1. The graph above represents a competitive market for a product where the government has set a price ceiling of OA. What quantity will buyers be able to buy after the imposition of the price ceiling?
   A. JL  
   B. 0L  
   C. 0J  
   D. KL

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

3. The construction of demand and supply curves assumes that the primary variable influencing decisions to produce and purchase goods is:
   A. preferences.  
   B. price.  
   C. incomes.  
   D. expectations.

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

5. Which of the following would most likely increase the supply of college textbooks?
   A. technology of book production improves  
   B. five major publishers go out of business  
   C. producers expect the price to rise in the future  
   D. paper costs double

6. An increase in the price of product B leads to an increase in the demand for product C. This indicates that products B and C are:
   A. Inferior goods  
   B. Normal goods  
   C. Complementary goods  
   D. Substitute goods
7. Suppose that corn prices rise significantly. If farmers expect the price of corn to continue rising relative to other crops, then we would expect:
A. the supply of ethanol, a corn-based product, to increase.
B. the supply to fall as farmers plant more of other crops.
C. the supply to increase as farmers plant more corn.
D. consumer demand for wheat to fall.

8. Refer to the above diagram. The highest price that buyers will be willing and able to pay for 100 units of this product is:
A. $20.
B. $40.
C. $60.
D. $30.

9. Refer to the above diagram. A price of $20 in this market will result in a:
A. surplus of 50 units.
B. shortage of 50 units.
C. shortage of 100 units.
D. surplus of 100 units.

10. All of the following would cause an increase in the demand for private airplanes at a given price, except a(n):
A. Increase in plane fares
B. Decrease in interest rates
C. Decrease in the costs of making private airplanes
D. Increase in consumer incomes

11. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. Given $D_0$, if the supply curve moved from $S_0$ to $S_1$, then:
A. supply has increased and equilibrium quantity has decreased.
B. supply has increased and price has risen to $O_G$.
C. there has been an increase in the quantity supplied.
D. supply has decreased and equilibrium quantity has decreased.
12. An increase in supply will cause equilibrium price to _________ and equilibrium quantity to _________.
   A. increase; decrease  
   B. decrease; increase  
   C. increase; increase  
   D. decrease; decrease

13. What would best explain why the equilibrium price of pink salmon decreased and the equilibrium quantity increased?
   A. The decrease in demand was greater than the decrease in supply  
   B. The increase in supply was greater than the decrease in demand  
   C. The decrease in supply was greater than the increase in demand  
   D. The increase in demand was greater than the decrease in supply

14. The location of the product supply curve depends on the:
   A. number of buyers in the market.  
   B. tastes of buyers.  
   C. location of the demand curve.  
   D. production technology.

15. Which of the above diagrams illustrate(s) the effect of a governmental subsidy on the market for AIDS research?
   A. A only.  
   B. B only.  
   C. C only.  
   D. D only.

16. The market system automatically corrects a surplus condition in a competitive market by:
   A. Raising the price of the commodity in question while decreasing the quantity demanded  
   B. Raising the price of the commodity in question while increasing the quantity demanded  
   C. Reducing the price of the commodity in question while decreasing the quantity demanded  
   D. Reducing the price of the commodity in question while increasing the quantity demanded

17. A price floor means that:
   A. sellers are artificially restricting supply to raise price.  
   B. inflation is severe in this particular market.  
   C. government is imposing a minimum legal price that is typically above the equilibrium price.  
   D. government is imposing a maximum legal price that is typically below the equilibrium price.
18. Refer to the above diagram. A government-set price floor is best illustrated by:
   A. price B.
   B. price C.
   C. price A.
   D. quantity E.

19. The law of supply indicates that, other things equal:
   A. producers will offer more of a product at low prices than at high prices.
   B. consumers will purchase less of a good at high prices than at low prices.
   C. producers will offer more of a product at high prices than at low prices.
   D. the product supply curve is downsloping.

20. Refer to the four graphs above. Select the graph above that best shows changes in demand and supply in the market specified in the following situation: In the market for autos, if the economy experiences a deep recession that reduces average per capita income, and there are lengthy strikes in the auto industry.
   A. Graph D
   B. Graph C
   C. Graph B
   D. Graph A
21. Consider the supply and demand curves depicted in the diagram above. If the government imposed a price ceiling of $10, then sellers will be willing to sell:
   A. 36 units
   B. 24 units
   C. 0 units
   D. 50 units

22. A demand curve:
   A. shows the relationship between income and spending.
   B. graphs as an upsloping line.
   C. indicates the quantity demanded at each price in a series of prices.
   D. shows the relationship between price and quantity supplied.

23. Which of the following would not cause the demand curve for apples to shift?
   A. an increase in demand for apple pie.
   B. a decrease in the income of apple buyers.
   C. an increase in the price of pears (a substitute for apples).
   D. an increase in the price of apples.

24. If the price of product L increases, the demand curve for close-substitute product J will:
   A. shift downward toward the horizontal axis.
   B. remain unchanged.
   C. shift to the left.
   D. shift to the right.

25. A fall in the price of milk, used in the production of ice cream, will:
   A. Decrease the supply of ice cream, causing the supply curve of ice cream to shift to the left
   B. Have no effect on the supply of ice cream
   C. Cause a downward movement along the supply curve of ice cream
   D. Increase the supply of ice cream, causing the supply curve of ice cream to shift to the right
test 2 Key
Version #3

1. C
2. C
3. B
4. D
5. A
6. D
7. C
8. C
9. C
10. C
11. D
12. B
13. B
14. D
15. C
16. D
17. C
18. B
19. C
20. C
21. C
22. C
23. D
24. D
25. D