- price rises, quantity rises.
 - price falls, quantity rises.
 - price rises, quantity falls.
 - price falls, quantity falls.
 - no change in price or quantity occurs.
10. If a demand and a supply curve can be stated functionally as $Q_d = 500 - 0.1P$; and $Q_s = 440 + 0.4P$ respectively, then the equilibrium quantity and price (Q, P) would be
- 150, 150.
 - 120, 488.
 - 150, 485.
 - 488, 120
 - 940, 0.4.
11. When the percentage change in quantity demanded resulting from a price change is greater than the percentage change in price, demand is said to be
- inelastic.
 - zero elastic.
 - perfectly elastic
 - unit elastic.
 - elastic
12. Suppose that the quantity of beer demanded falls from 103,000 litres per week to 97,000 litres per week as a result of a 10 percent increase in its price. The price elasticity of demand for beer is
- 0.6.
 - 6.0.
 - 1.97.
 - 1.03
 - impossible to compute unless we know the before and after prices.

13. If the price elasticity of demand is 0.5, then a 10 percent increase in price results in a
- 50 percent reduction in quantity demanded.
 - 5 percent increase in quantity demanded.
 - 5 percent decrease in total revenues.
 - 5 percent decrease in quantity demanded.
 - 0.5 percent decrease in quantity demanded.
14. Which of the following illustrates elastic demand?
- A 10 percent increase in price causes a 5 percent decrease in quantity demanded.
 - A 10 percent increase in price causes a 20 percent decrease in quantity demanded.
 - a price elasticity of 0.8.
 - a price elasticity of 1.0.
 - A 10 percent increase in price causes a 10 percent reduction in quantity demanded.

The demand schedule for museum admissions in a small city

Table 2

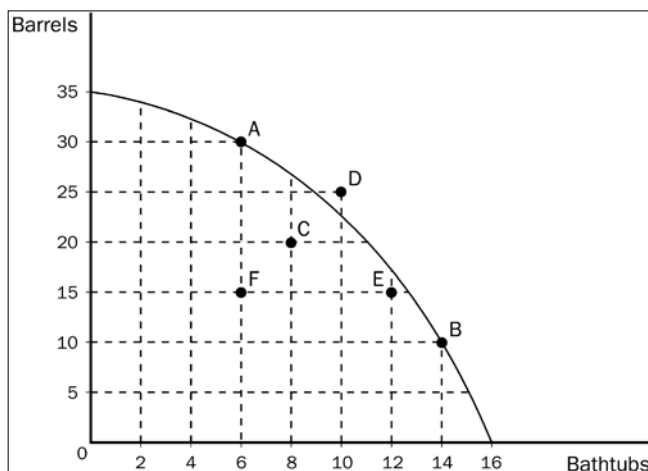
| Price (per visit per person) | Quantity Demanded (thousands of person- visits per year) |
|------------------------------------|--|
| \$10 | 2 |
| \$ 8 | 4 |
| \$ 6 | 6 |
| \$ 4 | 8 |
| \$ 2 | 10 |

15. According to Table 2, between the prices of \$8 and \$10, the elasticity of demand is
- $1/3$.
 - $2/3$.
 - 1.
 - 2.
 - 3.
16. Suppose the current level of output of some good is X. If market demand is inelastic at that quantity, total revenues would be higher if
- output was maximized.
 - output was kept constant.
 - output was greater than X.
 - output was less than X.
 - not enough information to answer this question.
17. If the total revenue of clothing manufacturers decreases when the price of clothing falls, the price elasticity of demand is
- greater than one (demand is elastic).
 - less than one (demand is inelastic).
 - unity (demand is unit elastic).
 - not determinable from the information given.
 - exactly zero.

18. If the price elasticity of demand is 2.7, a 10 percent increase in the price of the good results in
- a 2.7 percent decrease in the quantity demanded.
 - a 2.7 percent increase in the quantity demanded.
 - a 27 percent increase in the quantity demanded.
 - a 27 percent decrease in the quantity demanded.
 - There is not enough information to answer this question.
19. If the demand for some good fluctuates, but supply is constant, then which of the following combinations would generally yield the greatest price fluctuations?
- large demand fluctuations and inelastic supply
 - large demand fluctuations and elastic supply
 - small demand fluctuations and inelastic supply
 - small demand fluctuations and elastic supply
20. Consumers will bear a larger burden of a sales tax if
- demand is relatively elastic and supply is relatively inelastic.
 - demand is relatively inelastic and supply is relatively elastic.
 - both demand and supply are relatively inelastic.
 - both demand and supply are relatively elastic.
 - the tax is collected by firms rather than remitted directly to the government by consumers.
21. The consumers' burden associated with a sales tax will be least when demand is
- elastic.
 - unitary elastic.
 - perfectly inelastic.
 - perfectly elastic.
 - vertical.
22. Suppose a market is in equilibrium at price P_0 , and then a sales tax of t dollars per unit of the good is imposed. At a price of $(P_0 + t)$ there will be excess _____ for the good unless the demand curve is _____.
- supply; horizontal
 - supply; vertical
 - demand; horizontal
 - demand; vertical
 - none of the above
23. An inferior good has
- a positive income elasticity of demand.
 - a negative income elasticity of demand.
 - an income elasticity of demand greater than zero but less than 1.
 - a positive income elasticity of demand and a price elasticity of demand greater than 1.
 - none of the above.
24. If two goods, X and Y, have a negative cross-elasticity of demand, then we know that they
- are substitutes.
 - are complements.
 - are both inferior goods.
 - each have a price elasticity greater than one.
 - are both normal goods.

25. During the 1970s the OPEC crisis caused gasoline prices to increase sharply. Coincidentally, demand for gas-guzzling cars fell. A likely explanation for this response by consumers is that gasoline and cars had an ____ elasticity of demand that was ____.
- cross; negative.
 - cross; positive.
 - income; negative.
 - income; positive.
26. If the price of gasoline rises from \$0.55 to \$0.64 per litre, and as a result the sales of Honda Civics that Canadian households purchase rises from 1200 to 1350 units per month, then gasoline and Civics are
- complements.
 - substitutes.
 - normal goods.
 - inferior goods.
 - unrelated goods.
27. Which of the following concepts is NOT illustrated by the production possibilities frontier?
- efficiency
 - opportunity cost
 - equity
 - tradeoffs
 - equilibrium
28. A surplus exists in the market when
- the quantity demanded exceeds the quantity supplied.
 - supply and demand are equal.
 - the quantity demanded is less than the quantity supplied.
 - the equilibrium price is too low.
 - the supply curve has shifted to the right.
29. If supply were to increase and demand were to decrease simultaneously, this would lead to
- a decrease in P and an indeterminate change in Q .
 - a decrease in Q and an indeterminate change in P .
 - an increase in Q and a decrease in P .
 - an increase in Q and an increase in P .

Use the following graph to answer Question 30:



30. According to the above graph, an efficient combination of bathtubs and barrels would be
- 30 barrels and 6 bathtubs
 - 20 barrels and 8 bathtubs
 - 25 barrels and 12 bathtubs
 - 15 barrels and 12 bathtubs
31. The law of demand hypothesizes
- the lower the price the greater the demand.
 - price and demand vary inversely.
 - the higher the price the lower the quantity demanded.
 - the higher the income the higher the quantity demanded.
 - price and quantity demanded vary directly.
32. Suppose that some resource X is necessary to produce some good Y. If the price of resource X falls
- the supply curve of resource X shifts to the left.
 - the supply curve of good Y shifts to the right.
 - the supply curve of good Y is unaffected.
 - there is a movement along the supply curve of good Y.
 - the supply curve of resource X shifts to the right.
33. If a product's income elasticity is -1.7, then we can conclude that
- an increase in income will lead to an increase in demand for the product.
 - the product is certainly a necessity.
 - the product is a normal good.
 - the product has a rising income-consumption curve.
 - a decrease in income will lead to an increase in demand for the product.
34. Steak and hamburgers are substitute goods, hamburgers and ketchup are complementary goods, however, ketchup and steak are independent goods. If the price of steak rises we expect that the
- quantity of ketchup demanded will decrease.
 - price of ketchup will increase, and the quantity sold will decrease.
 - price of ketchup will increase, and the quantity sold will increase.
 - supply of ketchup will increase.
 - demand of ketchup will decrease.
35. Which of the following statements about price elasticity of demand is FALSE?
- It is greater than one if the percentage increase in the quantity demanded of a commodity is greater than the percentage decline in price.
 - It is very small when good substitutes are readily available for the commodity.
 - It usually increases over time.
 - It is negative because price and quantity demanded move in opposite direction.
 - Price-elasticity of demand of an entire group of related products is higher than that for a particular product in that group.

1. a.
2. a.
3. b.
4. b.
5. c.
6. d.
7. e.
8. c.
9. a.
10. d.
11. e.
12. a.
13. d.
14. b.
15. e.
16. d.
17. b.
18. d.
19. a.
20. b.
21. d.
22. b.
23. b.
24. b.
25. a.
26. b.
27. c.
28. c.
29. a.
30. a.
31. c.
32. b.
33. e.
34. c.
35. b.