Test Bank for Managerial Economics and Strategy 3rd Perloff

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***Managerial Economics and Strategy, 3e* (Perloff/Brander)**
Chapter 2 Supply and Demand

2.1 Demand

1) An increase in consumer incomes will lead to
A) a rightward shift of the demand curve for plasma TVs.
B) a movement upward along the demand curve for plasma TVs.
C) a rightward shift of the supply curve for plasma TVs.
D) no change of the demand curve for plasma TVs.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

2) If the price of automobiles were to increase substantially, the demand curve for gasoline would most likely
A) shift leftward.
B) shift rightward.
C) remain unchanged.
D) become steeper.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

3) If the price of automobiles were to decrease substantially, the demand curve for public transportation would most likely
A) shift rightward.
B) shift leftward.
C) remain unchanged.
D) remain unchanged while quantity demanded would change.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

4) If the price of automobiles were to decrease substantially, the demand curve for pizza would most likely
A) shift rightward.
B) shift leftward.
C) remain unchanged.
D) remain unchanged while quantity demanded would change.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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5) Consumers have been buying fewer CDs as downloadable music has become easier to purchase and use. We would represent this as
A) a leftward shift of the demand curve for CDs.
B) a rightward shift of the demand curve for CDs.
C) a change in the price of CDs.
D) a leftward shift of the supply curve for downloadable music.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

6) As people have become more health-conscious and decided to eat food that is better for them,
A) the demand curve for scooters has shifted to the right.
B) the demand curve for cupcakes has shifted to the right.
C) the demand curve for oranges and apples has shifted to the right.
D) None of the above.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

7) If a yet-to-be released video game receives a positive review in a popular gaming magazine, what happens to the demand curve for the video game?
A) The demand curve is expected to shift to the right.
B) The demand curve is expected to shift to the left.
C) The demand curve is not expected to change.
D) For those who read the review, demand shifts to the left. For those who don't read the review, demand shifts to the right.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

8) Which of the following cultural events likely increased the demand for the product highlighted in the event?
A) The banning of cigarette advertising on television.
B) The inclusion of Reese's Pieces in the movie E.T.
C) Increased environmental awareness about the negative impacts of sport utility vehicles (SUVs).
D) Concerns over "Mad Cow" disease in beef.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: New

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9) Recently, many cities have attempted to pass laws taxing the sale of sugary drinks such as soda pop. If one of these laws passes, we would expect
A) the supply curve for soda pop to shift to the right.
B) the supply curve for soda pop to become more vertical.
C) the demand curve for soda pop to shift to the right.
D) the demand curve for soda pop to shift to the left.
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

10) If a city were to ban the use of automobiles within its city limits, we would expect
A) the demand curve for automobiles to shift to the left.
B) people to move to another city.
C) the demand curve for bicycles to shift to the left.
D) the demand curve for automobiles to remain the same.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

11) The CB radio was very popular in the 1970s and 1980s for communicating while driving. People bought them because other drivers had them too and they could therefore talk with many others on their trips. This illustrates
A) that the demand curve for CB radios was inelastic.
B) the network effect.
C) that CB radios and gasoline are complementary goods.
D) the effects of mobile phones on the demand curve for CB radios.
Answer: B
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

12) The quantity demanded for a good
A) must equal the quantity actually sold.
B) can be less than the quantity actually sold.
C) can be greater than the quantity actually sold.
D) is always greater than the quantity actually sold.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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13) An individual who is only willing to pay a relatively low amount for a particular good
A) would fall in the upper portion of the demand curve.
B) would fall in the middle portion of the demand curve.
C) would fall in the lower portion of the demand curve.
D) would not be considered part of the demand curve.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

14) Assume Joe is only willing to pay $5 for a Ferrari sports car.
A) Joe is not considered part of the demand for Ferraris.
B) Joe won't be sold a Ferrari.
C) Joe is not considered rational.
D) Joe's willingness to pay is not indicative of how much he values the Ferrari.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

15) A downward sloping demand curve indicates that
A) individuals all have the same valuation of the same product.
B) individuals have different valuations of the same product.
C) individuals have no valuations of a particular product.
D) certain individuals are uninformed about certain aspects of the product.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

16) If the price is $5 and the quantity demanded is 100 units, then at a price of $10, the quantity demanded will be
A) less than or equal to 100 units.
B) greater than or equal to 100 units.
C) greater than quantity supplied.
D) equal to 100 units.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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17) According to the Law of Demand, the demand curve for a good will
A) shift leftward when the price of the good increases.
B) shift rightward when the price of the good increases.
C) slope downward.
D) slope upward.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

18) The law of demand
A) was passed by the 102nd U.S. Congress.
B) is a natural law, much like the law of gravity.
C) is considered a "law" in economics because of the overwhelming empirical evidence that supports its logic.
D) is considered a "law" in economics in order to force economic models to operate fully.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

19) Which of the following would NOT change demand?
A) The price of the product.
B) Information about the product's health effects.
C) The income of the consumers.
D) The price of related products.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: New

20) If a demand curve shifts left, it implies
A) as a group, consumers are willing and able to pay less for the product.
B) as a group, consumers are willing and able to pay more for the product.
C) government has regulated how many people can purchase the product.
D) the profit motive of the firms is making the price too high.
Answer: A
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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21) An increase in the price of pork will lead to
A) a movement up along the demand curve.
B) a movement down along the demand curve.
C) a rightward shift of the demand curve.
D) a leftward shift of the demand curve.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

22) Holding all other factors constant, consumers demand more of a good the
A) higher its price.
B) lower its price.
C) steeper the downward slope of the demand curve.
D) steeper the upward slope of the demand curve.
Answer: B
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

23) As the price of a good increases, the change in the quantity demanded can be shown by
A) shifting the demand curve leftward.
B) shifting the demand curve rightward.
C) moving down along the same demand curve.
D) moving up along the same demand curve.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

24) A increase in quantity demanded as a result of a change in price
A) is a rightward shift of the demand curve.
B) is a leftward shift of the demand curve.
C) leaves the demand curve unchanged.
D) is not possible.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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25) If the price of automobiles were to increase substantially, the demand curve for automobiles would most likely
A) shift rightward.
B) shift leftward.
C) remain unchanged.
D) become steeper.
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

26) If the price of a pizza were to increase to $50, many people would give up eating pizza while others would continue to eat it. This would indicate
A) those who are buying pizza value it at least $50 per pizza.
B) those who are not buying pizza value it more than $50 per pizza.
C) only those who are extremely wealthy are buying pizza.
D) the price of pizza needs to be regulated by the federal government.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

27) Which of the following is NOT possible according to the law of demand?
A) a horizontal demand curve
B) a vertical demand curve
C) a downward-sloping supply curve
D) an upward-sloping demand curve
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

28) A change in a relevant factor other than the price of the good itself causes a _____ the demand curve, and a change in a good's own price causes a _____ the demand curve.
A) shift of; shift of
B) shift of; movement along
C) movement along; shift of
D) movement along; movement along
Answer: B
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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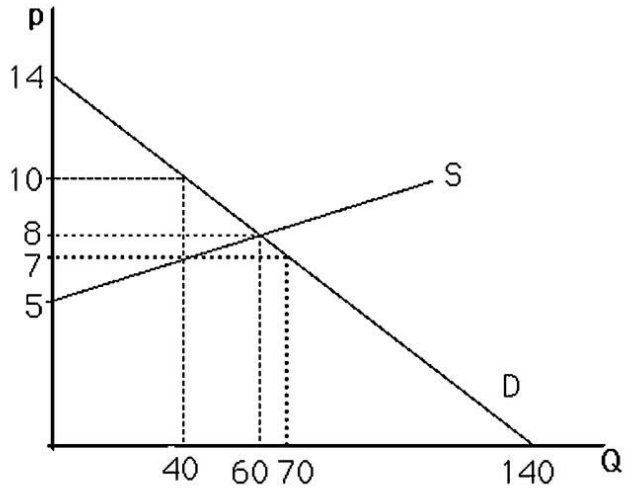

29) The above figure shows a graph of the market for pizzas in a large town. No pizzas will be demanded unless price is less than
A) $0.
B) $5.
C) $12.
D) $14.
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

30) The above figure shows a graph of the market for pizzas in a large town. If the price falls from $10 to $7 per pizza, the quantity of pizzas demanded will
A) increase by 20.
B) decrease by 30.
C) increase by 30.
D) decrease by 10.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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31) Assume the price of a movie is $10. Jenna demands 2 movies per week, Sam demands 3 movies per week, and Jordan demands 8 movies per week. From this information we can conclude that
A) the market quantity demanded at a price of $10 is at least 13 movies per week.
B) Jordan is obviously more wealthy than either Sam or Jeanna.
C) Sam is irrational compared to Jenna or Jordan.
D) the movie industry is unprofitable.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

32) To determine the total demand for all consumers, sum the quantity each consumer demands
A) at a given price.
B) at all prices and then sum this amount across all consumers.
C) Both A and B will generate the same total demand.
D) None of the above.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

For the following, please answer "True" or "False" and explain why.

33) If a good is not produced, then there is no demand for it.
Answer: False. The demand for a product is independent of its supply. It is possible that people want to buy some of the product but at prices that are below what sellers would require to begin production.
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

34) The quantity of a good that consumers demand depends only on the price of the good.
Answer: False. The quantity of a good demanded depends on many factors including: its own price, consumers' incomes, and the price of related goods.
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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35) Suppose the demand for a particular product can be expressed as Q = 100/p. Calculate the total amount spent on this good when p = 10, 20, and 50. Can you make a generalization about the mathematical form of this demand curve and consumer behavior in this market?
Answer: In all cases, total expenditure equals 100 (since p * Q = 100). In general, a nonlinear demand curve of the form Q = A/p means that consumers wish to spend a total of A on this good regardless of its price.
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

2.2 Supply

1) Technological innovation in the production of computers has led to
A) a decrease in the quantity demanded for computers.
B) a rightward shift of the supply curve for computers.
C) a decrease in the quantity supplied of computers.
D) None of the above.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

2) The supply curve is influenced by
A) the income of consumers.
B) the number of customers in the market.
C) the prices of the inputs required to produce the product.
D) the price of the product being produced.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

3) The price of crude oil rose to over $100 per barrel in early 2013. What would we expect to see happen to the supply of plastic, which is produced using crude oil?
A) The supply of plastic will increase.
B) The supply of plastic will decrease.
C) The supply of plastic will stay the same because the government requires plastic producers to meet statutory minimum production levels.
D) The supply of plastic will stay the same because of the profit motives of plastic producers.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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4) Government regulations
A) have no impact on supply.
B) only change the quantity supplied, not the supply curve.
C) are generally ineffective due to lobbying by suppliers.
D) can change both quantity supplied as well as the supply curve.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

5) The supply curve
A) represents the quantity supplied at any given price.
B) represents the quantity actually sold at any given price.
C) is the opposite of the demand curve.
D) always intersects the demand curve.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

6) Suppose the demand curve for a good shifts rightward, causing the equilibrium price to increase. This increase in the price of the good results in
A) a rightward shift of the supply curve.
B) an increase in quantity supplied.
C) a leftward shift of the supply curve.
D) a downward movement along the supply curve.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

7) An increase in the price of oil will
A) shift the supply curve of oil to the left.
B) shift the supply curve of oil to the right.
C) leave the supply curve of oil unchanged.
D) Not enough information to answer the question.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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8) The expression "increase in quantity supplied" is illustrated graphically as a
A) leftward shift in the supply curve.
B) rightward shift in the supply curve.
C) movement up along the supply curve.
D) movement down along the supply curve.
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

9) The Law of Supply states
A) that supply curves slope upward.
B) that supply curves can be vertical or horizontal.
C) Both A and B.
D) None of the above.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

10) Supply curves
A) slope upward.
B) slope downward.
C) are horizontal.
D) can have many shapes.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

11) If the supply curve of a product changes so that sellers are now willing to sell 2 additional units at any given price, the supply curve will
A) shift leftward by 2 units.
B) shift rightward by 2 units.
C) shift vertically up by 2 units.
D) shift vertically down by 2 units.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
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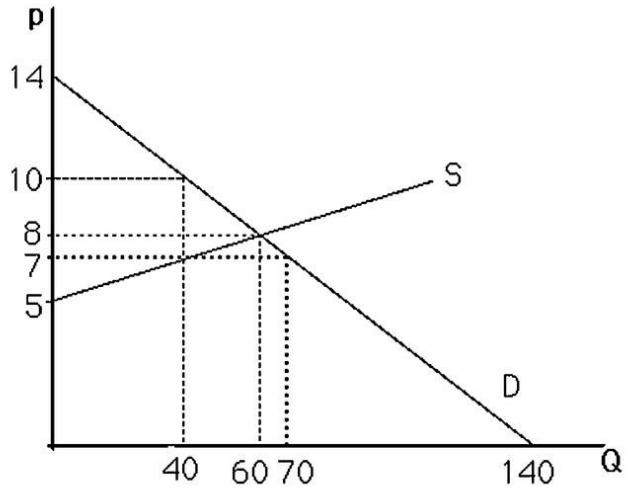

12) The above figure shows a graph of the market for pizzas in a large town. No pizzas will be supplied unless the price is above
A) $0.
B) $5.
C) $12.
D) $14.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

13) Suppose there are 100 identical firms in the rag industry, and each firm is willing to supply 10 rags at any price. The market supply curve will be a
A) vertical line where Q = 10.
B) vertical line where Q = 100.
C) vertical line where Q = 1000.
D) horizontal line where Q = 1000.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

14) The market supply curve is found by
A) horizontally summing all individual supply curves at a price.
B) vertically summing all individual supply curves at a quantity.
C) either A or B above since they both give the same answer.
D) None of the above.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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15) Suppose the following information is known about a market:

1. Sellers will not sell at all below a price of $2.
2. At a price of $10, any given seller will sell 10 units.
3. There are 100 identical sellers in the market.

Assuming a linear supply curve, use this information to derive the market supply curve.
Answer: First, Q = 100q since all firms are identical. This gives two points: (p = 2, Q = 0) and (p = 10, Q = 1000). From the first point, it is known that p = 2 + bQ. When Q = 1000, 10 = 2 + b(1000). Solving for b yields b = .008. Rearranging to solve for Q yields: Q = -250 + 125p or P = 2 + .008Q.
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

2.3 Market Equilibrium

1) Equilibrium is defined as a situation in which
A) neither buyers nor sellers want to change their behavior.
B) no government regulations exist.
C) demand curves are perfectly horizontal.
D) suppliers will supply any amount that buyers wish to buy.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

2) A market equilibrium occurs
A) only with government regulation.
B) only because of the profit motive of firms.
C) only because of the complacency of consumers.
D) through the interaction of self-interested buyers and sellers.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: New

3) A market is said to "clear" when
A) sellers give up selling their goods because they can't find any buyers.
B) buyers and sellers are able to buy and sell as much as they want at the market price.
C) the government decides to shut it down.
D) sellers run out of goods to sell.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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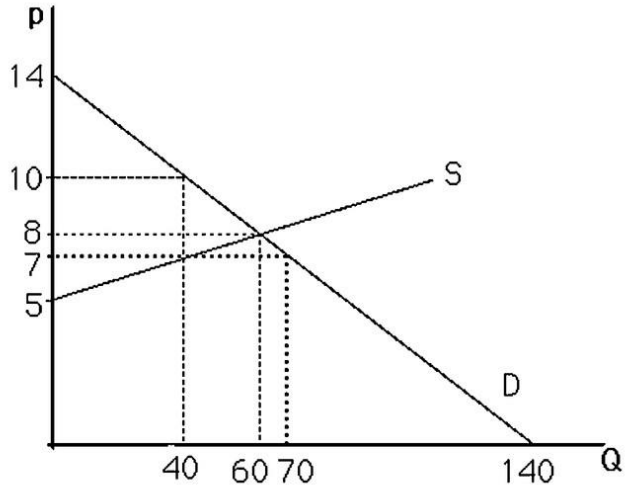
4) At equilibrium, quantity sold equals the quantity bought. This implies that
A) to sell more, producers require more in payment than consumers are willing to pay.
B) government regulation is necessary.
C) to sell less would require a lower price but would yield greater profit.
D) those who don't buy have been treated unfairly.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old



5) The above figure shows a graph of the market for pizzas in a large town. At a price of $10, there will be
A) no pizzas supplied.
B) equilibrium.
C) excess supply.
D) excess demand.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: New

6) The above figure shows a graph of the market for pizzas in a large town. At a price of $5, there will be
A) excess demand.
B) excess supply.
C) equilibrium.
D) zero demand.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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7) The above figure shows a graph of the market for pizzas in a large town. What are the equilibrium price and quantity?
A) p = 8, Q = 60
B) p = 7, Q = 40
C) p = 7, Q = 70
D) p = 10, Q = 40
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

8) The figure above shows a graph of the market for pizzas in a large town. What characterizes the equilibrium in this market?
A) There is excess supply at the equilibrium price of $7.
B) The government has selected the appropriate price for pizzas.
C) The quantity supplied equals the quantity demanded.
D) Supply equals demand.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

9) The above figure shows a graph of a market for pizzas in a large town. At a price of $7, what is the amount of excess demand?
A) 0; there is excess supply at $7.
B) 20 units
C) 30 units
D) 10 units
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

10) The above figure shows a graph of a market for pizzas in a large town. At a price of $10, the market
A) is not in equilibrium.
B) has excess supply.
C) does not have excess demand.
D) All of the above.
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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11) If Qs = -20 + 10p, and Qd = 400 - 20p, what is the equilibrium price?
A) 14
B) 42
C) 12.67
D) 38
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

12) If Qs = -20 + 10p, and Qd = 400 - 20p, what is the equilibrium quantity?
A) 440
B) 146.6
C) 360
D) 120
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: New

13) After tickets for a major sporting event are purchased at the official box office price, a market often develops whereby these tickets sell at prices well above the official box office price. Which of the following scenarios would NOT be able to explain this result?
A) The official price was below equilibrium from the moment the tickets were available.
B) Increased publicity causes the demand curve for the event to shift rightward.
C) The event was not a sellout.
D) Not everyone who wanted a ticket was able to buy one at the box office.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

14) According to Adam Smith's *invisible hand*
A) markets need the government to intervene.
B) forces are constantly pushing markets out of equilibrium
C) people and firms coordinate their activities, resulting in equilibrium in the market.
D) there is an *invisible glove* that restricts what markets can do.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: New

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15) A competitive equilibrium is described by
A) a price only.
B) a quantity only.
C) the excess supply minus the excess demand.
D) a price and a quantity.
Answer: D
Skill: Definition
AACSB: Application of Knowledge
Status: Old

16) If price is initially above the equilibrium level,
A) the supply curve will shift rightward.
B) the supply curve will shift leftward.
C) excess supply exists.
D) all firms can sell as much as they want.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

17) If the price of a good is initially below the equilibrium level
A) the supply curve will shift leftward.
B) the supply curve will shift rightward.
C) firms supply none of the good.
D) excess demand exists.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

18) In some markets, _____ act to adjust the price to bring the market into equilibrium.
A) bulls
B) regulators
C) market makers
D) web sites
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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For the following, please answer "True" or "False" and explain why.

19) When a market is in disequilibrium consumers and producers change their behavior. As a result, the market reaches equilibrium.
Answer: True. For example, when a shortage exists at a given price consumers bid up the price and firms increase production until the equilibrium is reached.
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

20) Explain why the equilibrium price is called the market clearing price.
Answer: At the equilibrium price, sellers want to sell the exact amount consumers want to buy. There is no excess demand or excess supply. The market is exactly cleared of all goods.
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

2.4 Shocks to the Equilibrium

1) Once an equilibrium is achieved, it can persist indefinitely because
A) shocks that shift the demand curve or the supply curve cannot occur.
B) shocks to the demand curve are always exactly offset by shocks to the supply curve.
C) the government never intervenes in markets at equilibrium.
D) in the absence of supply/demand shocks no one applies pressure to change the price.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: New

2) From the 1970s through the 1990s, the relative price of a college education has increased greatly. During the same time period, college enrollment has also increased. This evidence suggests that during this time period
A) the demand curve for a college education has shifted leftward.
B) the demand curve for a college education has shifted rightward.
C) the supply curve for a college education has shifted leftward.
D) the supply curve for a college education has shifted rightward.
Answer: B
Skill: Analytical
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Status: Old

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3) Suppose a market with an upward-sloping supply curve were currently at equilibrium. A rightward shift of the demand curve would cause
A) an increase in price but a decrease in quantity.
B) a decrease in price but an increase in quantity.
C) an increase in both price and quantity.
D) a decrease in both price and quantity.
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: New

4) A rightward shift of the demand curve in a market with an upward-sloping supply curve will lead to a(n)
A) increase in equilibrium price.
B) excess demand at the old equilibrium price.
C) increase in quantity supplied.
D) All of the above.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: New

5) A leftward shift of the demand curve in a market with an upward-sloping supply curve will lead to a(n)
A) decrease in equilibrium price.
B) excess supply at the old equilibrium price.
C) decrease in quantity supplied.
D) All of the above.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: New

6) If pizza and tacos are substitutes, a decrease in the price of tacos would lead to a
A) decrease in the demand curve for pizza.
B) decrease in the quantity demanded of pizza.
C) decrease in the price of pizza.
D) All of the above.
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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7) Suppose a market with a downward-sloping demand curve were currently at equilibrium. A rightward shift of the supply curve would cause a(n)
A) increase in price and a decrease in quantity.
B) decrease in price and an increase in quantity.
C) increase in both price and quantity.
D) decrease in both price and quantity.
Answer: B
Skill: Conceptual
AACSB: Application of Knowledge
Status: New

8) A rightward shift of the supply curve in a market with a downward-sloping demand curve will lead to a(n)
A) decrease in equilibrium price.
B) excess supply at the old equilibrium price.
C) increase in quantity demanded.
D) All of the above.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: New

9) A leftward shift of the supply curve in a market with a downward-sloping demand curve will lead to a(n)
A) increase in equilibrium price.
B) excess demand at the old equilibrium price.
C) decrease in quantity demanded.
D) All of the above.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: New

10) If the demand curve is vertical a rightward shift of the supply curve will lead to
A) an increase in quantity supplied.
B) an increase in quantity demanded.
C) a decrease in quantity demanded.
D) a decrease in price.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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11) If the demand curve is horizontal a rightward shift of the supply curve will lead to
A) an increase in quantity supplied.
B) an increase in price.
C) a decrease in quantity demanded.
D) a decrease in price.
Answer: A
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

12) A drought in the Midwest will raise the price of wheat because of a
A) leftward shift in the supply curve.
B) rightward shift in the supply curve.
C) leftward shift in the demand curve.
D) rightward shift in the demand curve.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

13) The owner of a railroad that carries cargo should _____ supply when she foresees regulations that will _____ the cost of shipping cargo by truck.
A) decrease; increase
B) decrease; leave unchanged
C) increase; increase
D) leave unchanged; increase
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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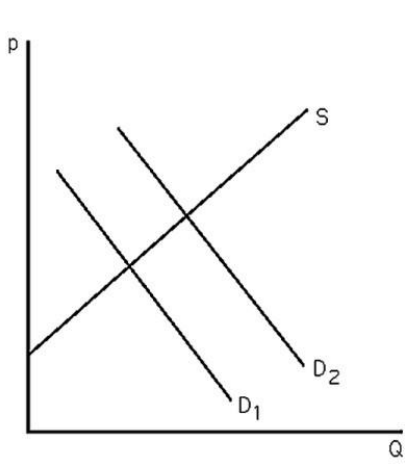
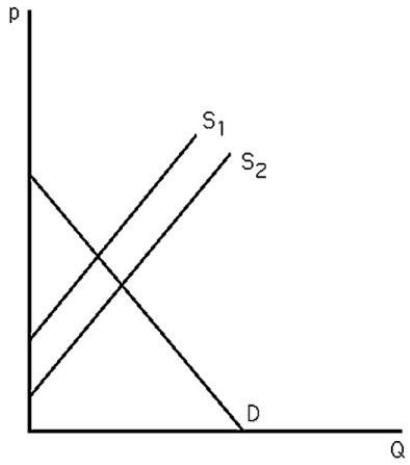
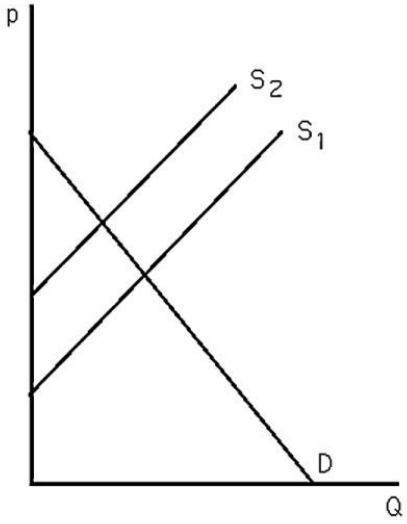


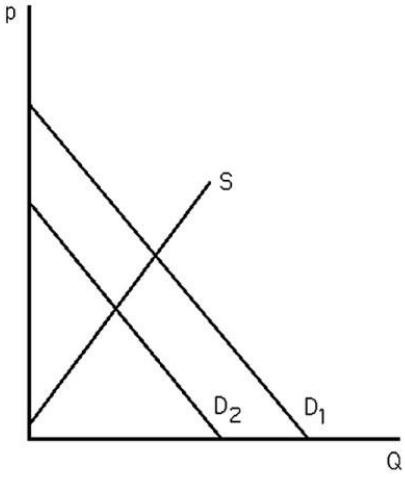
Graph A



Graph B



Graph C



Graph D

14) The above figure shows four different markets with changes in either the supply curve or the demand curve. Which graph best illustrates the market for coffee after severe weather destroys a large portion of the coffee crop?
A) Graph A
B) Graph B
C) Graph C
D) Graph D
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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15) The above figure shows four different markets with changes in either the supply curve or the demand curve. Which graph best illustrates the market for tea after severe weather destroys a large portion of the coffee crop?
A) Graph A
B) Graph B
C) Graph C
D) Graph D
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

16) The above figure shows four different markets with changes in either the supply curve or the demand curve. Which graph best illustrates the market for non-dairy coffee creamer after severe weather destroys a large portion of the coffee crop?
A) Graph A
B) Graph B
C) Graph C
D) Graph D
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

17) The above figure shows four different markets with changes in either the supply curve or the demand curve. Which graph best illustrates the market for computers after technological advances in making computers occur?
A) Graph A
B) Graph B
C) Graph C
D) Graph D
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

18) If oranges were found to cure cancer
A) the equilibrium price of apples would likely fall.
B) the equilibrium price of oranges would likely increase in the near term.
C) the equilibrium quantity of oranges would likely increase.
D) All of the above.
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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19) If the demand for eBook readers increases and the supply of eBook readers increases, then
A) it is clear that prices will increase, the change in the quantity of eBook readers sold is ambiguous.
B) it is clear that prices will decrease, the change in the quantity of eBook readers sold is ambiguous.
C) it is clear that quantity sold will increase, the change in the price of eBook readers is ambiguous.
D) it is clear that quantity sold will decrease, the change in the price of eBook readers is ambiguous.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

20) If the demand for CD players decreases and the supply of CD players decreases, then
A) it is clear that prices will decrease, the change in the quantity of CD players sold is ambiguous.
B) it is clear that prices will increase, the change in the quantity of CD players sold is ambiguous.
C) it is clear that quantity sold will decrease, the change in the price of CD players is ambiguous.
D) it is clear that change in quantity sold is ambiguous, the change in the price of CD players is ambiguous.
Answer: C
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

For the following, please answer "True" or "False" and explain why.

21) During a severe winter, the price of home heating oil is expected to be more than it would be during a normal winter.
Answer: True. During a severe winter, people need to operate their furnace more often than in a normal winter. The demand for home heating oil lies to the right of where it would be under normal weather conditions. As a result, the price of oil rises.
Skill: Analytical
AACSB: Analytical Thinking
Status: New

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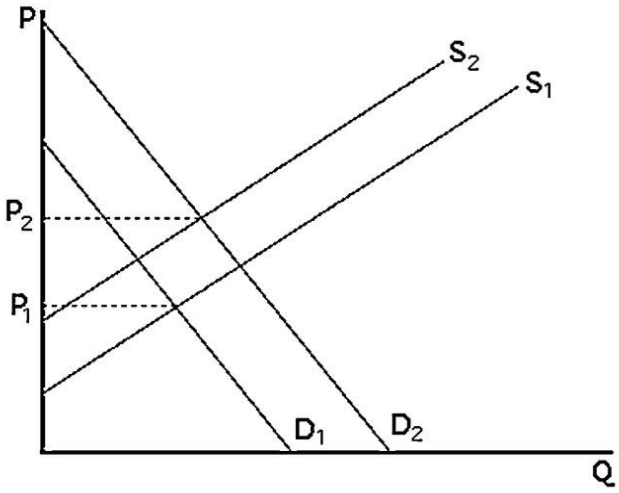
22) Suppose there is a linear downward-sloping demand curve and a linear upward-sloping supply curve for a good. The price of a substitute good increases and the price of an input to production also increases. Graph the original demand and supply curves, and the curves after the substitute good and input prices increase. How will the equilibrium price change after the substitute and input prices increase?
Answer:



See the above figure. The new demand curve will be to the right of the original demand curve and the new supply curve will be to the left of the original supply curve. The equilibrium price will increase. The change in equilibrium quantity cannot be determined and will depend on the relative magnitude of the supply and demand shifts.
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

2.5 Effects of Government Interventions

1) Government actions can cause a
A) shift in the supply curve.
B) shift in the demand curve.
C) reaction from firms in other countries.
D) All of the above.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

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2) When an imported good has restrictions placed on it that limits the amount that can be imported and as a result the price of the good increases, the demand curve for that good will
A) shift rightward.
B) shift leftward.
C) become steeper.
D) be unaffected.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: New

3) Government prohibition of advertising cigarettes on television would most likely result in
A) a rightward shift in the demand curve for cigarettes.
B) a leftward shift in the demand curve for cigarettes.
C) a rightward shift in the demand curve for television advertising time.
D) no change in the market for either cigarette or television advertising.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

4) If a government-imposed price ceiling causes the observed price in a market to be below the equilibrium price,
A) there will be excess demand.
B) there will be excess supply.
C) the curves will shift to make a new equilibrium at the regulated price.
D) None of the above.
Answer: A
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

5) A price ceiling that is set above the equilibrium price
A) causes suppliers to raise their prices.
B) is binding.
C) is non-binding.
D) creates a shortage.
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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6) A price ceiling that is set below the equilibrium price
A) causes suppliers to raise their prices.
B) is binding.
C) is non-binding.
D) creates a surplus.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

7) A price ceiling that is set below the equilibrium price
A) causes suppliers to lose money.
B) creates a shortage.
C) is non-binding.
D) creates a surplus.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

8) Consumer groups tend to lobby for
A) price floors.
B) price ceilings.
C) quantity quotas.
D) taxes.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

9) When there is a binding price ceiling,
A) there is no equilibrium.
B) the quantity demanded does not equal the quantity supplied.
C) all potential customers are happy because they can buy the good at a lower price.
D) producers move production to another country.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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10) A restriction on the number of people allowed to be medical doctors in the United States would most likely
A) increase doctors' fees.
B) decrease the demand for doctors.
C) decrease the demand for nurses.
D) decrease the number of people who get sick.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

11) In the labor market, if the government imposes a minimum wage that is below the equilibrium wage, then
A) workers who wish to work at the minimum wage will have a difficult time finding jobs.
B) firms will hire fewer workers than without the minimum wage law.
C) some workers may lose their jobs as a result.
D) nothing will happen to the wage rate or employment.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

12) Agricultural price supports are
A) price ceilings.
B) price floors.
C) quantity quotas.
D) taxes.
Answer: B
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

13) Producer groups tend to lobby for
A) price floors.
B) price ceilings.
C) quantity quotas.
D) taxes.
Answer: A
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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14) When there is a binding price floor
A) there is no equilibrium.
B) the quantity demanded does not equal the quantity supplied.
C) all potential producers are happy because they can sell the good at a higher price.
D) the government is helping consumers at the expense of producers.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

15) A price floor that is set below the equilibrium price
A) causes suppliers to lower their prices.
B) is binding.
C) is non-binding.
D) creates a shortage.
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

16) A price floor that is set above the equilibrium price
A) causes suppliers to lower their prices.
B) is binding.
C) is non-binding.
D) creates a shortage.
Answer: B
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

17) A price floor that is set above the equilibrium price
A) causes suppliers to lose money.
B) creates a shortage.
C) is non-binding.
D) creates a surplus.
Answer: D
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

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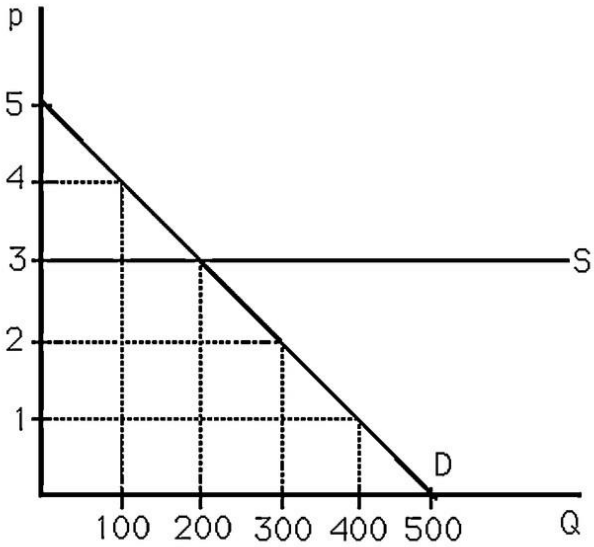

18) The above figure shows the market for apples. If a consumer group convinces the government to set a maximum price of $2 per pound, then
A) 300 pounds of apples will be sold at $2.
B) no apples will be supplied.
C) no apples will be demanded.
D) there will be a shortage of 100 pounds of apples.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

19) The above figure shows the market for apples. If apple farmers convince the government to set a minimum price of $4 per pound, then
A) 100 pounds of apples will be sold at $4.
B) no apples will be supplied.
C) no apples will be demanded.
D) None of the above.
Answer: A
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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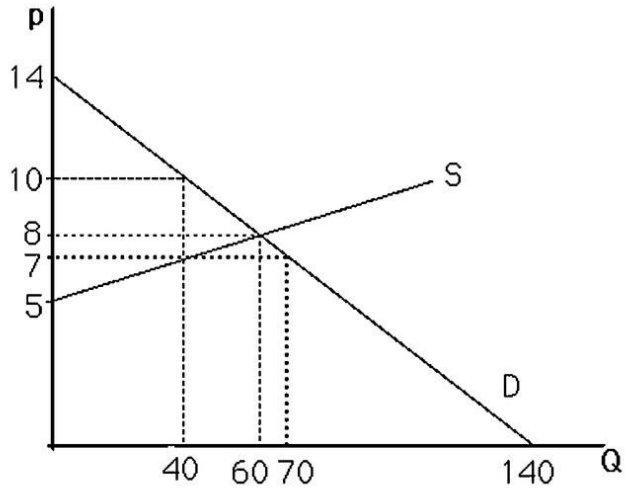

20) The above figure shows a graph of the market for pizzas in a large town. Suppose that concern over dietary habits has led the government to impose a restriction that limits suppliers to produce no more than 40 pizzas. What will the price of pizza be as a result of this quota?
A) $2
B) $7
C) $8
D) $10
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

21) The above figure shows a graph of the market for pizzas in a large town. Suppose that concern over dietary habits has led the government to impose a restriction that limits suppliers to produce only 40 pizzas. As a result, for prices greater than $7, the
A) supply curve is unchanged.
B) supply curve is vertical.
C) demand curve becomes vertical.
D) demand curve becomes horizontal.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

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22) The above figure shows a graph of the market for pizzas in a large town. As a result of concern over the affordability of pizza, the government restricts sellers from charging a price over $7. As a result, the quantity of pizzas consumed will
A) increase.
B) decrease.
C) remain unchanged.
D) be indeterminable.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

23) A specific tax on sellers will
A) shift the demand curve to the right.
B) shift the demand curve to the left.
C) shift the supply curve to the right.
D) shift the supply curve to the left.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

24) If the government places a $1.20 tax on each pizza sold,
A) consumers will have to pay $1.20 more for each pizza they buy.
B) the supply curve will shift left by $1.20.
C) the demand curve will shift right by $1.20.
D) both the demand curve and the supply curve will shift by 60 cents each.
Answer: B
Skill: Analytical
AACSB: Analytical Thinking
Status: Old

25) If the government places a $1500 tax on each hybrid car sold,
A) consumers will stop buying hybrid cars.
B) the demand curve will shift to the right by $1500.
C) the supply curve will shift to the right by $1500.
D) None of the above.
Answer: D
Skill: Analytical
AACSB: Analytical Thinking
Status: New

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26) If the government institutes a specific tax for a good,
A) the producer simply passes the entire tax on to the consumer.
B) the producer must absorb the entire tax.
C) the producer can generally only pass part of the tax onto the consumer.
D) the equilibrium price drops.
Answer: C
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

2.6 When to Use the Supply-and-Demand Model

1) It is appropriate to use the supply-and-demand model if, in a market,
A) everyone is a price taker with full information about the price and quality of the good.
B) firms sell identical products.
C) costs of trading are low.
D) All of the above.
Answer: D
Skill: Conceptual
AACSB: Application of Knowledge
Status: Old

2) Consumers and firms are known as price takers only if
A) no market exists to determine the equilibrium price.
B) they can set the market price.
C) they cannot unilaterally affect the market price.
D) excess demand exists.
Answer: C
Skill: Definition
AACSB: Application of Knowledge
Status: Old

3) Costs that pertain to finding a trading partner and making a trade are called
A) transaction costs.
B) transgression costs.
C) consumption costs.
D) transaction taxes.
Answer: A
Skill: Definition
AACSB: Application of Knowledge
Status: Old

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4) It is appropriate to use the supply-and-demand model in which of the following markets?
A) beer market
B) car market
C) wheat market
D) market for breakfast cereal
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

5) It is appropriate to use the supply-and-demand model in which of the following markets?
A) beer market
B) wine market
C) real estate market
D) market for gourmet pizza
Answer: C
Skill: Conceptual
AACSB: Analytical Thinking
Status: Old

6) Which of the following is NOT a characteristic of perfectly competitive markets?
A) There is free entry and exit.
B) All market participants are price-takers.
C) It is hard to find a trading partner.
D) All products are identical.
Answer: C
Skill: Definition
AACSB: Application of Knowledge
Status: Old

7) Which of the following is NOT a characteristic of perfectly competitive markets?
A) The government restricts the number of producers through licensing requirements.
B) All market participants are price-takers.
C) It is easy to find a trading partner.
D) All products are identical.
Answer: A
Skill: Definition
AACSB: Application of Knowledge
Status: Old

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8) Which of the following is NOT a characteristic of perfectly competitive markets?
A) Transactions costs are a very small part of the sale.
B) All market participants are price-takers.
C) It is easy to find a trading partner.
D) Products are differentiated.
Answer: D
Skill: Definition
AACSB: Application of Knowledge
Status: Old

9) Which of the following is NOT a characteristic of perfectly competitive markets?
A) Transactions costs are a very small part of the sale.
B) There are three suppliers that form an oligopoly.
C) It is easy to find a trading partner.
D) All products are identical.
Answer: B
Skill: Definition
AACSB: Application of Knowledge
Status: Old

10) Which of the following is NOT a characteristic of perfectly competitive markets?
A) Transactions costs are a very small part of the sale.
B) Information about the product is difficult to find and understand.
C) It is easy to find a trading partner.
D) All products are identical.
Answer: B
Skill: Definition
AACSB: Application of Knowledge
Status: Old

11) Which of the following is NOT a characteristic of perfectly competitive markets?
A) Buying the product requires you to hire a lawyer to write a contract.
B) All market participants are price-takers.
C) You are the only buyer of the product.
D) All products are identical.
Answer: C
Skill: Definition
AACSB: Application of Knowledge
Status: Old

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