Test Bank for Principles of Economics A Streamlined Approach 3rd Frank

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File: Chapter 002 Supply and Demand

Multiple Choice

1. If a country's economic decisions are made by an individual or small number of individuals, then it has a:
A. centralized economy.
B. free-market economy.
C. capitalist economy.
D. open economy.
Ans: A
Difficulty: 01 Easy
Learning Objective:02-01
Topic: What, How, and For Whom? Central Planning Versus the Market
Blooms: Remember
AACSB: Reflective Thinking
Feedback: In centralized economies, an individual or a small group of individuals decide what, how, and for whom to produce.

2. A good example of central planning at work in the U.S. is:
A. car manufacturers establishing suggested retail prices.
B. McDonald's fries being the same everywhere.
C. unions working with businesses to establish wages.
D. New York City's rent control program.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: What, How, and For Whom? Central Planning Versus the Market
Blooms: Remember
AACSB: Reflective Thinking
Feedback: In New York, the rent that can be charged for certain apartments is regulated by the government.

3. The entire group of buyers and sellers of a particular good or service makes up:
A. the demand curve.
B. the supply curve.
C. the market.
D. the equilibrium price and quantity.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: What, How, and For Whom? Central Planning Versus the Market
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A market for any good consists of all buyers and sellers of that good.

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4. Suppose you bought three tickets to a concert in advance at the University ticket window. At the last minute one friend cancelled, so you could use only two of the tickets. You sold the third ticket just outside the entrance to the concert for more than the price you had originally paid. Which transaction occurred in a market?
A. The advance purchase at the University was the only market transaction.
B. The sale that occurred at the concert entrance was the only market transaction.
C. Both the purchase at the University ticket window and the sale at the concert entrance were market transactions.
D. Neither the purchase at the University ticket window nor the sale at the concert entrance was a market transaction.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A market for any good consists of all buyers and sellers of that good. In both transactions, there was a seller and a buyer.

5. Suppose you camped out in front of an electronics store to be one of the 200 lucky people able to purchase the latest gaming system. You bought the system for $350. Two weeks later you see that the same system can be sold on e-Bay for $600, so you sell your system. Your market role was as a:
A. consumer in both markets.
B. consumer at the electronics store and a seller on e-Bay.
C. consumer at the electronics store; the e-Bay transaction did not occur in a market.
D. seller in both markets.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A market for any good consists of all buyers and sellers of that good. In the first transaction, you were a buyer, but on e-Bay you were a seller.

6. To understand how the price of a good is determined in a free market, one must account for the interests of:
A. only buyers.
B. only sellers.
C. neither buyers nor sellers.
D. buyers and sellers.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets

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Blooms: Remember
AACSB: Reflective Thinking
Feedback: Buyers and sellers interact to determine the market price.

7. Buyers and sellers of a particular good make up the:
A. market for the good.
B. demand for the good.
C. supply for the good.
D. production possibilities curve for the good.
Ans: A
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: The market for any good consists of all buyers and sellers of that good.

8. "All else constant, consumers will purchase more of a good as the price falls." This statement reflects the behavior underlying:
A. the demand curve.
B. a change in demand.
C. the supply curve.
D. a change in supply.
Ans: A
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A fundamental property of the demand curve is that it is downward sloping with respect to price. That is, as price falls, quantity demanded rises.

9. The demand curve illustrates the fact that consumers tend to purchase:
A. more of a good as it becomes more popular.
B. name-brand products more frequently than generic products.
C. more of a good as its price falls.
D. more of a good as their incomes rise.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A fundamental property of the demand curve is that it is downward sloping with respect to price. That is, as price falls, quantity demanded rises.

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10. Which of the following is **NOT** true of a demand curve?
A. It has negative slope.
B. It shows the amount consumers want to buy at various prices.
C. It relates the price of an item to the quantity demanded of that item.
D. It reflects sellers' reservations prices.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: The demand curve reflects buyers' reservation prices. The supply curve reflects sellers' reservation prices.

11. A demand curve is _____ sloping because _____.
A. downward; of increasing opportunity costs
B. upward; people prefer to purchase high-quality consumer goods
C. downward; reservation prices tend to fall over time
D. downward; fewer people are willing to buy an item at higher prices
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: The demand curve is downward sloping because the lower is the price, the more people will find that the price is less than their reservation price.

12. As coffee becomes more expensive, Joe starts drinking tea instead of coffee. This is called:
A. the income effect of a price change.
B. a decrease in reservation price.
C. the substitution effect of a price change.
D. a decrease in demand.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: The substitution effect is the change in the quantity demand of a good that results from buyers switching to or from substitutes when the price of a good changes.

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13. Suppose that as the price of apples rises, people switch from eating apples to eating oranges. This is known as:
A. the normal effect of a price change.
B. the income effect of a price change.
C. a decrease in the demand for apples.
D. the substitution effect of a price change.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: The substitution effect of a price change is the change in the quantity demanded of a good that results because buyers switch to or from substitutes when the price of the good changes.

14. You can spend $10 for lunch and you would like to purchase two cheeseburgers. When you get to the restaurant, you find out the price for cheeseburger has increased from $5 to $6, so you decide to purchase just one cheeseburger. This is best described as:
A. the substitution effect of a price change.
B. the income effect of a price change.
C. a decrease in the buyer's reservation price.
D. an increase in the buyer's reservation price.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: The purchasing power of your $10 has now fallen due to the higher price, so you purchase less of the good.

15. After the price of Revlon nail polish increased, Jen stopped buying Revlon nail polish and started buying a cheaper brand of nail polish instead. This is called:
A. the substitution effect of a price change.
B. the income effect of a price change.
C. a decrease in the buyer's reservation price.
D. a decrease in the seller's reservation price.
Ans: A
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Jen is looking to switch to a lower-priced substitute for name brand nail polish.

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16. When the price of a good changes, the amount of that good that buyers wish to buy changes:
A. solely because of the substitution effect.
B. solely because of the income effect.
C. because of both the substitution and the income effects.
D. only if the substitution effect and the income effect do not cancel out each other.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Both the substitution effect and the income effect affect the quantity demanded when price changes.

17. The buyer's reservation price for a particular good or service is the:
A. smallest price the buyer would be willing to pay for it.
B. same as the market price.
C. largest price the buyer would be willing to pay for it.
D. price the buyer must pay to ensure he or she gets it.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: By definition, a buyer's reservation price is the largest dollar amount the buyer would be willing to pay for a good.

18. Shelly purchases a leather purse for $400. One can infer that:
A. she paid too much.
B. her reservation price was at least $400.
C. her reservation price was exactly $400.
D. her reservation price was less than $400.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Buyers will only purchase an item if its price is less than or equal to their reservation price.

19. Gertie saw a pair of jeans that she was willing to buy for $35. The price tag said they were $29.99. Therefore:
A. Gertie should not buy the jeans because they will be of lower quality than she expected.
B. Gertie should not buy the jeans because the price is not equal to her reservation price.

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C. Gertie should buy the jeans because the price is less than her reservation price.
D. Gertie should buy the jeans because the price is more than her reservation price.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Buyers will only purchase an item if its price is less than or equal to their reservation price.

20. One reason the demand curve slopes _____ is that as prices fall _____.
A. upward; more people find that the price is now less than their reservation price.
B. upward; fewer people find that the price is now less than their reservation price.
C. downward; more people find that the price is now less than their reservation price.
D. downward; fewer people find that the price is now less than their reservation price.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Buyers will only purchase an item if its price is less than or equal to their reservation price, so as prices fall, more people will find that the price is now below their reservation price.

21. When a slice of pizza at the student union sold for $2, Moe did not purchase any. When the price fell to $1.75, Moe purchased a slice each day for lunch. Thus, we can infer that Moe's reservation price for a slice of pizza is:
A. less than $1.75.
B. at least $1.75 but less than $2.
C. exactly $1.75.
D. exactly $2.00.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A buyer will purchase an item if, and only if, its price is less than or equal to the buyer's reservation price. Since Moe buys a slice of pizza for $1.75, his reservation price must be at least $1.75, and since he does not buy a slice of pizza for $2.00, his reservation price must be less than $2.00.

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22. The quantity that sellers wish to sell tends to _____ as price increases, and so the supply curve is _____ sloping.
A. increase; downward
B. decrease; downward
C. increase; upward
D. decrease; upward
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: As price increases, so does the quantity supplied, implying that the supply curve slopes upward.

23. The supply curve illustrates that firms:
A. increase the supply of a good when its price rises.
B. increase the quantity supplied of a good when its price rises.
C. decrease the quantity supplied of a good when input prices rise.
D. decrease the supply of a good when its price rises.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: The supple curve is upward sloping, reflecting the fact that as price rises, so does the quantity supplied.

24. As the price of a good rises:
A. firms generally decrease the supply of the good.
B. more firms can cover their opportunity cost of producing the good.
C. firms generally increase the supply of the good.
D. government regulation becomes more justified.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: At higher prices, more sellers find that the price is greater than their opportunity cost of producing the good.

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25. Jessica's marginal cost for producing a pitcher of lemonade is $0.25. Therefore, $0.25 is her:
A. marginal revenue.
B. equilibrium price.
C. reservation price.
D. producers surplus.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A seller's reservation price is the smallest dollar amount for which a seller would be willing to sell an additional unit. A seller's reservation price is generally equal to the seller's marginal cost of producing an additional unit of output.

26. Suppose that the market price for hot dogs sold by street vendors has just risen from $4.50 to $5.00, and that in response Curly has now begun operating a hot dog cart. We can assume that Curly's reservation price for hot dogs is:
A. at least $5.00.
B. $4.50.
C. greater than $4.50 but no more than $5.00.
D. $5.00.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Curly did not want to sell hot dogs at $4.50, so his reservation price must be more than $4.50, but since he is willing to sell for $5.00, his reservation price cannot be more than $5.00.

27. A seller's reservation price is generally equal to:
A. the buyer's reservation price.
B. the seller's opportunity cost of producing an additional unit.
C. the seller's marginal benefit from producing an additional unit.
D. the market price.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A seller's reservation price is the smallest dollar amount for which a seller would be willing to sell an additional unit, which is generally the same as their opportunity cost of producing an additional unit.

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28. A seller's reservation price is generally equal to:
A. the buyer's reservation price.
B. the seller's average cost.
C. the seller's marginal cost.
D. the market price.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-01
Topic: Buyers and Sellers in Markets
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A seller's reservation price is generally equal to the seller's marginal cost.

29. Which of the following is **NOT** a characteristic of a market in equilibrium?
A. There is neither excess supply nor excess demand.
B. Neither buyers nor sellers want the price to change.
C. Sellers can sell as many units as they want at the equilibrium price.
D. Buyers can buy as many units as they want at the equilibrium price.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Even when the market is in equilibrium, sellers would be pleased to receive a higher price and buyers would be happy to pay a lower price.

30. When a market is in equilibrium:
A. there is either excess demand or excess supply.
B. both excess demand and excess supply are positive.
C. both excess demand and excess supply are positive and equal to each other.
D. there is neither excess demand nor excess supply.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: There is neither excess demand nor excess supply when the market is in equilibrium.

31. Equilibrium price and quantity are determined by:
A. demand.
B. supply.
C. government regulations.
D. both supply and demand.
Ans: D

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Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Equilibrium results from the interaction of buyers and sellers.

32. Excess demand occurs:
A. whenever the market is in equilibrium.
B. whenever the market is not in equilibrium.
C. when price is above the equilibrium price.
D. when price is below the equilibrium price.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Excess demand occurs when price is below the equilibrium price, so that the quantity demanded is greater than the quantity supplied.

33. If price is above the equilibrium price, then there will be:
A. both excess supply and excess demand.
B. neither excess supply nor excess demand.
C. excess supply.
D. excess demand.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If price is above the equilibrium price, the quantity supplied will be greater than the quantity demanded.

34. The price of bananas will increase in response to:
A. an excess supply of bananas.
B. an excess demand for bananas.
C. an increase quantity of bananas supplied.
D. an increase in the supply of bananas.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking

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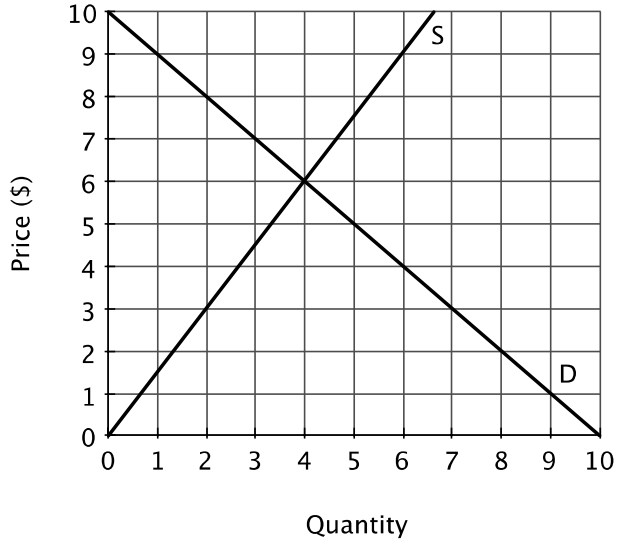
Feedback: If the quantity of bananas demanded exceeds the quantity supplied, then price will rise.

35. If there is an excess supply of sport utility vehicles, then:
A. supply is greater than demand.
B. quantity supplied is greater than quantity demanded.
C. demand is greater than supply.
D. quantity demanded is greater than quantity supplied.
Ans: B
Difficulty: 02 Understand
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Excess supply occurs when the quantity supplied exceeds the quantity demanded.

36. Refer to the figure below. The equilibrium price is _____, and the equilibrium quantity is _____.



A. $8; 6
B. $6; 4
C. $4; 6
D. $2; 8
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: The equilibrium quantity and price of a product are the values that correspond to the intersection of the supply and demand curves.

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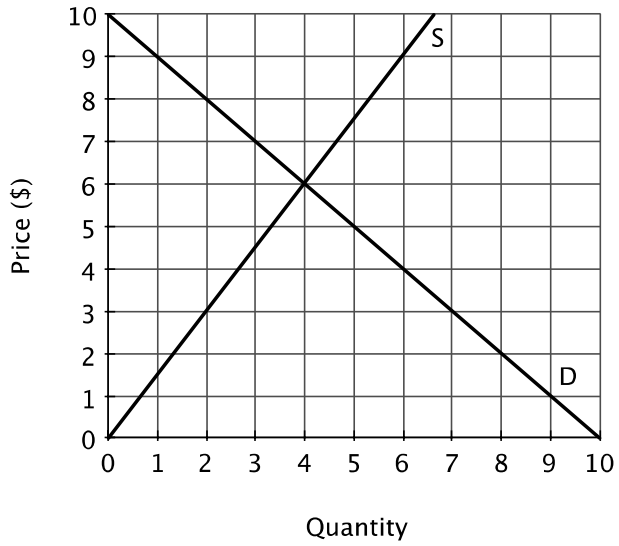
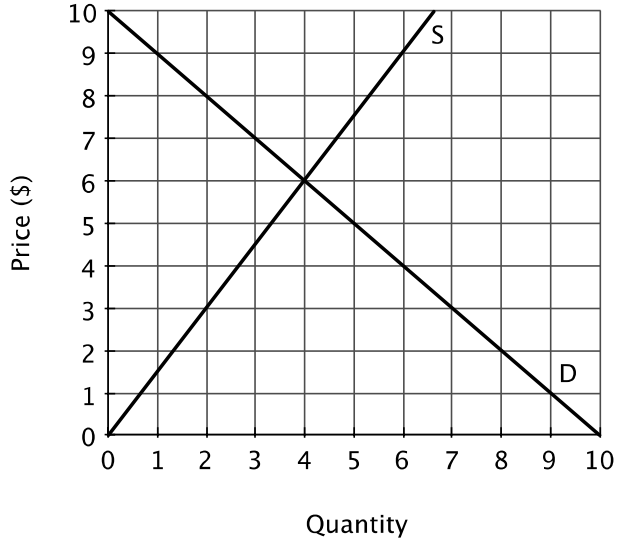
37. Refer to the figure below. At a price of $9, there will be:



A. an excess demand of 5 units.
B. an excess supply of 6 units.
C. an excess demand of 1 unit.
D. an excess supply of 5 units.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: At a price of $9 buyers will want to buy 1 unit, and sellers will want to sell 6 units, a difference of 5 units.

38. Refer to the figure below. At a price of $3, there will be:



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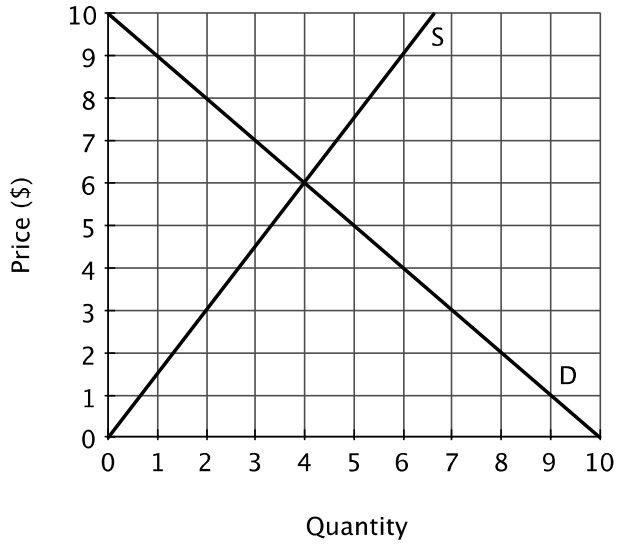
A. an excess demand of 5 units.
B. an excess demand of 7 units.
C. an excess supply of 7 units.
D. an excess supply of 2 units.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: At a price of $3 buyers will want to buy 7 units and sellers will want to sell 2 units, a difference of 5 units.

39. Refer to the figure below. If the price is $4 today and there is no change in either supply or demand, one would expect the price in the future to be:



A. $4.
B. less than $4.
C. greater than $6.
D. greater than $4.
Ans. D
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: At a price of $4, the quantity demanded is greater than the quantity supplied, so price will rise.

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40. When the current price of a good is below the equilibrium price:
A. buyers have an incentive to offer to pay sellers more than the current price.
B. there will be excess supply.
C. the price will tend to stay below the equilibrium price.
D. sellers will notice their inventories are growing.
Ans: A
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: If, at the current price, there are more buyers who want to buy a good than there are sellers who wish to sell it, then frustrated buyers will have an incentive to offer to pay sellers a higher price to obtain the good.

41. In a free market, if the price of a good is below the equilibrium price, then;
A. the government will set a higher price to reestablish the market equilibrium.
B. sellers, dissatisfied with growing inventories, will raise their prices.
C. buyers, hoping to ensure they acquire the good, will bid the price higher.
D. sellers, dissatisfied with growing inventories, will lower their prices.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: If price is below the equilibrium price, then there will be more buyers who want to buy a good than there will be sellers who wish to sell it. In this case, frustrated buyers have an incentive to offer to pay higher prices to obtain the good.

42. In a free market, if the price of a good is above the equilibrium price, then;
A. sellers, dissatisfied with growing inventories, will raise their prices.
B. buyers, hoping to ensure they acquire the good, will bid the price lower.
C. the government will set a lower price to reestablish the market equilibrium.
D. sellers, dissatisfied with growing inventories, will lower their prices.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: If the price is above the equilibrium price, there will be excess supply, so sellers have an incentive to lower their prices in order to increase their sales.

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43. Which of following is **NOT** true of the equilibrium price?
A. Buyers who are willing to pay the equilibrium price can acquire the good.
B. It measures the value of the last unit sold to consumers.
C. It is fair in the sense that everyone can afford basic goods and services.
D. Sellers who are willing to accept the equilibrium price can sell what they produce.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: The equilibrium price is determined by supply and demand, with no regard for fairness.

44. When a market is not in equilibrium:
A. government intervention is required to achieve equilibrium.
B. there is neither excess supply nor excess demand.
C. the economic motives of sellers and buyers will move the market to its equilibrium.
D. a change in either supply or demand is required to reestablish equilibrium.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A key feature of free markets is that individual incentives will lead markets to their respective equilibrium prices and quantities.

45. Suppose that when the price of oranges is $3 per pound, the quantity demanded is 4.7 tons per day and the quantity supplied is 3.9 tons. In this case:
A. excess demand will lead the price of oranges to rise
B. excess supply will lead the price of oranges to fall
C. excess demand will lead the price of oranges to fall
D. excess supply will lead the price of oranges to rise
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If the quantity that sellers wish to sell is 3.9 tons, and the quantity that buyers wish to buy is 4.7 tons, then there is excess demand, which will lead the price of oranges to rise.

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46. Suppose that when the price of broccoli is $4 per pound, buyers wish to buy 500 pounds per day and sellers wish to sell 800 pounds per day. In this case:
A. excess supply will lead the price of broccoli to fall
B. excess demand will lead the price of broccoli to fall
C. excess supply will lead the price of broccoli to rise
D. excess demand will lead the price of broccoli to rise
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If the quantity that sellers wish to sell is 800 pounds per day, and the quantity that buyers wish to buy is 500 pounds per day, then there is excess supply, which will lead the price of broccoli to fall.

47. Suppose you bought a concert ticket from Ticketmaster for $50, but when you get to the concert, there are a large number of people waiting outside who offer to pay you more than $50 for your ticket. What is probably true?
A. There is an excess demand for tickets at the Ticketmaster price.
B. The Ticketmaster price was above the equilibrium price.
C. There is an excess supply of tickets at the Ticketmaster price.
D. The Ticketmaster price is the equilibrium price.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If there are people waiting outside offering to pay you more than $50 for your ticket, then this suggests that there is an excess demand for tickets at a price of $50.

48. You have noticed that there is a persistent shortage of teachers in an inner-city school district in your state. Based on this observation, you suspect that:
A. the wage for teachers in that district is higher than the wage in other districts.
B. the wage for teachers in that district is lower than the equilibrium wage.
C. there is an excess supply of teachers in other districts.
D. the demand for teachers in the inner-city school district is too low.
Ans: B
Difficulty: 03 Hard
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Analyze
AACSB: Analytic
Feedback: A shortage implies that the quantity demanded is greater than the quantity supplied, indicating that the price is below the equilibrium price. The “price” of teachers is their wage.

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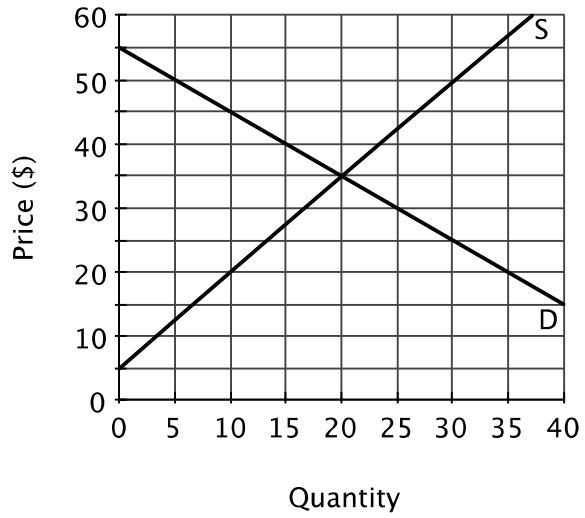
49. Suppose you drive a car that gets good gas mileage, and you notice that more and more people are driving gas-guzzling cars. Their increased demand for gas:
A. does not affect you.
B. is likely to cause the price you pay for gas to decrease.
C. it likely to cause the price you pay for gas to increase.
D. does not change the price you pay, but it reduces the quantity of gas supplied.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in demand will cause the equilibrium price to rise.

50. Refer to the figure below. The equilibrium price is _____, and the equilibrium quantity is _____.



A. $30; 15
B. $25; 20
C. $25; 5
D. $35; 20
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: The equilibrium price and quantity are the values that correspond to the intersection of the supply curve and the demand curve.

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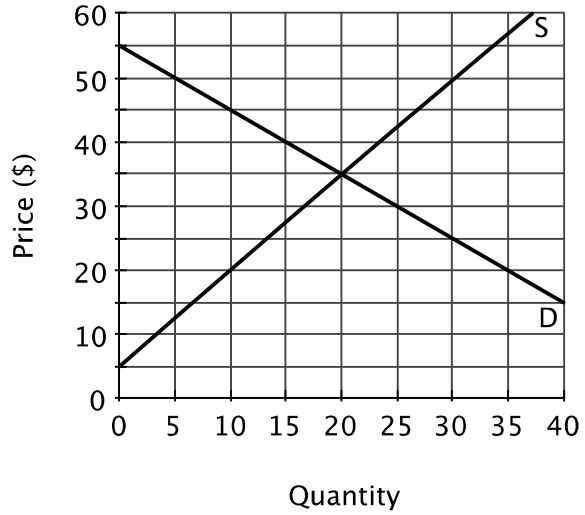
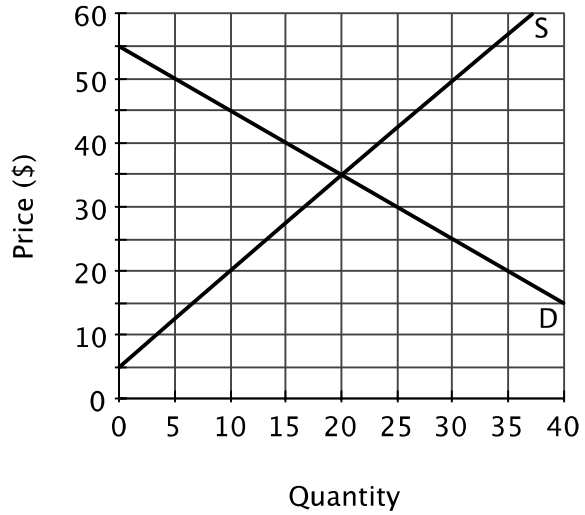
51. Refer to the figure below. If the current market price were $20:



A. the market would be in equilibrium.
B. there would be an excess supply of 25 units.
C. there would be an excess demand of 25 units.
D. there would be an excess demand of 35 units.
Ans: C
Difficulty: 03 Hard
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Apply
AACSB: Analytic
Feedback: At a price of $20, buyers would want to purchase 35 units and sellers would want to sell 10 units, so quantity demanded would exceed quantity supplied by 25 units.

52. Refer to the figure below. Suppose all the sellers in this market started out charging a price of $45 per unit. What is the most likely result?



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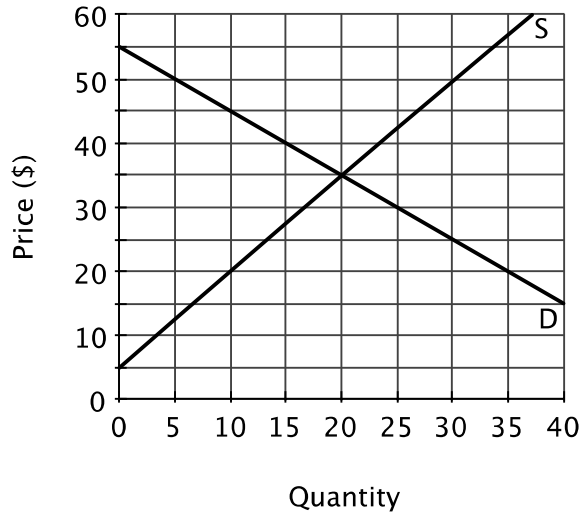
A. They would all make a large profit because $45 is more than the equilibrium price.
B. They would all just break even because $45 is their reservation price.
C. They would lower their prices because at $45 there would be excess supply.
D. They would lower their prices because at $45 there would be excess demand.
Ans: C
Difficulty: 03 Hard
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Analyze
AACSB: Analytic
Feedback: At price of $45, there would be excess supply, so sellers would have an incentive lower their prices to increase sales.

53. Refer to the figure below. If the government imposed a price ceiling of $40, what would happen in this market?



A. There would be excess supply.
B. There would be excess demand.
C. The price ceiling would have no effect.
D. The equilibrium quantity would fall.
Ans: C
Difficulty: 03 Hard
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Analyze
AACSB: Analytic
Feedback: At price ceiling of $40 would have no effect on this market since the equilibrium price, $35, is less than $40.

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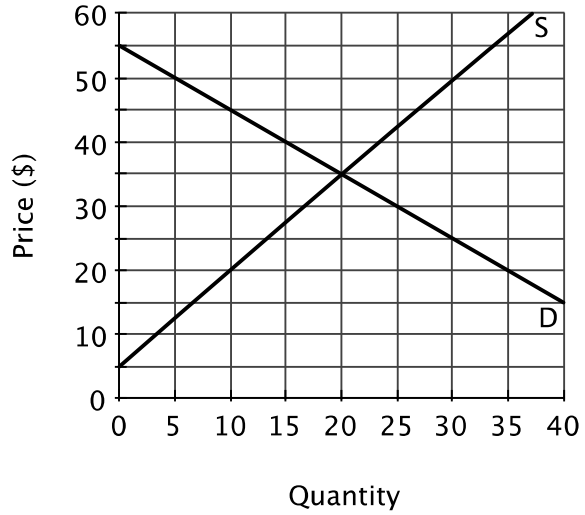
54. Refer to the figure below. There would be an excess supply of 25 at a price of _____.



A. $20
B. $35
C. $45
D. $50
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Analyze
AACSB: Analytic
Feedback: A price of $50, the quantity supplied is 30 and the quantity demanded is 5.

56. Which of the following is **NOT** a characteristic of rent controls?
A. Greater availability of apartments.
B. Excess demand for apartments.
C. Fewer newly built apartment buildings.
D. Lower expenditures on maintenance.
Ans: A
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Rent controls keep prices below the equilibrium price, leading to a decrease in the quantity supplied.

57. Suppose one knows two facts: first, the market for prescription drugs experiences chronic shortages and second, the government sets the price for prescription drugs. One can conclude that the government has:

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A. set the price too high.
B. set the price above the equilibrium price.
C. encouraged buyers to hoard prescription drugs.
D. set the price below the equilibrium price.
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Analyze
AACSB: Analytic
Feedback: If there is a shortage, then this suggests that the regulated price is lower than the equilibrium price.

58. A price ceiling that is set above the equilibrium price:
A. will lead to a black market.
B. will have no effect on the market.
C. will lead to excess supply in the market.
D. will lead to excess demand in the market.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If the price ceiling is set above the equilibrium price, then it will have no effect on the market because the price is already below the ceiling.

59. In a market in which the government has set a price ceiling below the equilibrium price:
A. the quantity demanded will equal quantity supplied.
B. there will be excess supply.
C. a black market might develop.
D. quantity supplied will exceed quantity demanded.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If the price ceiling is set below the equilibrium price, then there will be excess demand, and buyers and sellers will both have an incentive to illegally exchange the good or service at a higher price.

60. According to the textbook, government price controls fail because:
A. they are not enforced by government.

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B. legislation cannot alter basic economic incentives.
C. bureaucrats lack accurate market data.
D. firms ignore the price controls.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-02
Topic: Market Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: People have an incentive to devise ways around price ceilings because they prevent transactions that benefit both buyers and sellers.

61. A movement along a demand curve from one price-quantity combination to another is called a:
A. change in quantity demanded.
B. shift in the demand curve.
C. change in demand.
D. change in quantity supplied.
Ans: A
Difficulty: 01 Easy
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A change in quantity demanded is a movement along a demand curve due to a change in price; a change in demand is a shift in the entire demand curve.

62. "As the price of personal computers continues to fall, demand increases." This headline is inaccurate because:
A. a change in the price of personal computers shifts the demand curve.
B. a change in the price of personal computers shifts the supply curve.
C. the statement is backwards: increased demand leads to lower prices.
D. a falling price of personal computers increases the quantity demanded, not demand.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A change in price leads to a change in quantity demanded, which is represented by movement along a demand curve; a change in demand is a shift in the entire curve.

63. An increase in the quantity of tea demanded occurs if:
A. the population of tea drinkers grows.

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B. the price of coffee rises.
C. the income of tea drinkers increases.
D. the price of the tea falls.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A fall in price of tea will lead to an increase in the quantity demanded; the other factors mentioned would change the demand for tea.

64. If the demand for a good decreases as income decreases, then the good is a(n):
A. complementary good.
B. normal good.
C. inferior good.
D. substitute good.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A normal good is a good for which an increase in income leads to an increase in demand and a decrease in income leads to a decrease in demand.

65. It is likely that for most people:
A. coffee and tea are substitutes.
B. coffee and non-dairy creamer are substitutes.
C. coffee and Coke are complements.
D. coffee and coffee mugs are substitutes.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Two goods are substitutes if they serve similar functions for people.

66. Office workers and word processing programs are complements if:
A. an increase in the price of word processing programs leads to an increase in the demand for office workers.
B. a decrease in the wage paid to office workers leads to an increase in the demand for word processing programs.

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C. they perform similar functions.
D. a decrease in the wage paid to office workers leads to a leftward shift in the demand for word processing programs.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If two goods are complements, then they are more valuable when used together than when used alone. Thus, an increase in the price of one leads to a decrease in the demand for the other (or, similarly, a decrease in the price of one leads to an increase in the demand for the other).

67. What might cause a demand curve to shift to the *right*?
A. An increase in the price of a substitute.
B. An increase in the product's own price.
C. An increase in the price of a complement.
D. A decrease in the price of a substitute.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Two goods are substitutes if an increase in the price of one good leads to a rightward shift in the demand for the other.

68. If the demand for olives falls when the price of cheese falls, then we know that cheese and olives are:
A. normal goods
B. complements
C. substitutes
D. inferior goods
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Two goods are substitutes if an increase in the price of one good leads to an increase in the demand for the other (and a decrease in the price of one good leads to a decrease in the demand for the other).

69. If the demand for cucumbers falls when the price of tomatoes rises, then we know that tomatoes and cucumbers are:

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A. substitutes
B. complements
C. inferior goods
D. normal goods
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Two goods are complements if an increase in the price of one good leads to a decrease in the demand for the other.

70. If the demand for steak increases as income increases, then steak is a(n):
A. complementary good.
B. normal good.
C. inferior good.
D. substitute good.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A normal good is a good for which an increase in income leads to an increase in demand and a decrease in income leads to a decrease in demand.

71. If an increase in the price of good *X* leads to a decrease in the demand for good *Y*, then:
A. good *X* and good *Y* are complements.
B. good *X* and good *Y* are normal goods.
C. good *X* and good *Y* are substitutes.
D. good *X* is a normal good and good *Y* is an inferior good.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Two goods are complements if an increase in the price of one good leads to a decrease in the demand for the other (or a decrease in the price of one good leads to an increase in the demand for the other).

72. Two goods are complements if:
A. people tend to consume either one or the other.
B. there are no substitutes for either of them.

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C. an increase in the price of one good leads to a decrease in demand for the other.
D. an increase in the price of one good leads to in increase in demand for the other.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Two goods are complements if an increase in the price of one good leads to a decrease in the demand for the other (or a decrease in the price of one good leads to an increase in the demand for the other).

73. A decrease in the price of pizza will lead to a(n):
A. increase in the demand for pizza.
B. increase in the quantity of pizza demanded.
C. decrease in the quantity of pizza demanded.
D. decrease in the number of consumers.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in price leads to in increase in quantity demanded, not an increase in demand.

74. If the demand for computers increases as consumers' incomes rise, then computers are:
A. an inferior good.
B. a complementary good.
C. a normal good.
D. a substitute good.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A normal good is a good for which an increase in income leads to an increase in demand and a decrease in income leads to a decrease in demand.

75. If an increase in income leads to a decrease in the demand for ground beef, then ground beef is a(n):
A. normal good.
B. complementary good.

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C. substitute good.
D. inferior good.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An inferior good is a good for which an increase in income leads to a decrease in demand and a decrease in income leads to an increase in demand.

76. If the demand curve for bologna shifts to the right as income falls then bologna is a(n):
A. normal good.
B. complementary good.
C. substitute good.
D. inferior good.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An inferior good is a good for which an increase in income leads to a decrease in demand and a decrease in income leads to an increase in demand.

77. Suppose sport utility vehicles get poor gas mileage compared to other available cars. If the price of gasoline increases, then one would then expect:
A. the demand for gasoline to decrease.
B. the demand for sport utility vehicles to decrease.
C. the demand for sport utility vehicles to increase.
D. the quantity demanded of sport utility vehicles to decrease.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Sport utility vehicles and gas are complements, so that an increase in the price of gasoline would decrease the demand for sport utility vehicles (not the quantity demanded of sport utility vehicles).

78. Suppose the residents of Metropolis travel to work either by bus or train. If the price of train tickets increases, then:
A. the demand for train tickets will increase.

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B. the demand for bus tickets will increase.
C. the demand for train tickets will decrease.
D. the demand for bus tickets will decrease.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: But travel and train travel are substitutes. So if the price of train tickets increases, the demand for bus tickets will increase. An increase in the price of train tickets will also lower the *quantity* of train tickets demanded, but it will not change the demand for train tickets.

79. If the price of doughnuts decreases, then one would expect the:
A. supply of doughnuts to decrease.
B. quantity of doughnuts supplied to decrease.
C. supply of doughnuts to increase.
D. quantity of doughnuts supplied to increase.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in the price of a good decreases the quantity supplied.

80. Suppose that the price of doughnuts decreases. Given that doughnut-holes are a by-product of producing doughnuts, one would expect:
A. the supply of doughnut holes to decrease.
B. the supply of doughnuts to decrease.
C. the supply of doughnut holes to increase.
D. the supply of doughnuts to increase.
Ans: A
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: A reduction in the price of doughnuts will lead to fewer doughnuts supplied. Since doughnut holes are produced at the same time as doughnuts, there will be fewer doughnut holes supplied at every price.

81. For two goods, *X* and *Y,* to be classified as substitutes, it must be the case that:
A. *X* and *Y* are identical.
B. consumers tend to purchase both items together.
C. when the price of *X* rises, the demand for *Y* decreases.

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D. when the price of *X* rises, the demand for *Y* increases.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A substitute is a good for which demand will increase if the price of a related good increases.

82. At the beginning of the fall semester, college towns experience large increases in their populations, causing a(n):
A. decrease in the quantity of apartments demanded.
B. increase in the supply of apartments.
C. increase in the demand for apartments.
D. decrease in the quantity of apartments supplied.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Increases in the population of potential renters will lead to an increases in the demand for apartments (a rightward shift in the demand curve).

83. Suppose one observes that when the price of peanut butter increases, the demand for jelly increases. One should conclude that:
A. peanut butter and jelly are complements.
B. peanut butter and jelly are substitutes.
C. peanut butter and jelly are normal goods.
D. peanut butter and jelly are inferior goods.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A substitute is a good for which demand will increase if the price of a related good increases.

84. Refer to the figure below. Suppose the solid line shows the current demand curve for coffee. In response to an announcement that much of next year's coffee crop has been destroyed by a storm in Brazil, you should expect:

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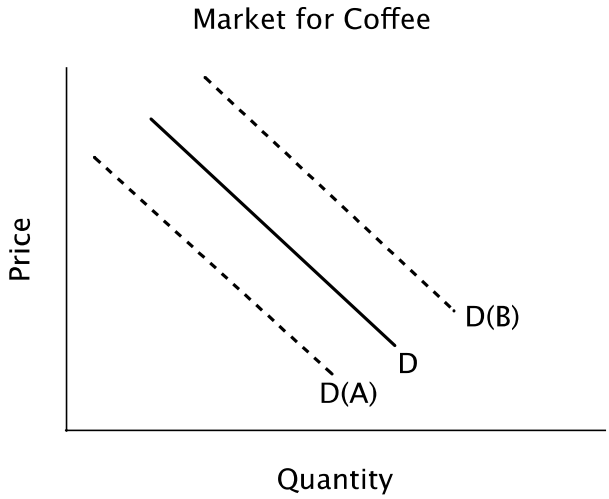
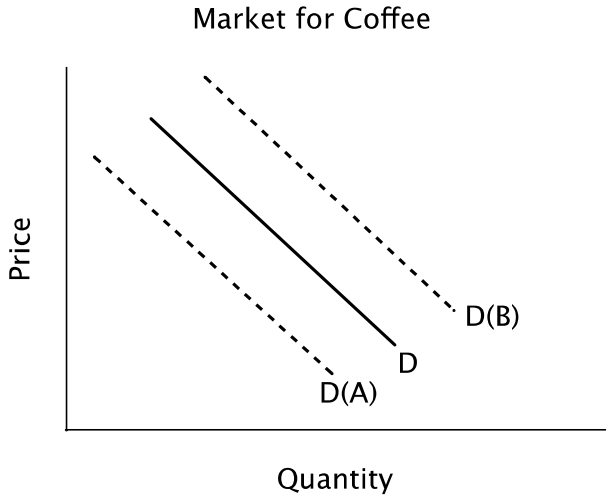


A. an increase in the quantity of coffee demanded, but no shift in the demand curve.
B. the demand curve to shift to D(A) in anticipation of higher future prices.
C. the demand curve to shift to D(B) in anticipation of higher future prices.
D. neither a change in quantity demanded nor a shift in demand because next year's coffee crop will not affect the current demand for coffee.
Ans: C
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: If people expect the future price of a good to increase, then current demand for the good will increase.

85. Refer to the figure below. Suppose the solid line shows the current demand for coffee. In response to a news story explaining that coffee causes heart disease, you should expect:



A. the quantity of coffee demanded to decrease, but no shift in the demand curve.
B. the demand curve to shift to D(A) because some people will stop drinking coffee.

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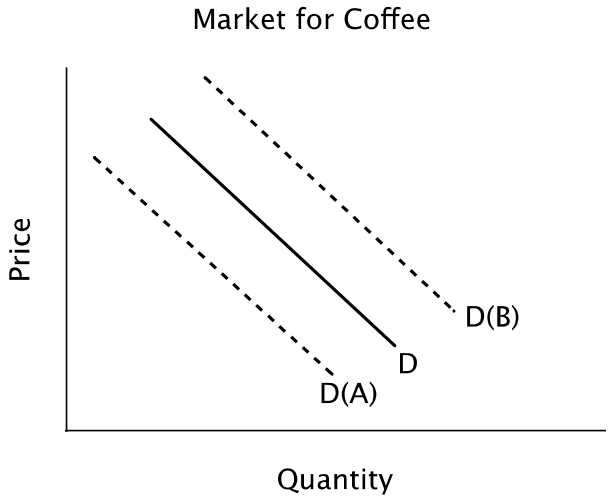
C. the demand curve to shift to D(B) in anticipation of higher future prices.
D. neither a change in quantity demanded nor a shift in demand.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: News that coffee causes heart disease, will lead to a decrease in the demand for coffee.

86. Refer to the figure below. Suppose the solid line shows the current demand for coffee. In response to news that next year's coffee harvest will be extremely good due to favorable weather conditions, you should expect:



A. the quantity of coffee demanded to decrease, but no shift in the demand curve.
B. the demand curve to shift to D(A) in anticipation of lower future prices.
C. the demand curve to shift to D(B) in anticipation of lower future prices.
D. neither a change in quantity demanded nor a shift in demand because it will be a long time before next year's coffee crop is harvested.
Ans: B
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: If people expect the future price of a good to decrease, then current demand for the good will decrease.

87. Refer to the figure below. Suppose the solid line shows the demand for coffee. If coffee and tea are substitutes, and the price of tea falls, then you would expect:

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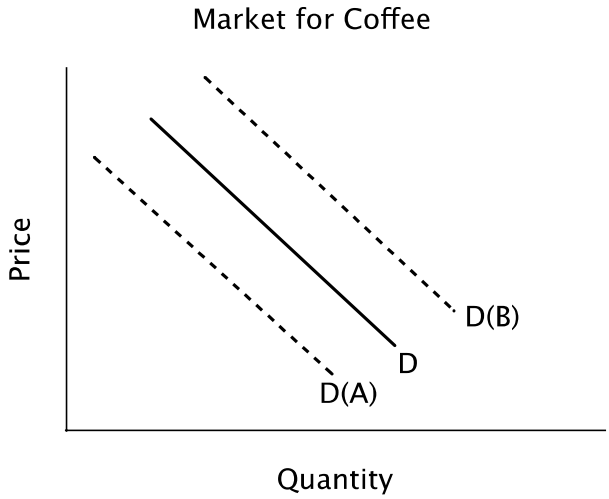

A. a decrease in the quantity of coffee demanded, but no shift in the demand curve.
B. an increase in the quantity of coffee demanded, but no shift in the demand curve.
C. the demand curve to shift to D(A).
D. the demand curve to shift to D(B)
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If coffee and tea are substitutes and the price of tea falls, then the demand for coffee will fall, meaning that the demand curve will shift to the left.

88. Suppose that a disease that affects people who consume beef has been discovered in the United States. One likely result is:
A. an increase in buyers' reservation prices for beef.
B. a decrease in demand for chicken.
C. a decrease in demand for beef.
D. a decrease in the quantity demanded of beef.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: News that eating beef can cause disease will cause the demand for beef to fall.

89. Assume consumers eat either rice or pasta for dinner every night. If the price of rice increases, then one would expect to see:
A. an increase in the quantity of pasta demanded.

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B. an increase in the demand for pasta.
C. a decrease in the quantity of pasta demanded.
D. a decrease in the demand for pasta.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Pasta and rice are substitutes, so as the price of rice increases, the demand for pasta will increase.

90. Suppose that recent studies conclude that high-fiber diets do not reduce the risk of developing colon cancer as was previously thought. The likely result will be that the:
A. quantity demanded of high-fiber foods will fall.
B. demand for high-fiber foods will decrease.
C. supply of high-fiber foods will increase.
D. price of high-fiber foods will rise.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Negative news about the health benefits of high-fiber diets will decrease the demand for high-fiber foods.

91. Which of the following is likely to lead to a decrease in the demand for tennis balls?
A. An increase in the price of the rubber used to make tennis balls.
B. An increase in the price of tennis balls.
C. An increase in the price of tennis racquets.
D. An increase in the expected future price of tennis balls.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Tennis balls and tennis racquets are complements, so an increase in the price of tennis racquets will lead to a decrease in the demand for tennis balls.

92. If fast food is an inferior good then:
A. the demand for fast food will fall as income falls.
B. the demand for fast food will fall as income rises.

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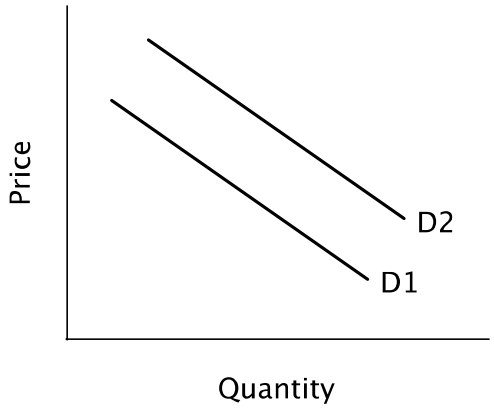
C. the quantity of fast food demanded will rise as the price of fast food rises.
D. the demand for fast food will fall as the price of fast food rises.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An inferior good is a good for which demand decreases when income rises and for which demand increases when income falls.

93. Refer to the figure below. Moving from demand curve D1 to demand curve D2 illustrates a(n):



A. increase in quantity demanded.
B. increase in demand.
C. decrease in demand.
D. decrease in quantity demanded.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A rightward shift in the entire demand curve represents an increase in demand. That is, at every price, the quantity demanded is higher along D2 than D1.

94. Refer to the figure below. Moving from demand curve D2 to demand curve D1 could be caused by a(n):

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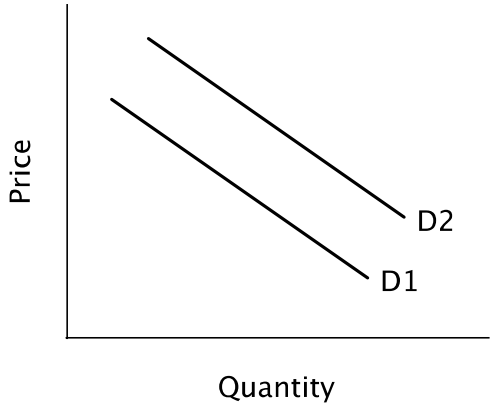
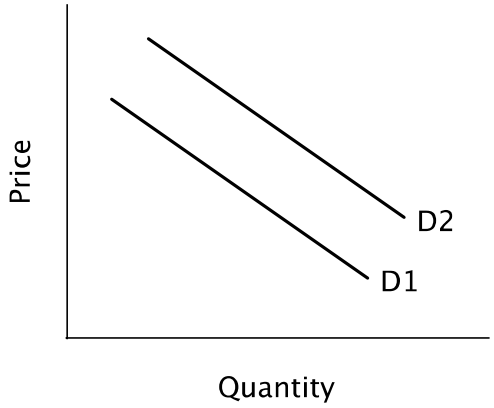


A. increase in the product's expected future price.
B. increase in quantity supplied.
C. increase in the price of a substitute.
D. increase in the price of a complement.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in the price of a complement shifts demand leftward.

95. Refer to the figure below. Moving from demand curve D1 to demand curve D2 could be caused by a(n):



A. decrease in the product's expected future price .
B. increase in quantity supplied.
C. increase in the price of a close substitute.
D. increase in the price of a complement.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking

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Feedback: An increase in the price of a substitute shifts demand rightward.

96. All else equal, a decrease in the demand for oranges will lead to a(n) _____ in equilibrium price and a(n) _____ in equilibrium quantity.
A. increase; decrease
B. decrease; decrease
C. increase; decrease
D. increase; increase
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in demand will lead to a lower equilibrium price and quantity.

97. As the price of cookies increases, firms that produce cookies will:
A. increase the supply of cookies.
B. increase the quantity of cookies supplied.
C. decrease the supply of cookies.
D. decrease the quantity of cookies supplied.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in price causes a movement along the supply curve (up and to the right).

98. Which of the following would cause an increase in quantity of wheat supplied?
A. The price farmers receive for their wheat rises.
B. The price of fertilizer farmers use in their fields falls.
C. The price firms pay for liability insurance falls.
D. New, better technology for farming is introduced.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in price causes a movement along the supply curve (up and to the right).

99. If the price of rubber (an input to the production of tires) increases:
A. the supply of tires will increase.
B. the supply of tires will decrease.
C. the demand for tires will increase.

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D. the demand for tires will decrease
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in the price of rubber will increase the cost of producing tires, so the supply of tires will decrease.

100. As the price of flour (an input in the production of cookies) increases, firms that produce cookies will:
A. increase the supply of cookies.
B. increase the quantity of cookies supplied.
C. decrease the supply of cookies.
D. decrease the quantity of cookies supplied.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in the price of an input in production causes the supply curve to shift to the left because production costs are higher.

101. Suppose that the technology used to manufacture laptops has improved. The likely result would be:
A. an increase in supply of laptops.
B. an increase in quantity supplied of laptops.
C. a decrease in supply of laptops.
D. a decrease in quantity supplied of laptops.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An improvement in technology causes the supply curve to shift to the right because production costs are lower so that more laptops will be offered for sale at every possible price.

102. Which of the following factors will lead to a decrease in the current supply of a good?
A. A fall in the current price of a good or service
B. A technological advance that decreases production costs
C. A decrease in the price of inputs to the production process
D. A belief that the price of a good or service will go up in the future
Ans: D

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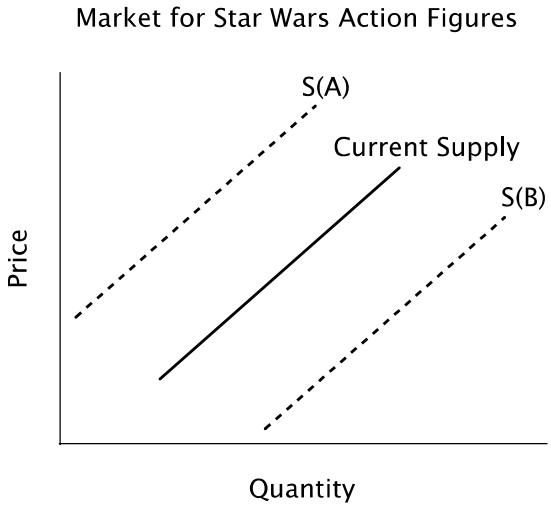
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If sellers believe that price will go up in the future, then they will decrease their current supply so that they can sell more when the price is high.

103. What might cause a decrease in supply today?
A. An increase in the product's own price.
B. Sellers' expectations that the product's price will fall in the future.
C. Sellers' expectations that the product's price will rise in the future.
D. A decrease in the price of one of the inputs used to make the product.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If a firm believes that a product's price will rise in the future, then it will reduce its current supply in order to sell more when prices are higher.

104. Refer to the figure below. Suppose the solid line represents the current supply of Star Wars action figures. If retailers learn that a new Star Wars movie will be released in several months, this news is likely to cause:



A. a decrease in the quantity supplied, but no change in current supply.
B. neither a change in supply nor a change in quantity supplied since only future demand will change.
C. current supply to shift to S(B) in anticipation of higher future prices.
D. current supply to shift to S(A) in anticipation of higher future prices.
Ans: D
Difficulty: 02 Medium

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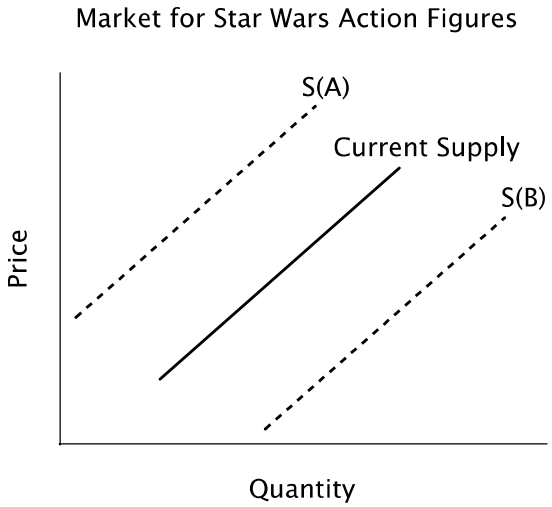
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If firms believe that the price will rise in the future, they will reduce their current supply in order to sell more when prices are higher.

105. Refer to the figure below. Suppose the solid line represents the current supply of Star Wars action figures. If the price of the plastic used to make action figures rises, current supply will:



A. shift to S(B).
B. not change because a change in the price of plastic will not affect the demand for action figures.
C. shift to S(A).
D. not change; only the quantity supplied will change.
Ans: C
Section: Predicting and Explaining Changes in Prices and Quantities
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in input prices will cause supply to shift leftward.

106. Refer to the figure below. At the original market equilibrium:

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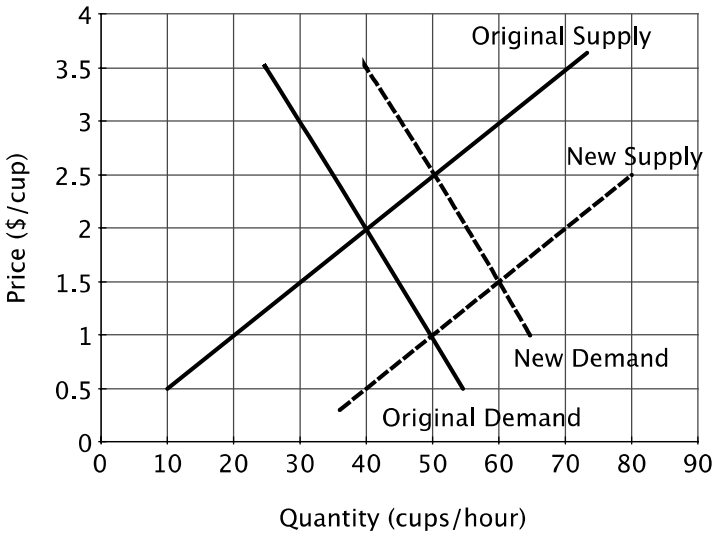

A. 50 cups are sold per hour at a price of $1.00 each.
B. 50 cups are sold per hour at a price of $2.50 each.
C. 40 cups are sold per hour at a price of $2.00 each.
D. 60 cups are sold per hour at a price of $1.50 each.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: The equilibrium price and quantity occur at the intersection of the original supply and original demand curves.

107. Refer to the figure below. What might cause a shift from the original demand curve to the new demand curve?

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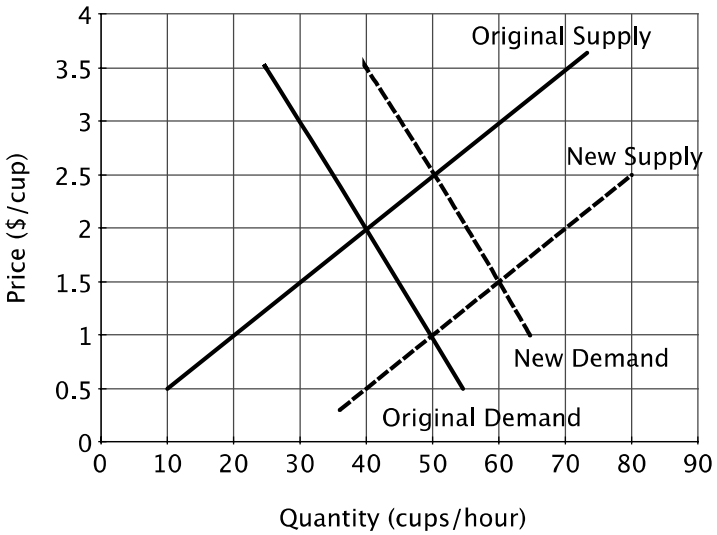
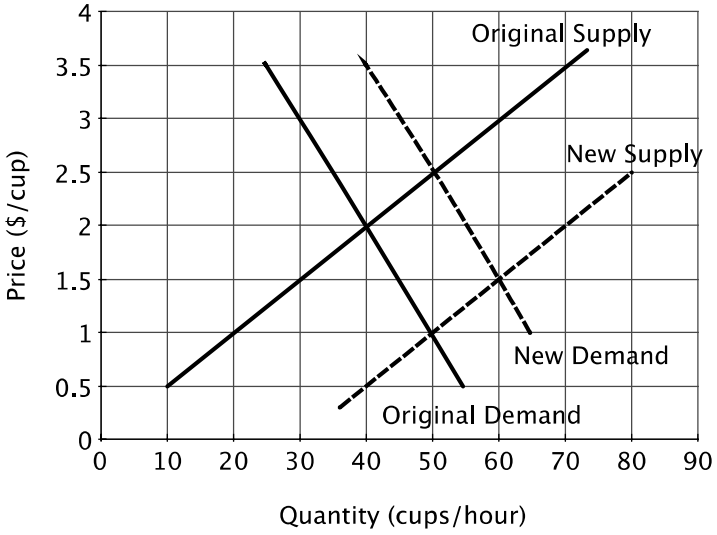


A. An expectation that coffee prices will fall in the future.
B. An increase in the price of coffee creamer.
C. A decrease in the price of tea.
D. An increase in consumers' tastes for coffee.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in consumers' tastes for coffee will shift demand to the right.

108. Refer to the figure below. What might cause shift from the original supply curve to the new supply curve?



A. A storm in that wipes out a large part of the coffee crop.
B. A new technology that reduces amount of coffee beans needed to make a good cup of coffee.

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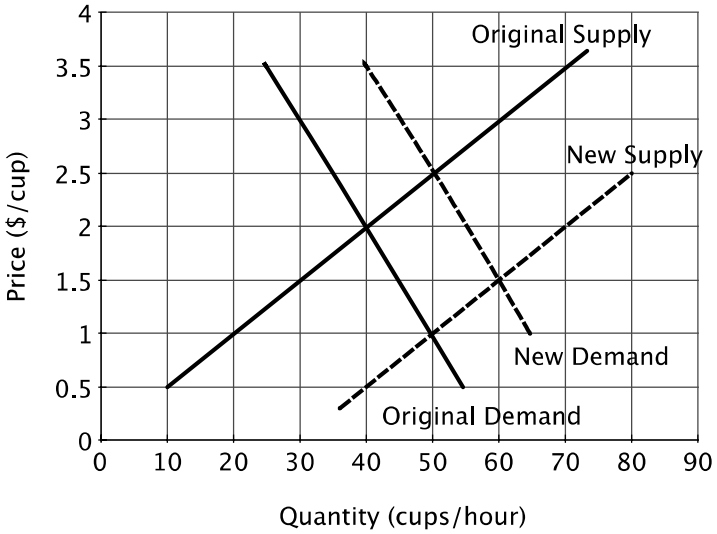
C. A news report that coffee consumption increases longevity.
D. An increase in the price of tea.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An improvement in technology will shift the supply curve to the right because it will lower production costs.

109. Refer to the figure below. If all buyers' reservation prices increase by $1.00, then the equilibrium price of coffee would:



A. increase by $1.00.
B. increase by less than $1.00.
C. increase by more than $1.00.
D. would not change.
Ans: B
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: If the demand curve shifts upward by $1.00, then the equilibrium price will increase by less than $1.00 because as demand increases, so does the quantity supplied.

110. Refer to the figure below. Consider the original supply and the original demand curve. If the government imposes a price ceiling of $1.00 on a cup of coffee, then there would be:

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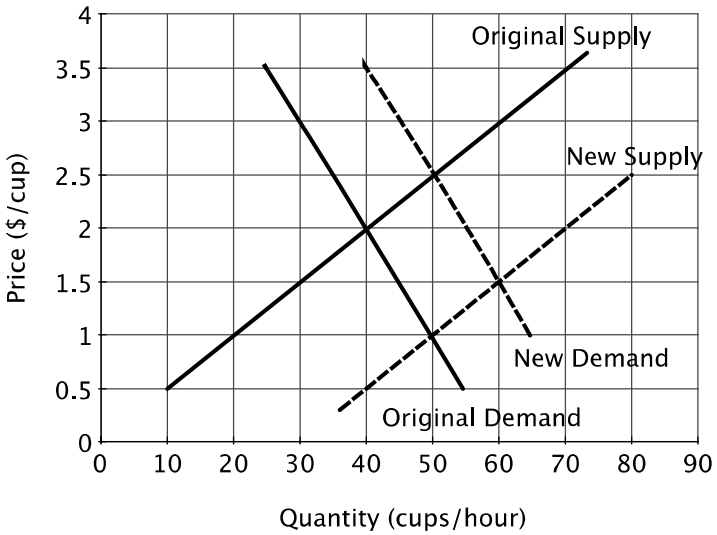
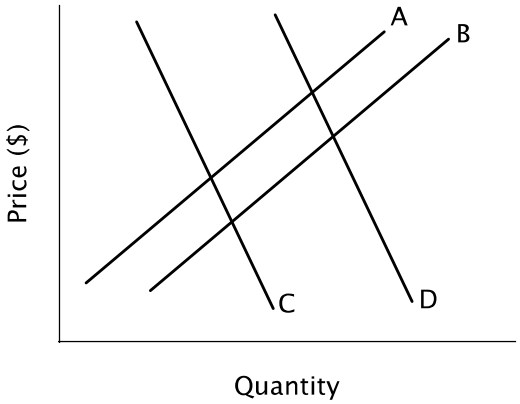


A. a short-term excess demand for coffee, followed by an increase in the equilibrium price.
B. an excess supply of coffee.
C. an excess demand for coffee.
D. a new equilibrium at a price of $1.00 per cup and a quantity of 50 cups per hour.
Ans: C
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: A price ceiling is set below the equilibrium price will lead to excess demand.

111. Refer to the figure below. An increase in demand is represented by a shift from:



A. curve A to curve B.
B. curve B to curve A.
C. curve C to curve D.
D. curve D to curve C.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03

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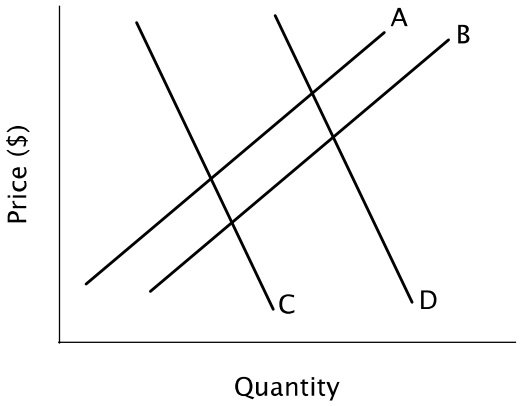
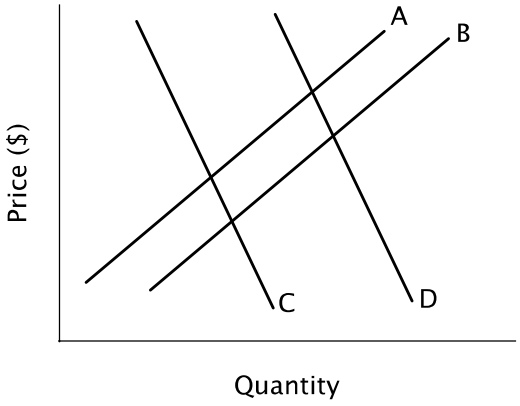
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Demand curves are downward sloping, and an increase in demand is represented by a rightward shift in the demand curve.

112. Refer to the figure below. A decrease in demand is represented by a shift from:



A. curve A to curve B.
B. curve B to curve A.
C. curve C to curve D.
D. curve D to curve C.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Demand curves are downward sloping, and a decrease in demand is represented by a leftward shift in the demand curve.

113. Refer to the figure below. An increase in supply is represented by a shift from:



A. curve A to curve B.
B. curve B to curve A.

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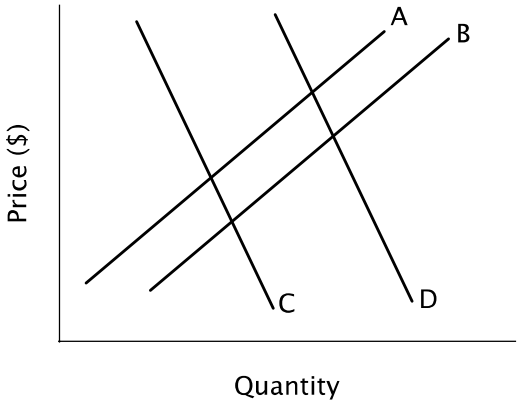
C. curve C to curve D.
D. curve C to curve B.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Supply curves are upward sloping, and an increase in supply is represented by a rightward shift in the supply curve.

114. Refer to the figure below. A decrease in supply is represented by a shift from:



A. curve A to curve B.
B. curve B to curve A.
C. curve C to curve D.
D. curve D to curve C.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Supply curves are upward sloping, and a decrease in supply is represented by a leftward shift in the supply curve.

115. Refer to the table below. Relative to column A, column B represents:

Price Per Unit	Column A Units Per Year	Column B Units Per Year
$20	100	110
$30	85	95
$40	70	80
$50	55	65
$60	40	50

A. a decrease in demand.
B. an increase in demand.

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C. a decrease in supply.
D. an increase in supply.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Units are decreasing as price rises, so the numbers in the table represent demand. Relative to Column A, Column B shows an increase in the quantity demanded at each price, which is an increase in demand.

116. Refer to the table below. Relative to column C, column D represents:

Price Per Unit	Column C Units Per Year	Column D Units Per Year
$20	50	40
$30	60	50
$40	70	60
$50	80	70
$60	90	80

A. an increase in supply.
B. an increase in demand.
C. a decrease in demand.
D. a decrease in supply.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Units are increasing as price rises, so the numbers in the table represent supply. Relative to Column C, Column D shows a decrease in the quantity supplied at every price, which is a decrease in supply.

117. Refer to the table below. Suppose the columns in this table reflect demand and supply. At a price of $30:

Price Per Unit	Column A Units Per Year	Column B Units Per Year
$20	100	40
$30	95	50
$40	80	60
$50	65	70
$60	50	80

A. the market will be in equilibrium.
B. there will be an excess demand of 95 units.

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C. there will be an excess supply of 45 units.
D. there will be an excess demand of 45 units.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Column A represents demand because quantity falls as price increases, and Column B represents supply because quantity rises as price increases. At a price of $30, the quantity demanded is 95 units, but the quantity supplied is only 50 units.

118. Refer to the table below. Suppose the columns in this table reflect demand and supply. At a price of $50:

Price Per Unit	Column A Units Per Year	Column B Units Per Year
$20	100	40
$30	95	50
$40	80	60
$50	65	70
$60	50	80

A. the market will be in equilibrium.
B. there will be an excess demand of 5 units.
C. there will be an excess supply of 70 units.
D. there will be an excess supply of 5 units.
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Apply
AACSB: Analytic
Feedback: Column A represents demand because quantity falls as price increases, and Column B represents supply because quantity rises as price increases. At a price of $50, the quantity demanded is 65 units, and the quantity supplied is 70 units.

119. Refer to the table below. The equilibrium price in this market is:

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Price Per Unit	Column A Units Per Year	Column B Units Per Year
$20	100	40
$30	95	50
$40	80	60
$50	65	70
$60	50	80

A. between $20 and $30.
B. between $30 and $40.
C. between $40 and $50.
D. nonexistent.
Ans: C
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: At $40 there is excess demand and at $50 there is excess supply, so the equilibrium price must lie between those two prices.

120. An increase in the demand for GM automobiles results in:
A. a lower equilibrium price for GM automobiles.
B. an increase in the quantity supplied of GM automobiles.
C. an increase in the supply of GM automobiles.
D. a lower equilibrium quantity of GM automobiles.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in demand raises the equilibrium price, leading the quantity supplied to increase.

121. Which of the following is **NOT** a determinant of the demand for gasoline?
A. Consumers' incomes.
B. The price of diesel.
C. The price of automobiles.
D. The supply of gasoline.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking

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Feedback: A change in supply does not change demand.

122. When the supply of a good decreases, there will be a(n):
A. decrease in demand.
B. decrease in buyers' reservation prices for the good.
C. decrease in the quantity demanded.
D. increase in the quantity demanded.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When supply decreases, the equilibrium price increases, leading the quantity demanded to fall.

123. When the supply curve shifts to the left and there is no change in demand:
A. the market cannot reestablish an equilibrium.
B. the equilibrium price will fall.
C. the equilibrium quantity will rise.
D. the equilibrium price will rise.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When supply decreases, the equilibrium price increases.

124. If the supply curve and the demand curve both shift to the left, then the new equilibrium:
A. quantity will be higher, but the direction of the price change is uncertain.
B. price will be lower, but the direction of the change in quantity is uncertain.
C. price will be higher, but the direction of the change in quantity is uncertain.
D. quantity will be lower, but the direction of the price change is uncertain.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When both supply and demand decrease, the equilibrium quantity will be lower, but the price may be higher, lower, or the same because the decrease in supply will tend to increase the price while the decrease in demand will tend to decrease the price, so without knowing which is larger, the direction of the price change cannot be determined.

125. If supply increases, then:

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A. demand will increase.
B. the quantity demanded will increase.
C. the quantity demanded will decrease.
D. price will increase.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: If supply increases, then the equilibrium price will decrease, causing the quantity demanded to increase.

126. Suppose demand decreases, but there is no change in supply. As the market reaches its new equilibrium:
A. excess demand will lead the price to rise.
B. excess supply will lead the price to rise.
C. excess demand will lead the price to fall.
D. excess supply will lead the price to fall.
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: When demand decreases, there will excess supply at the original equilibrium price. Thus, sellers will lower their prices.

127. Suppose supply decreases, but there is no change in demand. As the market reaches its new equilibrium:
A. excess demand will lead the price to rise.
B. excess supply will lead the price to rise.
C. excess demand will lead the price to fall.
D. excess supply will lead the price to fall.
Ans: A
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: When supply decreases, there will excess demand at the original equilibrium price. Thus, sellers will raise their prices.

128. When the demand curve shifts to the right and supply doesn't change:
A. quantity demanded will rise.

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B. equilibrium price will fall.
C. equilibrium quantity will rise.
D. supply will rise.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When the demand curve shifts to the right (reflecting an increase in demand), both the equilibrium price and quantity will rise.

129. A decrease in both the equilibrium price and the equilibrium quantity of rice is best explained by a(n):
A. increase in the demand for rice.
B. increase in the supply of rice.
C. decrease in the supply of rice.
D. decrease in the demand for rice.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: When demand decreases, both the equilibrium price and the equilibrium quantity will fall.

130. An increase in both the equilibrium price and the equilibrium quantity of DVD players is best explained by a(n):
A. increase in the demand for DVD players.
B. increase in the supply of DVD players.
C. decrease in the supply of DVD player.
D. decrease in the demand for DVD players.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When demand increases, both the equilibrium price and the equilibrium quantity will rise.

131. Suppose that the equilibrium price of T-shirts increases and the equilibrium quantity of T-shirts decreases. This is best explained by a(n):

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A. increase in the demand for T-shirts.
B. decrease in the supply of T-shirts.
C. increase in the supply of T-shirts.
D. decrease in the demand for T-shirts.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When supply decreases, the equilibrium price will rise, and the equilibrium quantity will fall.

132. Suppose that the equilibrium price of apples decreases and the equilibrium quantity of apples increases. This is best explained by a(n):
A. increase in the demand for apples.
B. decrease in the supply of apples.
C. decrease in the demand for apples.
D. increase in the supply of apples.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When supply increases, the equilibrium price will fall, and the equilibrium quantity will rise.

133. Suppose you observe a decrease in the equilibrium price and quantity of corn. Of the options listed below, this is best explained by:
A. a decrease in the cost of growing corn.
B. an increase in the cost of growing corn.
C. a rise in consumer income assuming corn is a normal good.
D. a fall in consumer income assuming corn is a normal good.
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: A decrease in the equilibrium price and quantity of corn suggests a decrease in the demand for corn. If corn is a normal good, and consumer income falls, then demand will fall.

134. Suppose you observe an increase in the equilibrium price of coffee and a decrease in the equilibrium quantity of coffee. Of the options listed below, this is most consistent with:

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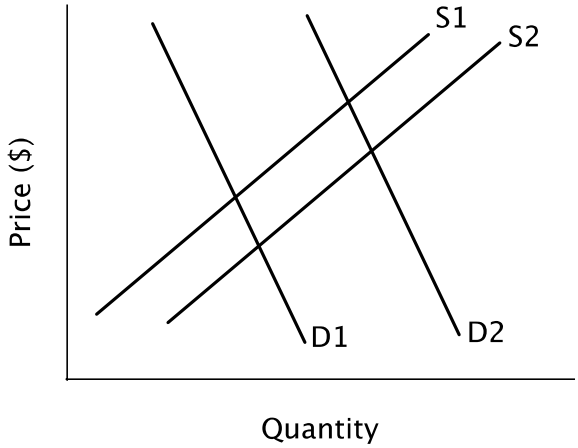
A. a decrease in consumer income assuming coffee is a normal good.
B. an increase in the cost of producing coffee.
C. an increase in consumer income assuming coffee is a normal good.
D. a decrease in the cost of producing coffee.
Ans: B
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: An increase in the equilibrium price of coffee and a decrease in the equilibrium quantity of coffee suggest that the supply of coffee has decreased. An increase in the cost of producing coffee would lead to a decrease in the supply of coffee.

135. If pencils and paper are complements for most consumers, then if the price of paper increases, you would expect:
A. the equilibrium price and quantity of pencils to fall
B. the equilibrium price and quantity of pencils to rise
C. the equilibrium price of pencils to fall and the equilibrium quantity of pencils to rise
D. the equilibrium price of pencils to rise and the equilibrium quantity of pencils to fall
Ans: A
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: If pencils and paper are complements, and the price of paper increases, then the demand for pencils will fall. As a result, the equilibrium price and quantity of pencils will fall.

136. Refer to the figure below. Assume demand remains unchanged at D1. If supply shifts from S1 to S2, then the equilibrium price will _____ and the equilibrium quantity will _____.



A. rise; fall
B. rise; rise

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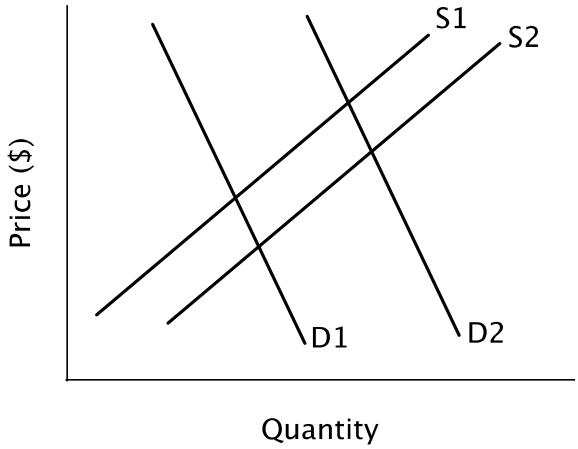
C. fall; fall
D. fall; rise
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When the supply curve shifts to the right, equilibrium price will fall, and equilibrium quantity will rise.

137. Refer to the figure below. Assume demand remains unchanged at D1. If supply shifts from S2 to S1, then the equilibrium price will _____ and the equilibrium quantity will _____.



A. rise; fall
B. rise; rise
C. fall; fall
D. fall; rise
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: When the supply curve shifts to the left, equilibrium price will rise, and equilibrium quantity will fall.

138. Refer to the figure below. If demand shifts from D1 to D2, and at the same time, supply shifts from S1 to S2, then according to the figure:

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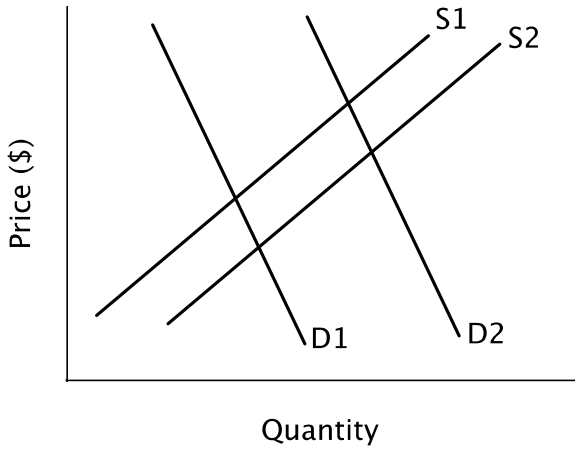

A. the equilibrium quantity will increase and the equilibrium price will decrease.
B. the equilibrium quantity will increase and the equilibrium price will increase.
C. the equilibrium quantity will decrease and the equilibrium price will increase.
D. the equilibrium quantity will decrease and the equilibrium price will decrease.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: In the figure, the increase in demand is greater than the increase in supply. Thus, the new equilibrium price and quantity will both be higher.

139. If demand increases and supply decreases, the change in the equilibrium price will be _____, and the change in the equilibrium quantity will be _____.
A. positive; positive
B. positive; negative
C. positive; uncertain
D. uncertain; positive
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in demand and a decrease in supply both will cause equilibrium price to increase, but will have opposing effects on equilibrium quantity.

140. If supply and demand both increase, the new equilibrium price will be _____ and the new equilibrium quantity will be _____.
A. lower; lower

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B. lower; uncertain
C. uncertain; higher
D. higher; higher
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in demand and an increase in supply both will cause equilibrium quantity to increase, but will have opposing effects on equilibrium price.

141. If supply and demand both decrease, the new equilibrium price will be _____ and the new equilibrium quantity will be _____.
A. lower; lower
B. lower; uncertain
C. higher; higher
D. uncertain; lower
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in demand and a decrease in supply both will cause equilibrium quantity to decrease, but will have opposing effects on equilibrium price.

142. If supply increases and demand decreases, the new equilibrium price will be _____ and the new equilibrium quantity will be _____.
A. lower; lower
B. lower; uncertain
C. higher; higher
D. higher; uncertain
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in supply and a decrease in demand both will cause equilibrium price to fall, but will have opposing effects on equilibrium quantity

143. Suppose the equilibrium price and quantity of ketchup fall. The most likely explanation for these changes is:
A. a decrease in the demand for ketchup.
B. an increase in the demand for ketchup.

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C. a decrease in the supply of ketchup.
D. an increase in the supply of ketchup.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in demand will cause both equilibrium price and equilibrium quantity to fall.

144. Suppose that the equilibrium price of pickles falls while the equilibrium quantity rises. The most likely explanation for these changes is:
A. a decrease in demand for pickles.
B. an increase in demand for pickles.
C. a decrease in the supply of pickles.
D. an increase in the supply of pickles.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in supply will cause equilibrium price to fall and equilibrium quantity to increase.

145. Suppose that the equilibrium price of french fries rises while the equilibrium quantity falls. The most likely explanation for these changes is:
A. a decrease in demand for french fries.
B. an increase in demand for french fries.
C. an increase in the supply of french fries.
D. a decrease in the supply of french fries.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in supply will cause equilibrium price to rise and equilibrium quantity to fall.

146. Assume the demand for coffee increases and the supply of coffee decreases. Which of the following outcomes is certain to occur?
A. The equilibrium price of coffee will rise.
B. The equilibrium quantity of coffee will rise.
C. The equilibrium price of coffee will fall.

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D. The equilibrium quantity of coffee will fall.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in demand and decrease in supply will both increase equilibrium price, but will have opposing effects on equilibrium quantity.

147. Assume the demand for sugar decreases and the supply of sugar increases. Which of the following outcomes is certain to occur?
A. The equilibrium price of sugar will rise.
B. The equilibrium quantity of sugar will rise.
C. The equilibrium price of sugar will fall.
D. The equilibrium quantity of sugar will fall.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in supply and a decrease in demand will both decrease equilibrium price, but will have opposing effects on equilibrium quantity.

148. Assume both the demand for beef and the supply of beef decrease. Which of the following outcomes is certain to occur?
A. The equilibrium price of beef will rise.
B. The equilibrium quantity of beef will rise.
C. The equilibrium price of beef will fall.
D. The equilibrium quantity of beef will fall.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in supply and a decrease in demand will both decrease equilibrium quantity, but will have opposing effects on equilibrium price.

149. Assume both the demand for bagels and the supply of bagels increase. Which of the following outcomes is certain to occur?
A. The equilibrium price of bagels will rise.
B. The equilibrium quantity of bagels will rise.
C. The equilibrium price of bagels will fall.
D. The equilibrium quantity of bagels will fall.

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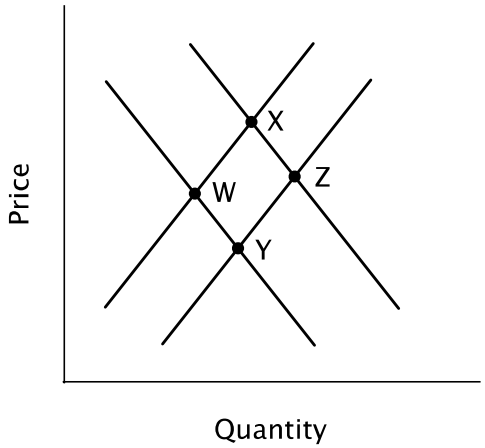
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: An increase in supply and an increase in demand will both increase equilibrium quantity, but will have opposing effects on equilibrium price.

150. Suppose a new study highlights the health benefits of eating bacon. At the same time, suppose the cost of producing bacon falls. Given these changes, you should expect to see:
A. a decrease in the equilibrium price of bacon, but it's hard to say what will happen to the equilibrium quantity.
B. an increase in the equilibrium quantity of bacon, but it's hard to say what will happen to the equilibrium price.
C. an increase in both the equilibrium price and quantity of bacon.
D. an increase in the equilibrium price of bacon, but it's hard to say what will happen to the equilibrium quantity.
Ans: B
Difficulty: 03 Hard
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Analyze
AACSB: Analytic
Feedback: A study that highlights the health benefits of bacon will increase the demand for bacon, and a decrease in the cost of producing bacon will increase the supply of bacon. Both an increase in demand and an increase in supply will increase equilibrium quantity, but they will have opposing effects on equilibrium price.

151. Refer to the figure below. Assume the market is originally at point *W*. Movement to point *X* is the result of:



A. an increase in demand and an increase in quantity supplied.
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.

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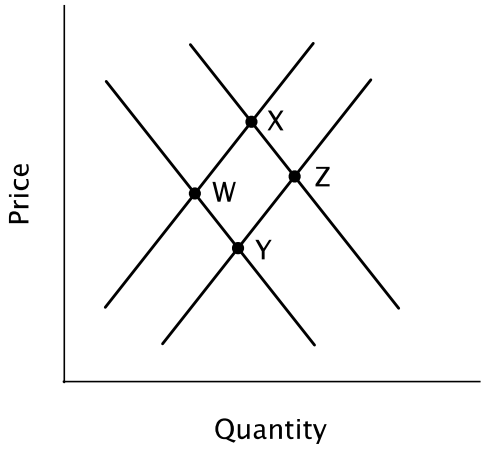
D. a decrease in supply and an increase in quantity demanded.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Movement from *W* to *X* is the result of a rightward shift in the demand curve and an upward movement along the original supply curve.

152. Refer to the figure below. Assume the market is originally at point *W*. Movement to point *Y* is the result of:



A. an increase in demand and an increase in quantity supplied .
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.
D. a decrease in supply and an increase in quantity demanded.
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Movement from *W* to *Y* is the result of a rightward shift in the supply curve and a movement along the original demand curve.

153. Refer to the figure below. Assume the market is originally at point *W*. Movement to point *Z* is a combination of:

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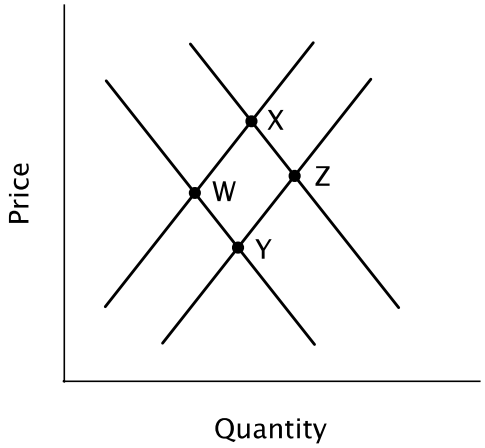

A. an increase in demand and an increase in quantity supplied .
B. an increase in supply and an increase in demand.
C. an increase in supply and an increase in quantity demanded.
D. a decrease in supply and an increase in quantity demanded.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Movement from *W* to *Z* is the result of a rightward shift in both the demand curve and the supply curve.

154. Suppose that both the supply of iPads and the demand for iPads decrease. One can predict that the:
A. equilibrium price will rise, but the change in equilibrium quantity is uncertain.
B. equilibrium price and quantity will fall.
C. equilibrium price and quantity will rise.
D. equilibrium quantity will fall, but the change in equilibrium price is uncertain.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-03
Topic: Predicting and Explaining Changes in Prices and Quantities
Blooms: Understand
AACSB: Reflective Thinking
Feedback: A decrease in supply and a decrease in demand both decrease equilibrium quantity, but have opposing effects on equilibrium price.

155. Suppose Bianca buys a used a textbook from Sebastian for $55. If Bianca's surplus from this transaction was $10, we can infer that:
A. Bianca's reservation price was $45.
B. Bianca's reservation price was $60, and Sebastian's reservation price was $50.
C. Bianca's reservation price was $65.
D. Sebastian's reservation price was $45.

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Ans: C
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Buyer's surplus is the difference between the buyer's reservation price and the price he or she actually pays. Bianca bought the textbook for $55, so if her surplus was $10, her reservation price must have been $65.

156. Suppose that Tom bought a bike from Helen for $195. If Helen's reservation price was $185, and Tom's reservation price was $215, the seller's surplus from this transaction was:
A. $195
B. $10
C. $20
D. $215
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Helen valued the bike at $185, but sold it for $195, so her surplus is $10.

157. Suppose that Tom bought a bike from Helen for $195. If Helen's reservation price was $185, and Tom's reservation price was $215, the buyer's surplus from this transaction was:
A. $195
B. $10
C. $20
D. $215
Ans: C
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB:Reflective Thinking
Feedback: Tom valued the bike at $215, but only paid $195 for it, so his surplus is $20.

158. Suppose that Tom bought a bike from Helen for $195. If Helen's reservation price was $185, and Tom's reservation price was $215, the total economic surplus from this transaction was:
A. $30
B. $185
C. $195
D. $215
Ans: A

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Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Tom valued the bike at $215, and Helen valued the bike at $185, so the total economic surplus from this transaction is $30 (= $215 - $185).

159. An outcome is socially optimal if it:
A. is an equilibrium outcome.
B. leaves no unexploited opportunities for individuals.
C. it is determined by the government.
D. maximizes total economic surplus.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: A socially optimal outcome is one that maximizes total surplus.

160. Efficiency occurs if the:
A. market is in equilibrium.
B. socially optimal quantity of goods and services is being produced.
C. individually rational quantity of goods and services is being produced.
D. government does not interfere with market prices.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Efficiency occurs when goods and services are produced and consumed at their socially optimal levels.

161. Efficiency is an important social goal because:
A. it assures a fair outcome.
B. it assures a normative outcome.
C. movements toward economic efficiency make the total economic pie larger.
D. it takes into consideration the distribution of income.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium

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Blooms: Remember
AACSB: Reflective Thinking
Feedback: Efficiency is an important social goal because when the economic pie grows larger, everyone can have a larger slice.

162. Assume that Joe is willing to produce a hamburger for $1, and Mary is willing to pay $3 for a hamburger. Which of the following is true?
A. Joe and Mary can make a mutually beneficial exchange.
B. Joe and Mary cannot make a mutually beneficial exchange.
C. Joe and Mary will not trade in equilibrium.
D. Joe and Mary will only trade if the equilibrium price is less than $1.
Ans: A
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: Mary's reservation price is greater than Joe's, so they could each benefit from trade.

163. When two people agree to a price in a negotiation, we can assume that:
A. each one will receive equal benefits from the transaction.
B. the seller will receive more benefit from the transaction than the buyer.
C. only one of the parties will benefit, but there is not enough information to determine which one it will be.
D. both parties will benefit.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: We assume that people enter into trades voluntarily, only when they are each made better off.

164. If there are no unexploited opportunities for individuals in a particular market, then one can conclude that:
A. government regulation has been successful.
B. the market is in equilibrium.
C. the market is not in equilibrium.
D. a socially optimal outcome has been achieved.
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium

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Blooms: Understand
AACSB: Reflective Thinking
Feedback: A market in equilibrium leaves no unexploited opportunities for individuals.

165. The situation described in the book as "smart for one, dumb for all" occurs when:
A. individuals act rationally, so there are no unexploited opportunities for society as a whole.
B. individuals act rationally, but there are still unexploited opportunities for society as a whole.
C. individuals make better decisions when they are alone than when they are part of a group.
D. individuals make better decisions when they are part of a group than when they are alone.
Ans: B
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: Even when individuals act rationally, they might leave unexploited opportunities to benefit society as a whole.

166. If the local slaughterhouse gives off an unpleasant stench, then the equilibrium quantity of meat will be _____ the quantity that maximizes total economic surplus.
A. more equitable
B. equal to
C. lower than
D. higher than
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Analyze
AACSB: Analytic
Feedback: If the production of meat imposes costs on people other than those who buy and sell the meat, then the equilibrium quantity will be higher than the socially optimal quantity.

167. If the production of oranges reduces global warming, then the equilibrium quantity of oranges will be _____ the socially optimal quantity.
A. higher than
B. lower than
C. equal to
D. more valuable than
Ans: B
Difficulty: 03 Hard
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Analyze

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AACSB: Analytic
Feedback: If the production of oranges generates benefits that are enjoyed by people other than those who buy and sell the oranges, then the equilibrium quantity will be less than the socially optimal quantity.

168. A market equilibrium might not maximize total economic surplus because:
A. efficiency is not an important social goal.
B. in a market equilibrium individuals do not act rationally.
C. in a market equilibrium individuals do not exploit all opportunities for individual gain.
D. sometimes goods entail costs and benefits that do not fall on buyers and sellers.
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: In a market equilibrium, buyers and sellers take advantage of all opportunities for individual gain, but if people other than buyers benefit from a good, or if people other than sellers bear costs because of it, then what's best for individual buyers and sellers may not be best for society as a whole.

169. Everyone in the neighborhood has been complaining about the deteriorating condition of the park, but nobody has cleaned it up. Why not?
A. There is an excess demand for parks in the neighborhood.
B. There is an excess supply of parks in the neighborhood.
C. The social benefit of cleaning the park exceeds the social cost of cleaning it.
D. No single person's benefit from cleaning the park exceeds that person's cost of cleaning it.
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Evaluate
AACSB: Analytic
Feedback: Consumers have an incentive to consider only their own private benefits.

170. When the market is in equilibrium:
A. no unexploited opportunities exist for society.
B. unexploited opportunities exist for individuals but not for society .
C. unexploited opportunities exist for both individuals and society.
D. no unexploited opportunities exist for individuals .
Ans: D
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking

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Feedback: In a market equilibrium, individuals have taken advantage of all opportunities for their own private gain, but opportunities for social gain might still exist.

171. A market equilibrium:
A. is socially optimal.
B. leaves unexploited opportunities for individuals.
C. might not maximize total economic surplus.
D. is never socially optimal.
Ans: C
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: In a market equilibrium, individuals consider private costs and private benefits when making decisions, but they might ignore social costs and social benefits.

172. A market equilibrium:
A. leaves unexploited opportunities for individuals.
B. maximizes total economic surplus.
C. exploits all gains achievable through collective action.
D. leaves no unexploited opportunities for individuals.
Ans: D
Difficulty: 01 Easy
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Remember
AACSB: Reflective Thinking
Feedback: In a market equilibrium, individuals have taken advantage of all opportunities for their own private gain, but opportunities for social gain might still exist.

173. The market equilibrium quantity:
A. maximizes total economic surplus
B. is sometimes the socially optimal quantity
C. is the socially optimal quantity
D. is not the socially optimal quantity
Ans: B
Difficulty: 02 Medium
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Understand
AACSB: Reflective Thinking
Feedback: In a market equilibrium, individuals have taken advantage of all opportunities for their own private gain, but opportunities for social gain might still exist.

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174. Suppose quantity demanded is given by $Q^d=100-P$, and quantity supplied is given by $Q^s=20+3P$. In this case, equilibrium price, P^*, and equilibrium quantity, Q^*, are as follows:
A. $P^*=80$, $Q^*=20$
B. $P^*=10$, $Q^*=90$
C. $P^*=40$, $Q^*=140$
D. $P^*=20$, $Q^*=80$
Ans: D
Difficulty: 03 Hard
Learning Objective: 02-04
Topic: Efficiency and Equilibrium
Blooms: Apply
AACSB: Analytic
Feedback: In equilibrium, price adjusts to equate quantity supplied and quantity demanded. Setting $Q^s = Q^d$, we have $100 - P^* = 20 + 3P^*$. Solving this equation for P^*, we find that $80 = 4P^*$, so $P^* = 20$. Plugging P^* back into either Q^s or Q^d, we find that $Q^* = 80$.

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