Module 2: Demand, Supply and Equilibrium

1. The income and substitution effects account for:
   A. the upward sloping supply curve.
   B. the downward sloping demand curve.
   C. movements along a given supply curve.
   D. shifts in the demand curve.

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

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

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

5. Tennis rackets and ballpoint pens are:
   A. substitute goods.
   B. complementary goods.
   C. inferior goods.
   D. independent goods.

6. A decrease in the price of digital cameras will:
   A. cause the demand curve for memory cards to become vertical.
   B. shift the demand curve for memory cards to the right.
   C. shift the demand curve for memory cards to the left.
   D. not affect the demand for memory cards.

7. A leftward shift of a product supply curve might be caused by:
   A. an improvement in the relevant technique of production.
   B. a decline in the prices of needed inputs.
   C. an increase in consumer incomes.
   D. some firms leaving an industry.

8. The location of the product supply curve depends on the:
   A. production technology.
   B. number of buyers in the market.
   C. tastes of buyers.
   D. location of the demand curve.
9. When the price of oil declines significantly, the price of gasoline also declines. The latter occurs because of a(n):
   A. increase in the demand for gasoline.
   B. decrease in the demand for gasoline.
   C. increase in the supply of gasoline.
   D. decrease in the supply of gasoline.

10. Suppose that at prices of $1, $2, $3, $4, and $5 for product Z, the corresponding quantities supplied are 3, 4, 5, 6, and 7 units, respectively. Which of the following would increase the quantities supplied of Z to, say, 6, 8, 10, 12, and 14 units at these prices?
   A. improved technology for producing Z
   B. an increase in the prices of the resources used to make Z
   C. an increase in the excise tax on product Z
   D. increases in the incomes of the buyers of Z

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<tr>
<th>(1)</th>
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<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
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<td>Qs</td>
<td>Qs</td>
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</table>

11. Refer to the above table. Suppose that demand is represented by columns (3) and (2) and supply is represented by columns (3) and (5). If the price were artificially set at $6,
   A. the market would clear.
   B. a surplus of 40 units would occur.
   C. a shortage of 40 units would occur.
   D. demand would change from columns (3) and (2) to columns (3) and (1).

12. Refer to the above table. In relation to column (3), a change from column (4) to column (5) would most likely be caused by:
   A. government placing an excise tax on the good.
   B. an improvement in production technology.
   C. an increase in consumer income.
   D. an increase in input prices.

Answer the question on the basis of the given supply and demand data for wheat:

<table>
<thead>
<tr>
<th>Bushels Demanded Per Month</th>
<th>Price Per Bushel</th>
<th>Bushels Supplied Per Month</th>
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<tr>
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<td>$5</td>
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<td>67</td>
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</table>

13. Refer to the above data. If the price in this market was $4:
   A. the market would clear; quantity demanded would equal quantity supplied.
   B. buyers would want to purchase more wheat than is currently being supplied.
   C. farmers would not be able to sell all their wheat.
   D. there would be a shortage of wheat.
14. Refer to the above diagram. A shortage of 160 units would be encountered if price was:
   A. $1.10, that is, $1.60 minus $.50.
   B. $1.60.
   C. $1.00.
   D. $.50.

15. If there is a surplus of a product, its price:
   A. is below the equilibrium level.
   B. is above the equilibrium level.
   C. will rise in the near future.
   D. is in equilibrium.

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

17. At the current price there is a shortage of a product. We would expect price to:
   A. increase, quantity demanded to increase, and quantity supplied to decrease.
   B. increase, quantity demanded to decrease, and quantity supplied to increase.
   C. increase, quantity demanded to increase, and quantity supplied to increase.
   D. decrease, quantity demanded to increase, and quantity supplied to decrease.

18. There will be a surplus of a product when:
   A. price is below the equilibrium level.
   B. the supply curve is downward sloping and the demand curve is upward sloping.
   C. the demand and supply curves fail to intersect.
   D. consumers want to buy less than producers offer for sale.

19. The equilibrium price and quantity in a market usually produces allocative efficiency because:
   A. all consumers who want the good are satisfied.
   B. marginal benefit and marginal cost are equal at that point.
   C. equilibrium insures an equitable distribution of output.
   D. the excess of goods produced at equilibrium guarantees that all will have enough.

20. Allocative efficiency refers to:
   A. the use of the least-cost method of production.
   B. the production of the product mix most wanted by society.
   C. the full employment of all available resources.
   D. production at some point inside of the production possibilities curve.
21. Other things equal, an excise tax on a product will:
   A. increase its supply.
   B. increase its price.
   C. increase the quantity sold.
   D. increase its demand.

22. Refer to the above diagram, in which $S_1$ and $D_1$ represent the original supply and demand curves and $S_2$ and $D_2$ the new curves. In this market:
   A. supply has decreased and equilibrium price has increased.
   B. demand has increased and equilibrium price has decreased.
   C. demand has decreased and equilibrium price has decreased.
   D. demand has increased and equilibrium price has increased.

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

23. Refer to the above. If $X$ is an inferior good, a decrease in income will:
   A. decrease $D$, decrease $P$, and decrease $Q$.
   B. decrease $D$, decrease $P$, and increase $Q$.
   C. increase $S$, decrease $P$, and increase $Q$.
   D. increase $D$, increase $P$, and increase $Q$.

24. With a downsloping demand curve and an upsloping supply curve for a product, an increase in consumer income will:
   A. increase equilibrium price and quantity if the product is a normal good.
   B. decrease equilibrium price and quantity if the product is a normal good.
   C. have no effect on equilibrium price and quantity.
   D. reduce the quantity demanded, but not shift the demand curve.

<table>
<thead>
<tr>
<th>Quantity Demanded</th>
<th>Price</th>
<th>Quantity Supplied</th>
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<tbody>
<tr>
<td>52</td>
<td>$50</td>
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<td>92</td>
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25. In the above market, economists would call a government-set maximum price of $40 a:
   A. price ceiling.
   B. price floor.
   C. equilibrium price.
   D. fair price.
26. A price floor means that:
   A. inflation is severe in this particular market.
   B. sellers are artificially restricting supply to raise price.
   C. government is imposing a maximum legal price that is typically below the equilibrium price.
   D. government is imposing a minimum legal price that is typically above the equilibrium price.

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

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

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

30. (Consider This) Ticket scalping refers to:
   A. the surplus of tickets that occurs when price is set below equilibrium.
   B. the shortage of tickets that occurs when price is set above equilibrium.
   C. pricing tickets so high that an athletic or artistic event will not be sold out.
   D. reselling a ticket at a price above its original purchase price.