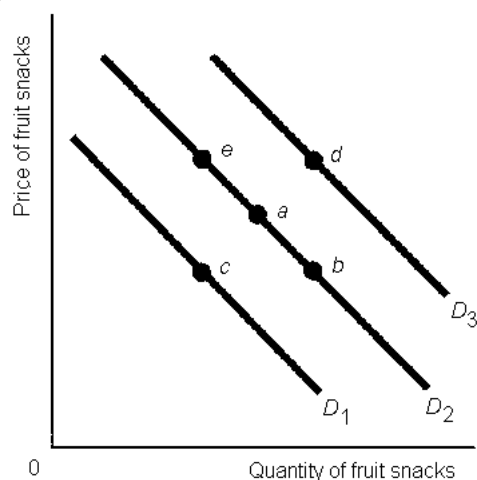


**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) The law of demand states that, other things remaining the same, the lower the price of a good, the
  - A) smaller will be the demand for the good.
  - B) larger will be the demand for the good.
  - C) smaller will be the quantity of the good demanded.
  - D) larger will be the quantity of the good demanded.
  
- 2) The law of demand implies that demand curves
  - A) slope down.
  - B) slope up.
  - C) shift up whenever the price rises.
  - D) shift down whenever the price rises.
  
- 3) Which of the following is consistent with the law of demand?
  - A) An increase in the price of tapes causes an increase in the quantity of tapes demanded.
  - B) An increase in the price of soda causes a decrease in the quantity of soda demanded.
  - C) A decrease in the price of milk causes a decrease in the quantity of milk demanded.
  - D) A decrease in the price of juice causes no change in the quantity of juice demanded.
  
- 4) When demand decreases (shifts to the left) and supply doesn't change, which of the following equilibrium changes occur?
  - A) price falls and quantity decreases.
  - B) price falls and quantity increases.
  - C) price rises and quantity decreases
  - D) price rises and quantity increases.
  
- 5) Each point on the demand curve reflects
  - A) all the wants of a given household.
  - B) the highest price consumers are willing to pay for an additional unit of a good.
  - C) the highest price sellers will accept for all units over time.
  - D) the lowest-cost technology available to produce a good.
  
- 6) A change in the price of a good
  - A) shifts the demand curve and causes a movement along it.
  - B) shifts the demand curve but does not cause a movement along it.
  - C) does not shift the demand curve but does cause a movement along it.
  - D) neither shifts the demand curve nor causes a movement along it.
  
- 7) A change in which of the following alters buying plans for cars but does NOT shift the demand curve for cars?
  - A) A 5 percent increase in household income.
  - B) A 10 percent decrease in the price of car insurance.
  - C) A 20 percent increase in the price of cars.
  - D) An increased preference for walking.
  
- 8) A drop in the price of compact discs shifts the demand for prerecorded tapes leftward. From that you know compact discs and prerecorded tapes are
  - A) complements.
  - B) substitutes.
  - C) inferior goods.
  - D) normal goods.

- 9) Which of the following pairs of goods are substitutes?  
 A) Compact discs and disc players.  
 B) Cola and lemon lime soda.  
 C) Lettuce and salad dressing.  
 D) Peanut butter and jelly.
- 10) A complement is a good  
 A) of lower quality than another.  
 B) used in conjunction with another good.  
 C) used instead of another good.  
 D) of higher quality than another.
- 11) The demand curve for a normal good shifts leftward if  
 A) income falls or the expected future price falls.  
 B) income falls or the expected future price rises.  
 C) income rises or the expected future price falls.  
 D) income rises or the expected future price rises.
- 12) If a good is an inferior good, then purchases of that good will decrease when  
 A) income rises.  
 B) the price of a substitute rises.  
 C) population increases.  
 D) demand increases.
- 13) Most goods  
 A) are complements to each other.  
 B) are normal goods.  
 C) have vertical demand curves.  
 D) have vertical supply curves.

Figure 4.1

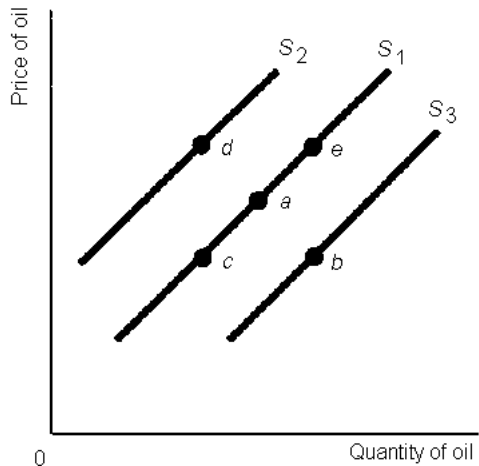


- 14) In Figure 4.1, which movement reflects a decrease in demand?  
 A) From a to e.                      B) From a to b.                      C) From a to c.                      D) From a to d.
- 15) In Figure 4.1, which movement reflects a decrease in quantity demanded but NOT in demand?  
 A) From a to e.                      B) From a to b.                      C) From a to c.                      D) From a to d.
- 16) In Figure 4.1, which movement reflects how consumers would react to an expected future increase in the price of fruit snacks?  
 A) From a to e.                      B) From a to b.                      C) From a to c.                      D) From a to d.

- 17) The quantity supplied of a good is
- A) the same thing as the quantity demanded at each price.
  - B) the amount that the producers are willing to supply at a given price.
  - C) equal to the difference between the quantity available and the quantity desired.
  - D) the amount the firm would sell if it faced no resource constraints.
- 18) A decline in the price of a good causes producers to reduce the quantity of the good they are willing to produce. This fact illustrates
- A) the law of supply.
  - B) the law of demand.
  - C) a change in supply.
  - D) the nature of an inferior good.
- 19) If the price of a good changes but everything else influencing suppliers' planned sales remains constant, there is a
- A) new supply curve.
  - B) movement along the old demand curve.
  - C) movement along the supply curve.
  - D) rotation of the old supply curve around the old price.
- 20) A decrease in quantity supplied is represented by a
- A) movement down the supply curve.
  - B) movement up the supply curve.
  - C) rightward shift in the supply curve.
  - D) leftward shift in the supply curve.
- 21) Beef and leather belts are complements in production. If concern about health and diet shifts the demand curve for beef leftward, the result in the market for leather belts will be
- A) a lower price and a smaller quantity supplied.
  - B) a lower price and a larger quantity supplied.
  - C) a higher price and a smaller quantity supplied.
  - D) a higher price and a larger quantity supplied.
- 22) An increase in the price of a substitute in production shifts the
- A) demand curve for a good leftward.
  - B) demand curve for a good rightward.
  - C) supply curve of a good leftward.
  - D) supply curve of a good rightward.
- 23) If a producer can use resources to produce either good A or good B, then A and B are
- A) complements in production.
  - B) substitutes in production.
  - C) substitutes in consumption.
  - D) complements in consumption.
- 24) Which of the following will shift the supply curve for good X leftward?
- A) A situation in which quantity demanded exceeds quantity supplied.
  - B) An increase in the cost of machinery used to produce X.
  - C) A technological improvement in the production of X.
  - D) A decrease in the wages of workers employed to produce X.

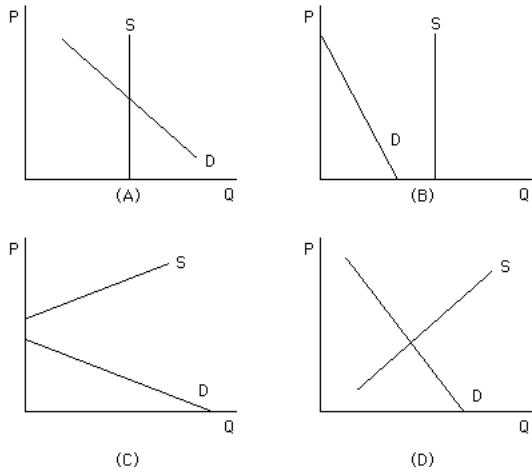
- 25) Which of the following would NOT shift the supply curve?
- A) A technological advance.
  - B) A decrease in the wages of labor used in production.
  - C) A fall in the price of a substitute in production.
  - D) An increase in the price of the good.

Figure 4.2



- 26) In Figure 4.2, which movement could be caused by the development of a new, more efficient refining technology?
- A) From a to e.
  - B) From a to b.
  - C) From a to c.
  - D) From a to d.
- 27) In Figure 4.2, a decrease in the quantity of oil supplied but NOT in the supply is shown by a movement from
- A) a to e.
  - B) a to b.
  - C) a to c.
  - D) a to d.
- 28) The price of a good will tend to fall if
- A) there is a surplus at the current price.
  - B) the current price is below equilibrium.
  - C) the quantity demanded exceeds the quantity supplied.
  - D) the price of a complement falls.
- 29) Which of the following correctly describes how price adjustment eliminates a shortage?
- A) As the price rises, the quantity demanded decreases while the quantity supplied increases.
  - B) As the price rises, the quantity demanded increases while the quantity supplied decreases.
  - C) As the price falls, the quantity demanded decreases while the quantity supplied increases.
  - D) As the price falls, the quantity demanded increases while the quantity supplied decreases.

Figure 4.4



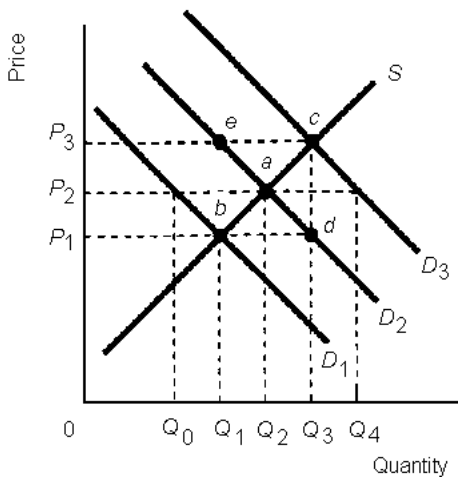
30) Which of the panels in Figure 4.4 might represent the market for manicure services on the top of Mt. Everest (the tallest mountain in the world)?

- A) (a)                      B) (b)                      C) (c)                      D) (d)

31) Which of the panels in Figure 4.4 might represent the market for peanut butter?

- A) (a)                      B) (b)                      C) (c)                      D) (d)

Figure 4.6



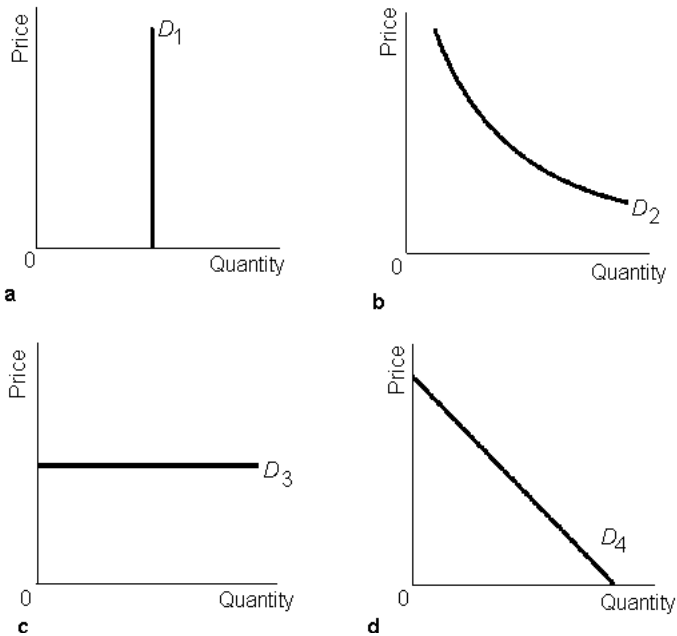
32) Refer to Figure 4.6. If  $D_2$  is the original demand curve for a normal good, which price and quantity will result if incomes fall?

- A) Point a, with price  $P_2$  and quantity  $Q_2$ .                      B) Point b, with price  $P_1$  and quantity  $Q_1$ .  
 C) Point c, with price  $P_3$  and quantity  $Q_3$ .                      D) Point d, with price  $P_1$  and quantity  $Q_3$ .

- 33) The price elasticity of demand equals
- A) the change in price divided by the change in quantity demanded.
  - B) the change in quantity demanded divided by the change in price.
  - C) the percentage change in price divided by the percentage change in quantity demanded.
  - D) the percentage change in quantity demanded divided by the percentage change in price.
- 34) If demand is price elastic,
- A) a given percentage decrease in the price causes a larger percentage increase in the quantity demanded.
  - B) a given percentage increase in the price causes a larger percentage increase in the quantity demanded.
  - C) a given percentage decrease in the price causes a smaller percentage decrease in the quantity demanded.
  - D) the price is very sensitive to any shift of the supply curve.
- 35) Revenues from the sale of a good will decrease if
- A) income increases and the good is normal.
  - B) the price rises and demand is elastic.
  - C) the price rises and demand is inelastic.
  - D) income falls and the good is inferior.
- 36) A vertical demand curve has
- A) unit elasticity.
  - B) infinite elasticity.
  - C) zero elasticity.
  - D) varying elasticity.
- 37) If a 10 percent increase in the price of pears causes a 10 percent decrease in quantity demanded, the demand curve
- A) is vertical.
  - B) is horizontal.
  - C) has slope equal to -1.
  - D) is unit elastic.
- 38) A fall in the price of lemons from \$10.50 to \$9.50 per bushel raises the quantity demanded from 19,200 to 20,800 bushels. The price elasticity of demand in this part of the demand curve is
- A) 0.80.
  - B) 1.20.
  - C) 1.25.
  - D) 8.00.
- 39) The price elasticity of demand is 5.0 if a 10 percent increase in the price results in a
- A) 2 percent decrease in quantity demanded.
  - B) 5 percent decrease in quantity demanded.
  - C) 10 percent decrease in quantity demanded.
  - D) 50 percent decrease in quantity demanded.
- 40) Demand for a good will likely be more elastic,
- A) the higher the level of income.
  - B) the larger the proportion of monthly income spent on it.
  - C) the fewer the good substitutes available.
  - D) the higher the price of complementary goods.
- 41) Demand will be more elastic,
- A) the higher the income.
  - B) the lower the price.
  - C) the shorter the passage of time after a permanent price increase.
  - D) the more substitutes available for the good.

- 42) The elasticity of demand for Dell computers is probably
- A) inelastic and lower than the elasticity of demand for computers overall.
  - B) elastic and lower than the elasticity of demand for computers overall.
  - C) inelastic but higher than the elasticity of demand for computers overall.
  - D) elastic and higher than the elasticity of demand for computers overall.

Figure 5.4



- 43) In Figure 5.4, a unit elastic demand curve is shown by
- A) (a).
  - B) (b).
  - C) (c).
  - D) (d).
- 44) In Figure 5.4, a perfectly elastic demand curve is shown by
- A) (a).
  - B) (b).
  - C) (c).
  - D) (d).
- 45) The supply of new cars increases by 10 percent. If the price elasticity of demand for new cars is 1.25, the price of new cars will fall by
- A) 2.5 percent.
  - B) 8 percent.
  - C) 10 percent.
  - D) 12.5 percent.