

Chapter 3—Market demand and supply

MULTIPLE CHOICE

1. Demand for goods and services reflects:

A	the principle that there is a positive relationship between the price and the quantity.
.	
B	the government's choices of taxes.
.	
C	the freedom of consumers to make their own choices about which goods and services to buy for a given price.
.	
D	the uncertainty of the need for a good as the price of the good increases.
.	

ANS: C PTS: 1 DIF: Moderate REF: The law of demand

2. Consumer sovereignty means:

A	sellers are able to sell the product of their choice.
.	
B	supply follows the demand.
.	
C	less freedom of consumers to make their own choices.
.	
D	noregulation from the government.
.	

ANS: D PTS: 1 DIF: Difficult REF: The law of demand

3. The fact that price and quantity demanded are related negatively illustrates the:

A	law of supply.
.	
B	law of quantity supplied.
.	
C	law of demand.
.	
D	law of quantity demanded.
.	

ANS: C PTS: 1 DIF: Moderate REF: The law of demand

4. A demand curve for The Steel Porcupines' concert tickets would show the:

A	number of tickets the box office is willing to sell at various prices.
.	
B	number of people who need tickets.
.	
C	quality of people who want to buy these concert tickets.
.	
D	number of tickets that will be purchased at various prices.
.	

ANS: D PTS: 1 DIF: Easy REF: The law of demand

5. A demand curve:

A	has a positive slope.
.	
B	has a negative slope.
.	
C	is constant regardless of price.
.	
D	is based on the assumption of a stable supply curve.
.	

ANS: B PTS: 1 DIF: Moderate REF: The law of demand

6. At a price of \$5, Sam buys 10 units of a product. When the price increases to \$6, Sam buys eight units. Martha says Sam's demand has decreased. Is Martha correct?

A	Yes, Martha is correct. Sam's demand has decreased.
.	
B	No, Martha is incorrect. Sam's demand has increased.
.	
C	No, Martha is incorrect. Sam's quantity demanded has decreased, and his demand has not changed.
.	
D	No, Martha is incorrect. Sam's quantity demanded has increased, and his demand has increased.
.	

ANS: C PTS: 1 DIF: Difficult REF: The law of demand

7. Demand is a relationship between two economic variables:

A	the cost of a particular good and the quantity of the good produced.
.	
B	the cost of a particular good and the quantity of the good consumers are willing to buy.
.	
C	the price of a particular good and the price consumers are willing to pay.
.	
D	the price of a particular good and the quantity of the good consumers are willing to buy.
.	

ANS: D PTS: 1 DIF: Moderate REF: The law of demand

8. The relationship between price and quantity demanded:

A	can only be presented in a tabular form.
.	
B	is always illustrated by a graph.
.	
C	can be represented either numerically or graphically.
.	
D	must be presented using a graph.
.	

ANS: C PTS: 1 DIF: Easy REF: The law of demand

9. According to the law of demand:

A	as the price of a good increases, less units are demanded and everything else remains the same.
.	
B	as the price of a good increases, the same number of units is demanded.

.	
C	as the price of a good declines, less units are demanded.
.	
D	the price of a good does not correspond to the quantity demanded.
.	

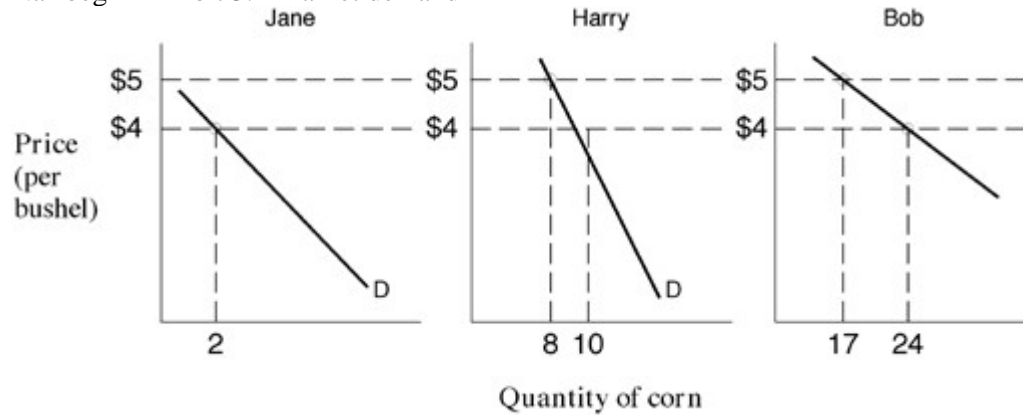
ANS: A

PTS: 1

DIF: Moderate

REF: The law of demand

Narrbegin Exhibit 3.1 Market demand



Narrend

10. Suppose there are only three people in the economy: Jane, Harry and Bob. The individual demand for corn for each of these consumers is given in Exhibit 3.1. The total quantity of corn demanded if the market price is \$5 is ____.

A	three
.	
B	25
.	
C	17
.	
D	eight
.	
E	26
.	

ANS: B

PTS: 1

DIF: Moderate

REF: Market demand

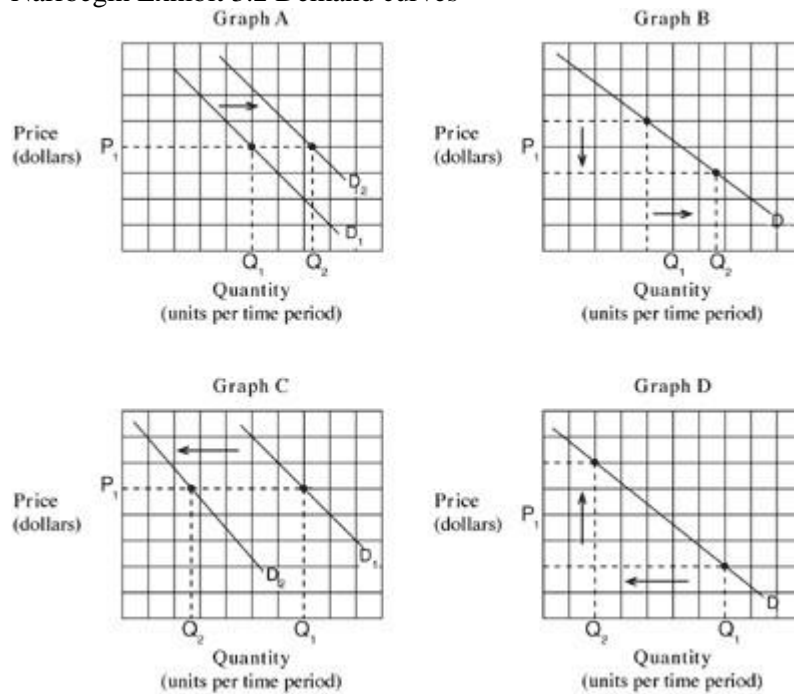
NAR: Exhibit 3.1 Market demand

11. Suppose there are only three people in the economy: Jane, Harry and Bob. The individual demand for corn for each of these consumers is given in Exhibit 3.1. The total quantity of corn demanded if the market price is \$4 is ____.

A	three
.	
B	eight
.	
C	17
.	
D	25
.	
E	36
.	

ANS: E PTS: 1 DIF: Moderate REF: Market demand
 NAR: Exhibit 3.1 Market demand

Narrbegin Exhibit 3.2 Demand curves



Narrend

12. Which of the graphs in Exhibit 3.2 depicts the effect of an increase in income on the demand for luxury cars?

A	Graph A.
.	
B	Graph B.
.	
C	Graph C.
.	
D	Graph D.
.	

ANS: A PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand
 NAR: Exhibit 3.2 Demand curves

13. Which of the graphs in Exhibit 3.2 depicts the effect of new information about healing properties of honey on the demand curve for sugar?

A	Graph A.
.	
B	Graph B
.	
C	Graph C.
.	
D	Graph D.
.	

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand
NAR: Exhibit 3.2 Demand curves

14. Which of the graphs in Exhibit 3.2 depicts the effect of a reduction in the price of iPhones on the demand for the iPhones?

A	Graph A.
.	
B	Graph B.
.	
C	Graph C.
.	
D	Graph D.
.	

ANS: A PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand
NAR: Exhibit 3.2 Demand curves

15. Suppose that X and Y are substitute goods. If the price of good X increases, we can expect:

A	the demand for good X to shift to the left.
.	
B	an upward movement along the demand curve for good Y.
.	
C	the demand curve for good Y to shift to the right.
.	
D	a downward movement along the demand curve for good Y.
.	

ANS: C PTS: 1 DIF: Difficult REF: Non-price determinants of demand

16. Assuming that hamburgers and hot dogs are substitutes, an increase in the price of hamburgers, other things being equal, results in a:

A	rightward shift in the demand curve for hot dogs.
.	
B	leftward shift in the demand curve for hamburgers.
.	
C	rightward shift in the demand curve for hamburgers.
.	
D	leftward shift in the demand curve for hot dogs.
.	

ANS: A PTS: 1 DIF: Easy REF: Non-price determinants of demand

17. Which of the following pairs is the best example of substitutes?

A	Coffee and cream.
.	
B	Videotapes and VCRs.
.	
C	Honey and biscuits.
.	

D	Hiking boots and athletic shoes.
.	

ANS: D
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

18. Other things being equal, the effect of a decrease in the price of compact discs on the market for compact disc players is a/an:

A	leftward shift in the demand curve for compact disc players.
.	
B	upward movement along the demand curve for compact disc players.
.	
C	rightward shift in the demand curve for compact disc players.
.	
D	downward movement along the demand curve for compact disc players.
.	

ANS: C
demand

PTS: 1

DIF: Difficult

REF: Non-price determinants of

19. Assume that croutons and soup are complementary goods. The effect on the soup market of a decrease in the price of croutons (other things being equal) would best be described as a/an:

A	decrease in the quantity of soup demanded.
.	
B	decrease in the demand for soup.
.	
C	increase in the quantity of soup demanded.
.	
D	increase in the demand for soup.
.	

ANS: D
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

20. If the price of potato chips increases, other things being equal, demand for potato-chip dip will:

A	not change, only the quantity demanded will change.
.	
B	increase, because the goods are substitutes.
.	
C	decrease, because the goods are substitutes.
.	
D	decrease, because the goods are complements.
.	

ANS: D
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

21. If physical fitness becomes fashionable, what will happen in the market for sport outfits?

A	Demand will increase.
.	
B	Quantity demanded will increase.
.	
C	Demand will decrease.

.	
D	Quantity demanded will decrease.
.	

ANS: A
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

22. Suppose that X and Y are complementary goods. If the price of good X decreases, we can expect the:

A	demand for good X to increase.
.	
B	quantity demanded of good Y to decrease.
.	
C	quantity demanded of good Y to increase.
.	
D	demand for good Y to increase.
.	

ANS: D
demand

PTS: 1

DIF: Difficult

REF: Non-price determinants of

23. Complementary goods are goods:

A	that are consumed jointly.
.	
B	that are consumed one in place of the other.
.	
C	for which demand increases when the price of its complementary goods increases.
.	
D	for which demand decreases when the price of its complementary goods decreases.
.	

ANS: A
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

24. Assuming that new cars are a normal good, a decrease in consumer income, other things being equal, will:

A	decrease the quantity demanded of new cars.
.	
B	increase the demand for new cars.
.	
C	decrease the demand for new cars.
.	
D	increase the quantity of new cars demanded.
.	

ANS: C
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

25. Assume that a computer is a normal good. An increase in consumer income, other things being equal, would:

A	cause an upward movement along the demand curve for computers.
.	
B	cause a downward movement along the demand curve for computers.
.	

C	shift the demand curve for computers to the left.
.	
D	shift the demand curve for computers to the right.
.	

ANS: D
demand

PTS: 1
OBJ: TYPE: SA

DIF: Easy
TOP: Non-price determinants of

REF: Non-price determinants of demand

26. If an individual's income increases, then the demand for a normal good will:

A	decrease.
.	
B	increase.
.	
C	remain constant.
.	
D	rotate.
.	

ANS: B
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

27. An increase in the demand for a good quality steak, a normal good, can be caused by a/an:

A	decrease in consumer income.
.	
B	increase in the price of steak.
.	
C	increase in the price of tomato sauce.
.	
D	increase in consumer income.
.	

ANS: D
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

28. If consumer incomes go up and laptops are a normal good, the effect on the demand for laptops, ceteris paribus, will be a/an:

A	upward movement along the demand curve for laptops.
.	
B	downward movement along the demand curve for laptops.
.	
C	rightward shift in the demand curve for laptops.
.	
D	leftward shift in the demand curve for laptops.
.	

ANS: C
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

29. Which of the following must be true if good X is a normal good and income increases?

A	The demand for X will increase, and thus the price and quantity sold and bought will decrease.
.	
B	The demand for X will decrease, and thus the price and quantity sold and bought will decrease.
.	

C	The demand for X will increase, and thus the price and quantity sold and bought may increase.
D	The demand for X will decrease, and thus the price and quantity sold and bought will increase.

ANS: C
demand

PTS: 1

DIF: Difficult

REF: Non-price determinants of

30. Assuming that bus travel is an inferior good, a decrease in consumer income, other things being equal, will cause:

A	a downward movement along the demand curve for bus travel.
B	no change in the demand curve for bus travel.
C	an upward movement along the demand curve for air travel.
D	a rightward shift in the demand curve for bus travel.

ANS: D
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

31. If good X is an inferior good, a decrease in consumer income, other things being equal, will shift the:

A	demand curve for good X to the right.
B	demand curve for good X to the left.
C	supply curve for good X to the right.
D	supply curve for good X to the left.

ANS: A
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

32. Assuming that day-old bread is an inferior good, an increase in consumer income, other things being equal, will cause a/an:

A	rightward shift in the demand curve for day-old bread.
B	downward movement along the demand curve for day-old bread.
C	leftward shift in the demand curve for day-old bread.
D	upward movement along the demand curve for day-old bread.

ANS: C
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

33. Assume that brand X is an inferior good and name brand Y is a normal good. An increase in consumer income, other things being equal, will cause a/an:

A	upward movement along the demand curve for name brand Y.
---	--

B	downward movement along the demand curve for brand X.
.	
C	rightward shift in the demand curve for brand X.
.	
D	leftward shift in the demand curve for brand X.
.	

ANS: D
demand

PTS: 1

DIF: Difficult

REF: Non-price determinants of

34. There is news that the price of Tucker's Cider Explosion will increase significantly next week. If the demand for Tucker's Cider Explosion reacts *only* to this factor and shifts to the right, the position of this demand curve has reacted to a change in:

A	tastes.
.	
B	income levels.
.	
C	the price of other goods.
.	
D	expectations.
.	

ANS: D
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

35. If the price of hot dogs increases, what will happen in the market for potato chips, a complementary good?

A	Demand will increase.
.	
B	Quantity demanded will increase.
.	
C	Demand will decrease.
.	
D	Quantity demanded will decrease.
.	

ANS: C
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

36. The demand curve shows how the quantity demanded is related to the price. A change in other variables will:

A	shift the demand curve to the left.
.	
B	shift the demand curve to the right.
.	
C	not shift the demand curve.
.	
D	shift the demand curve.
.	

ANS: D
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

37. A complementary good is:

A	a good that is not related to any other good.
.	
B	a good that is given to you for free.
.	
C	a good that is jointly consumed with another good.
.	
D	a good that is consumed instead of another good.
.	

ANS: C
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

38. A decrease in the demand for peanut butter, a normal good, can be caused by a/an:

A	decrease in consumer income.
.	
B	increase in the price of jams and preserves.
.	
C	decrease in the price of bread.
.	
D	drought in Queensland that destroyed 30 per cent of the peanut crop.
.	

ANS: A
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

39. If consumers are anticipating a wet summer, then:

A	the demand for hotdogs will increase.
.	
B	the demand for raincoats will shift to the right.
.	
C	the demand for umbrellas will not be affected.
.	
D	the demand for umbrellas will shift to the left.
.	

ANS: B
demand

PTS: 1

DIF: Easy

REF: Non-price determinants of

40. If people expect the price of bread to increase in the next month:

A	demand for bread will decrease.
.	
B	quantity of bread demanded will decrease.
.	
C	quantity of bread demanded will increase.
.	
D	demand for bread will increase right now!
.	
E	quantity of bread demanded will not change.
.	

ANS: D
demand

PTS: 1

DIF: Moderate

REF: Non-price determinants of

41. Which of the following states the definition of the law of supply?

A	More of a good is supplied at a lower price.
.	
B	There is a positive relationship between the price of a good and the quantity that buyers purchase.
.	
C	There is a positive relationship between the price of a good and the quantity offered for sale by suppliers.
.	
D	There is a negative relationship between the price of a good and the quantity offered for sale by suppliers.
.	

ANS: C

PTS: 1

DIF: Easy

REF: The law of supply

42. Supply is:

A	the number of units available.
.	
B	the cost of resources.
.	
C	the relationship between the number of units available and demand.
.	
D	the relationship between a range of prices and quantities supplied.
.	

ANS: D

PTS: 1

DIF: Easy

REF: The law of supply

43. The law of supply states that everything remains the same when:

A	there is a negative relationship between the price of a good and the quantity of it purchased by suppliers.
.	
B	there is a positive relationship between the price of a good and the quantity that buyers choose to purchase.
.	
C	there is a positive relationship between the price of a good and the quantity of it offered for sale by suppliers.
.	
D	at a lower price, a greater quantity will be supplied.
.	

ANS: C

PTS: 1

DIF: Easy

REF: The law of supply

44. A supply schedule shows the relationship between:

A	demand and supply.
.	
B	supply and income.
.	
C	price and income.
.	
D	quantity supplied and price.
.	

ANS: D

PTS: 1

DIF: Moderate

REF: The law of supply

45. The supply curve reflects the:

A	inverse relationship between price and quantity offered.
.	
B	positive relationship between demand and supply.

.	
C	negative relationship between price and quantity bought.
.	
D	positive relationship between price and quantity supplied.
.	

ANS: D PTS: 1 DIF: Moderate REF: The law of supply

46. Supply is a relationship between:

A	price of a particular good and quantity of this good that buyers are willing to buy.
.	
B	cost of a particular good and quantity of this good that sellers are willing to buy.
.	
C	price of a particular good and quantity of this good that sellers are willing to sell.
.	
D	cost of a particular good and price that buyers are willing to pay.
.	

ANS: C PTS: 1 DIF: Easy REF: The law of supply

47. The law of supply states that everything remains the same:

A	there is a negative relationship between the quantity supplied and the price.
.	
B	the demand follows the supply.
.	
C	the price of the good is determined by the demand not by supply.
.	
D	the higher the price the more quantity will be supplied to the market.
.	

ANS: D PTS: 1 DIF: Easy REF: The law of supply

48. Which of the following will cause a downward movement along a supply curve?

A	Decreases in raw-material costs.
.	
B	Decreases in labour costs.
.	
C	Decreases in the cost of machinery.
.	
D	Decreases in the market price of a good, other things being equal.
.	

ANS: D PTS: 1 DIF: Easy REF: The distinction between changes in quantity supplied and changes in supply

49. Which of the following will cause a movement along the supply curve?

A	An increase or decrease in the cost of raw materials.
.	
B	An increase in labour costs.
.	
C	Changes in the cost of the machinery used to make a good.
.	
D	Changes in the market price of a good, other things being constant.

.	
---	--

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

50. A decrease in supply means that:

A	demand will increase by the same amount.
.	
B	the quantity demanded will increase.
.	
C	there is a movement down and to the left along the supply curve.
.	
D	the quantity supplied at every price will decrease.
.	

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

51. A leftward shift of a supply curve is called a/an:

A	decrease in demand.
.	
B	increase in supply.
.	
C	decrease in supply.
.	
D	increase in quantity supplied.
.	

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

52. A change in supply *cannot* be caused by a change in:

A	resource prices.
.	
B	technology.
.	
C	expectations of consumers.
.	
D	prices of other goods.
.	

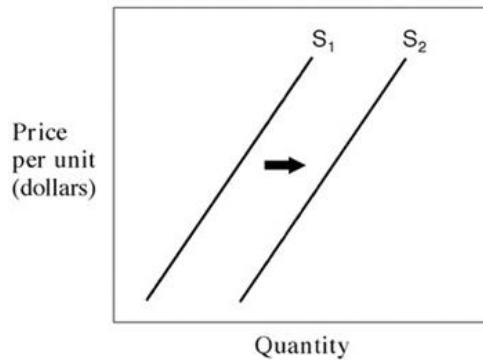
ANS: C PTS: 1 DIF: Difficult REF: The distinction between changes in quantity supplied and changes in supply

53. Which of the following factors do not shift supply curves?

A	Number of sellers.
.	
B	Number of buyers.
.	
C	Technology.
.	
D	Input prices.
.	

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

Narrbegin Exhibit 3.3 Supply curves



Narrend

54. In Exhibit 3.3, a shift in the supply curve from S_1 to S_2 is possible because of:

A	subsidies to consumers.
.	
B	higher taxes imposed on producers.
.	
C	changes in consumer preferences.
.	
D	technological innovation.
.	

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply
NAR: Exhibit 3.3 Supply curves

55. In Exhibit 3.3, which of the following could have caused the shift in the supply curve from S_1 to S_2 ?

A	Increase in demand.
.	
B	Decrease in demand.
.	
C	Decrease in the number of suppliers in the market.
.	
D	Increase in the number of sellers.
.	
E	Increase in the cost of materials.
.	

ANS: D PTS: 1 DIF: Difficult REF: The distinction between changes in quantity supplied and changes in supply
AR: Exhibit 3.3 Supply curves

56. In Exhibit 3.3, a shift in the supply curve from S_1 to S_2 represents a/an:

A	decrease in supply.
.	
B	decrease in the quantity supplied.
.	

C	increase in supply.
D	increase in the quantity supplied.
E	increase in demand.

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply
 NAR: Exhibit 3.3 Supply curves

57. What happens when a cyclone destroys the banana plantation?

A	The damaging effect of the cyclone means that farmers are only able to supply fewer bananas at each possible price and supply decreases.
B	There is no effect of a cyclone on market prices.
C	The damaging effect of the cyclone means that farmers are able to produce apples instead of bananas with no effect on the supply of bananas.
D	The prices for bananas will increase permanently.

ANS: A PTS: 1 DIF: Moderate REF: Non-price determinants of supply OBJ:

58. Farmers can choose to produce eggs and/or milk. If there is a successful advertising campaign for people to 'drink milk', then what will be the effect on the egg market?

A	None, since consumers do not see eggs and milk as related goods.
B	Egg demand will increase.
C	Egg demand will decrease.
D	Egg supply will decrease.

ANS: D PTS: 1 DIF: Moderate REF: Non-price determinants of supply

59. If more people enter medical school, we can expect:

A	the demand for doctors to increase.
B	the supply of doctors to increase.
C	the demand for doctors to decrease.
D	the supply of doctors to decrease.

ANS: B PTS: 1 DIF: Easy REF: Non-price determinants of supply

60. The introduction of the carbon trading scheme which requires polluters to purchase permits will:

A	shift the supply curve to the left.
---	-------------------------------------

.	
B	shift the supply curve to the right.
.	
C	increase the quantity supplied.
.	
D	decrease the quantity supplied.
.	

ANS: A

PTS: 1

DIF: Moderate

REF: Non-price determinants of supply

61. If apple growers expect the price of apples to increase, they would:

A	increase the current supply.
.	
B	supply regardless of future prices.
.	
C	respond to the expected price of apples.
.	
D	start growing tomatoes.
.	

ANS: C

PTS: 1

DIF: Difficult

REF: Non-price determinants of supply

62. Which of the following could cause the supply of carrots to decrease?

A	Consumers' incomes decrease.
.	
B	There is a technological advance in carrot production.
.	
C	Fertiliser costs increase.
.	
D	The number of farmers growing carrots increases.
.	
E	The price of carrots decreases.
.	

ANS: C

PTS: 1

DIF: Moderate

REF: Non-price determinants of supply

63. The most plausible reason why changes in the price of cotton can cause shifts in the supply curve for tobacco is:

A	cigarette smokers often wear cotton shirts.
.	
B	when incomes rise, people consume more cotton and tobacco.
.	
C	firms can switch from growing tobacco to cotton and vice versa.
.	
D	tobacco is an input in the production of cotton.
.	
E	cotton and tobacco are unrelated markets in all ways.
.	

ANS: C

PTS: 1

DIF: Difficult

REF: Non-price determinants of

supply

64. There is a technological advance in the production of digital watches. This will cause:

A	demand to increase.
.	
B	supply to increase.
.	
C	demand to decrease.
.	
D	supply to decrease.
.	
E	the price to increase.
.	

ANS: B

PTS: 1

DIF: Moderate

REF: Non-price determinants of

supply

65. A shift occurs in the supply curve for salt when:

A	the price of salt increases.
.	
B	improvements are made in the production process.
.	
C	salt is found to be associated with high blood pressure.
.	
D	consumers expect the price of salt to increase in the future.
.	

ANS: B

PTS: 1

DIF: Difficult

REF: Non-price determinants of

supply

66. The relationship between changes in the non-price determinants of supply and the supply curve:

A	is positive and significant.
.	
B	depends on the nature of the non-price determinant of supply.
.	
C	always results in an increase in supply.
.	
D	indicates a rightward shift of the supply curve for all goods and services.
.	

ANS: B

PTS: 1

DIF: Difficult

REF: Non-price determinants of

supply

67. 'Coal mining companies anticipate an additional tax.' This statement indicates that the:

A	price of coal will fall.
.	
B	quantity of coal that will be available at any given price has decreased.
.	
C	demand for coal will shift to the left.
.	
D	quantity of coal that will be available at any given price has increased.
.	

ANS: B
supply

PTS: 1

DIF: Easy

REF: Non-price determinants of

68. Which of the following will increase the supply of a good?

A	An increase in the price of another good that producers could produce.
.	
B	A lower price paid for resources used in the production of the good.
.	
C	A decrease in the number of sellers.
.	
D	An increase in taxes paid to the government by producers.
.	

ANS: B
supply

PTS: 1

DIF: Moderate

REF: Non-price determinants of

69. Assuming that oranges and apples can both be grown on the same type of land, a decrease in the price of apples, other things being equal, will cause a/an:

A	upward movement along the supply curve for oranges.
.	
B	downward movement along the supply curve for oranges.
.	
C	rightward shift of the supply curve for oranges.
.	
D	leftward shift of the supply curve for oranges.
.	

ANS: C
supply

PTS: 1

DIF: Moderate

REF: Non-price determinants of

70. Consider the following statement: 'Due to the drought the quantity of water available for consumption reduced dramatically'. This will cause a/an:

A	downward movement along the supply curve for water.
.	
B	upward movement along the supply curve for water.
.	
C	rightward shift in the supply curve for water.
.	
D	leftward shift in the supply curve for water.
.	

ANS: D
supply

PTS: 1

DIF: Difficult

REF: Non-price determinants of

71. Which of the following would decrease the supply of airline travel?

A	Reduced numbers of airline travellers.
.	
B	New airline companies beginning operations.
.	
C	Higher fuel costs.
.	
D	Lower prices for airline tickets.
.	

ANS: C
supply

PTS: 1

DIF: Moderate

REF: Non-price determinants of

72. Which of the following will *not* cause a movement along the supply curve?

A	Changes in consumers' expectations.
.	
B	Increases in consumers' income.
.	
C	Changes in consumers' preferences.
.	
D	Changes in input prices.
.	

ANS: D
supply

PTS: 1

DIF: Difficult

REF: Non-price determinants of

73. If the government introduces a new subsidy to poultry farmers, we can expect:

A	no effect on the supply or demand of poultry – just a movement along the curves.
.	
B	the demand for poultry to decrease.
.	
C	the demand for poultry to increase.
.	
D	the supply of poultry to increase.
.	

ANS: D PTS:

1

DIF:

Easy

REF:

Non-price determinants of supply

74. An improvement in technology will:

A	increase the demand.
.	
B	lower the cost of production.
.	
C	decrease the demand.
.	
D	increase the cost of production.
.	

ANS: B
supply

PTS: 1

DIF: Difficult

REF: Non-price determinants of

75. Innisfail banana farmers said that they lost up to 15 per cent of their crop because of wild weather. This indicates that the:

A	price of bananas will fall.
.	
B	quantity of bananas that will be available at any given price has decreased.
.	
C	demand for bananas will shift to the left.
.	
D	quantity of bananas that will be available at any given price has increased.
.	

ANS: B

PTS: 1

DIF: Easy

REF: Non-price determinants of

supply

76. Equilibrium occurs:

A	at any price for which quantity demanded is less than the quantity supplied.
.	
B	at the highest possible price the seller can offer the product.
.	
C	at the lowest price consumers are willing to pay.
.	
D	at any price for which quantity demand is equal to quantity supply.
.	

ANS: D
demand analysis

PTS: 1
OBJ: TYPE: RE

DIF: Easy
TOP: A market supply and demand analysis

REF: A market supply and de-

77. If the current price of a good is the same as that found at the intersection of the market supply and demand curves, then:

A	excess demand exists.
.	
B	excess supply exists.
.	
C	the price will tend to rise.
.	
D	the market is in equilibrium.
.	

ANS: D
demand analysis

PTS: 1

DIF: Moderate

REF: A market supply and de-

78. The equilibrium price is best defined as the price at which:

A	quality demanded is equal to quantity supplied.
.	
B	suppliers want to supply more goods.
.	
C	demanders want to buy more goods.
.	
D	quantity demanded is equal to quantity supplied.
.	

ANS: D
demand analysis

PTS: 1

DIF: Easy

REF: A market supply and de-

79. In a market, competitive forces guarantee that any price other than the equilibrium price is:

A	market-clearing.
.	
B	stable.
.	
C	temporary.
.	
D	unaffordable.
.	

ANS: C

PTS: 1

DIF: Easy

REF: A market supply and de-

mand analysis

80. When the price of a good is above its equilibrium price, a:

A	surplus puts upward pressure on the price.
.	
B	surplus puts downward pressure on the price.
.	
C	shortage puts upward pressure on the price.
.	
D	shortage puts downward pressure on the price.
.	

ANS: B PTS: 1 DIF: Easy REF: A market supply and demand analysis

81. Which of the following is true about the market equilibrium?

A	As the price increases, the quantity demanded and the quantity supplied increases.
.	
B	As the price increases, the quantity demanded and the quantity supplied decreases.
.	
C	As the price increases, the quantity demanded increases and the quantity supplied decreases.
.	
D	As the price increases, the quantity demanded decreases and the quantity supplied increases.
.	

ANS: D PTS: 1 DIF: Difficult REF: A market supply and demand analysis

82. A shortage of wheat:

A	is impossible if people are hungry.
.	
B	is impossible if the price of wheat is higher than the market equilibrium.
.	
C	will result when the quantity supplied exceeds the quantity demanded at the current price.
.	
D	is unlikely to cause any change in the price of wheat.
.	

ANS: B PTS: 1 DIF: Difficult REF: A market supply and demand analysis

83. If the quantity demanded is less than the quantity supplied, then:

A	the price will have to increase to establish equilibrium.
.	
B	there will be an excess supply of goods.
.	
C	the quantity supplied will be less than the quantity demanded.
.	
D	the demand will shift to the right.
.	

ANS: B PTS: 1 DIF: Moderate REF: A market supply and de-

mand analysis

84. How do retailers react to a surplus?

A	The surplus has no effect on retailers.
.	
B	Competition forces sellers to reduce their prices.
.	
C	Competition forces retailers to offer more goods.
.	
D	The surplus will force sellers to increase their prices.
.	

ANS: B PTS: 1 DIF: Moderate REF: A market supply and demand analysis

85. A shortage of a product means a/an:

A	excess supply of the product.
.	
B	excess demand of the product.
.	
C	situation where the quantity demanded is less than the quantity supplied.
.	
D	situation where the quantity supplied exceeds the quantity demanded.
.	

ANS: B PTS: 1 DIF: Easy REF: A market supply and demand analysis

86. If the market price is below the equilibrium price, then:

A	a surplus of product will result.
.	
B	the quantity supplied will exceed the quantity demanded.
.	
C	the market supply curve will shift to the right.
.	
D	the quantity demanded will exceed the quantity supplied.
.	

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis

87. If quantity supplied is greater than the quantity demanded, then according to the market process:

A	the shortage exists and the price will increase to the equilibrium level.
.	
B	the surplus exists and the price will increase to the equilibrium level.
.	
C	the shortage exists and the price will decrease to the equilibrium level.
.	
D	the surplus exists and the price will decrease to the equilibrium level.
.	

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis

88. Assume Q_s represents the quantity supplied at a given price and Q_d represents quantity demanded at a given price. Which of the following market conditions produces an upward movement of the price?

A	$Q_s = 10, Q_d = 5$.
.	
B	$Q_s = 5, Q_d = 5$.
.	
C	$Q_s = 5, Q_d = 10$.
.	
D	$Q_s = 5, Q_d = 3$.
.	

ANS: C PTS: 1 DIF: Difficult REF: A market supply and demand analysis

89. If a shortage exists in a market then:

A	the price cannot be determined.
.	
B	the quantity demanded is less than the quantity supplied.
.	
C	the price will fall in the near future.
.	
D	the price will increase in the near future.
.	

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

90. Assume that the equilibrium price for a good is \$5. If the market price is \$10, a:

A	shortage causes the price to decline towards \$5.
.	
B	surplus causes the price to rise above \$10.
.	
C	shortage causes the price to rise above \$10.
.	
D	surplus causes the price to decline towards \$5.
.	

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

91. When the price of a good in a market is above equilibrium:

A	the quantity supplied exceeds the quantity demanded.
.	
B	a surplus is observed.
.	
C	the price will fall in the near future.
.	
D	all of these factors apply.
.	

ANS: D PTS: 1 DIF: Easy REF: A market supply and demand analysis

92. Surplus (of a good) is a situation in which:

A	the quantity supplied is undetermined.
.	
B	the quantity supplied is equal to the quantity demanded.
.	
C	the quantity supplied is less than the quantity demanded.
.	
D	the quantity supplied is greater than the quantity demanded.
.	

ANS: D
demand analysis

PTS: 1

DIF: Easy

REF: A market supply and de-

93. A market:

A	is defined as a local market such as a farmers market .
.	
B	is any arrangement in which buyers and sellers determine the prices of goods and services exchanged.
.	
C	is a hypothetical arrangement in which buyers and sellers determine the prices of goods and services exchanged.
.	
D	can only be for goods but not for services.
.	

ANS: B
demand analysis

PTS: 1

DIF: Moderate

REF: A market supply and de-

94. If the price is lower than the equilibrium price, which of the following will occur?

A	The price will remain low.
.	
B	The price will reduce even more.
.	
C	The price will raise to the equilibrium price.
.	
D	Demand will shift.
.	

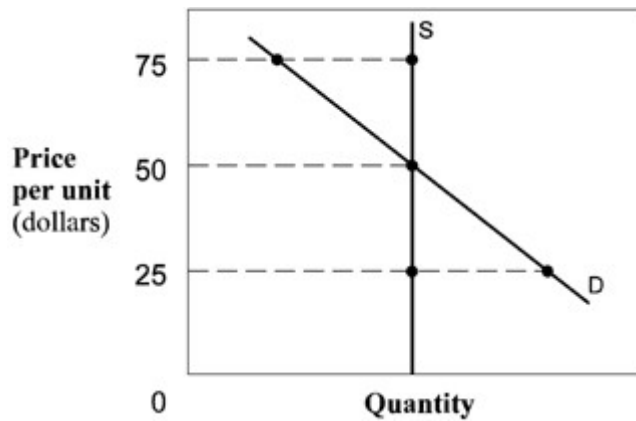
ANS: C
demand analysis

PTS: 1

DIF: Easy

REF: A market supply and de-

Narrbegin Exhibit 3.4 Demand and supply curves



95. In Exhibit 3.4, if price happened to currently be \$25 in this market, a _____ would result, causing a/an _____ in price.

A	shortage; increase
B	surplus; decrease
C	surplus; increase
D	shortage; decrease

ANS: A PTS: 1 DIF: Moderate REF: A market supply and demand analysis

NAR: Exhibit 3.4 Demand and supply curves

Narrbegin Exhibit 3.5 Demand and supply data for radios

Price (\$)	Quantity demanded of radios	Quantity supplied of radios
75	400	800
70	450	750
65	500	700
60	550	650
55	600	600
50	650	550
45	700	500
40	750	450

Narrend

96. In Exhibit 3.5, at any market price of radios below \$55, an _____ would result, causing the price to _____.

A	excess demand; rise
B	excess supply; rise

.	
C	excess demand; fall
.	
D	excess supply; fall
.	

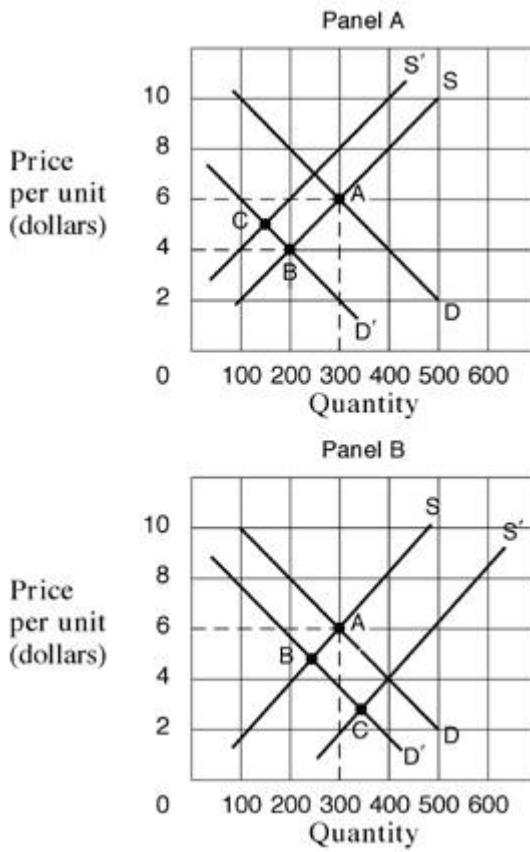
ANS: A PTS: 1 DIF: Moderate REF: A market supply and demand analysis
 NAR: Exhibit 3.5 Demand and supply curves

97. In Exhibit 3.5, if there is a surplus of radios of 300 units, the current price of radios must be:

A	\$60.
.	
B	\$55.
.	
C	\$70.
.	
D	\$45.
.	

ANS: C PTS: 1 DIF: Moderate REF: A market supply and demand analysis
 NAR: Exhibit 3.5 Demand and supply curves

Narrbegin Exhibit 3.6 Demand and supply curves



Narrend

98. In Exhibit 3.6, Panel A, the movement from A to B describes a/an:

A	increase in demand and an increase in the quantity supplied.
B	increase in the quantity demanded and an increase in supply.
C	decrease in demand and a decrease in the quantity supplied.
D	decrease in the quantity demanded and a decrease in supply.

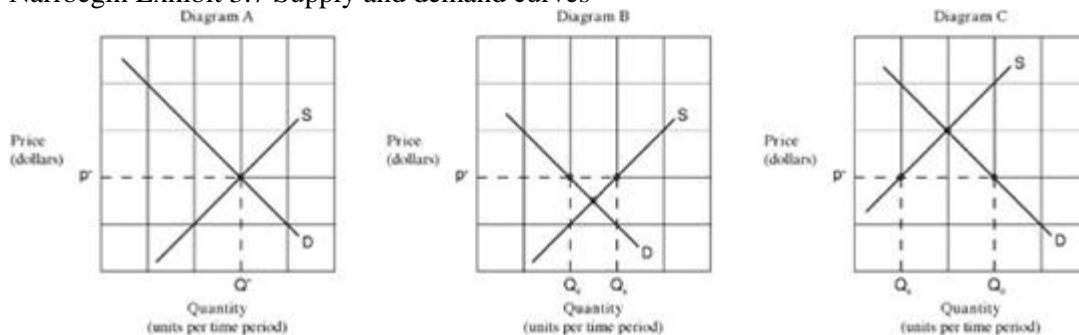
ANS: C PTS: 1 DIF: Difficult REF: A market supply and demand analysis
 NAR: Exhibit 3.6 Demand and supply curves

99. In Exhibit 3.6, Panel A, the movement from A to C describes a/an:

A	ambiguous change in price and a decrease in quantity.
B	increase in price and an ambiguous change in quantity.
C	increase in both price and quantity.
D	decrease in both price and quantity.

ANS: D PTS: 1 DIF: Moderate REF: A market supply and demand analysis
 NAR: Exhibit 3.6 Demand and supply curves

Narrend Exhibit 3.7 Supply and demand curves



100. Which of the graphs in Exhibit 3.7 illustrates a surplus existing at the indicated market price?

A	Graph A.
B	Graph B.
C	Graph C.
D	Graphs A and C.

ANS: B PTS: 1 DIF: Moderate REF: A market supply and demand analysis

NAR: Exhibit 3.7 Supply and demand curves

101. Which of the graphs in Exhibit 3.7 illustrates a shortage existing at the indicated market price?

A	Graph A.
.	
B	Graph B.
.	
C	Graph C.
.	
D	Graphs A and B.
.	

ANS: C PTS: 1 DIF: Moderate REF: A market supply and demand analysis

NAR: Exhibit 3.7 Supply and demand curves

102. A change in the price of a good always results from a change in:

A	income.
.	
B	tastes.
.	
C	quantity demanded.
.	
D	both income and tastes.
.	

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

103. Which of the following will *not* shift the demand curve for motorbikes?

A	An increase in the price of motorbikes.
.	
B	An increase in consumer income.
.	
C	An increase in the price of bicycles (a substitute).
.	
D	An increase in the price of helmets (a complement).
.	

ANS: A PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand

104. The effect of a decrease in the price of coffee, other things being equal, causes a:

A	leftward shift in the demand curve for coffee.
.	
B	downward movement along the demand curve for coffee.
.	
C	rightward shift in the demand curve for coffee.
.	
D	upward movement along the demand curve for coffee.
.	

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in

quantity demanded and changes in demand

105. Which of the following will *not* cause a shift in the demand curve for good X?

A	A change in the price of a complementary good.
.	
B	A change in the price of good X.
.	
C	A change in consumer tastes and preferences for good X.
.	
D	An increase in consumer income.
.	

ANS: B PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand

106. Which of the following would shift the demand curve for chicken to the right?

A	Lower inputs for chicken producers.
.	
B	Higher subsidies to chicken producers.
.	
C	Higher price for beef.
.	
D	Lower price for lamb.
.	

ANS: C PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

107. Which of the following will *not* shift the demand curve for televisions?

A	An increase in the price of televisions.
.	
B	An increase in consumer income.
.	
C	An increase in the price of radios (a substitute).
.	
D	An increase in the price of cable services (a complement).
.	

ANS: A PTS: 1 DIF: Difficult REF: The distinction between changes in quantity demanded and changes in demand

108. When firms advertise their products, they are attempting to:

A	shift the supply curve of the product to the right.
.	
B	shift the supply curve of the product to the left.
.	
C	create a surplus of the product.
.	
D	shift the demand for the product to the right.
.	

ANS: D PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

109. If people expect the price of packaged coffee to rise next week, coffee demand will:

A	decrease now.
.	
B	increase now.
.	
C	stay the same now and increase next week.
.	
D	stay the same now and decrease next week.
.	

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

110. A shift of the demand curve occurs if there is:

A	an increase in price.
.	
B	a change due to any factor except price.
.	
C	a decrease in price.
.	
D	a shift of the supply curve to the left.
.	

ANS: B PTS: 1 DIF: Moderate REF: The distinction between changes in quantity demanded and changes in demand

111. The major non-price determinants of demand for good A are:

A	supply of the good A.
.	
B	tastes and preferences.
.	
C	number of sellers.
.	
D	price of the good A.
.	

ANS: B PTS: 1 DIF: Moderate REF: Non-price determinants of demand

TRUE/FALSE

1. If goods X and Y are complements, then a reduction in the price of good X decreases the demand for good Y.

ANS: F PTS: 1 DIF: Moderate REF: Non-price determinants of demand

2. If X is a normal good, an increase in consumers' income will result in an increase in the demand for good X.

ANS: T PTS: 1 DIF: Moderate REF: Non-price determinants of demand

3. Suppose A and B are complementary goods. Other things being equal, the demand curve for A will shift to the right when the price of B goes up.

ANS: F PTS: 1 DIF: Moderate REF: Non-price determinants of demand

4. The law of supply indicates that a decrease in price will cause a decrease in supply, which is reflected graphically as a leftward shift of the supply curve.

ANS: F PTS: 1 DIF: Difficult REF: The law of supply

5. Anything that changes the amount a firm can produce with a given amount of resources will result in a shift of the supply curve.

ANS: T PTS: 1 DIF: Moderate REF: Non-price determinants of supply
OBJ: TYPE: SA TOP: Non-price determinants of supply

6. The supply curve for chicken will shift to the right if production costs increase.

ANS: F PTS: 1 DIF: Moderate REF: Non-price determinants of supply

7. A shortage is a market condition existing at any price where the quantity demanded is less than the quantity supplied.

ANS: F PTS: 1 DIF: Moderate REF: A market supply and demand analysis

8. A surplus means that the quantity supplied is greater than the quantity demanded at the prevailing price.

ANS: T PTS: 1 DIF: Easy REF: A market supply and demand analysis

9. A shortage occurs when a good is in great demand.

ANS: F PTS: 1 DIF: Difficult REF: A market supply and demand analysis

10. Other things being equal, a fall in the price of Coca-Cola will increase the quantity of Coca-Cola produced.

ANS: F PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

11. An increase in supply is reflected as a rightward (outward) shift of the supply curve and is caused by an increase in price.

ANS: F PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply

12. An increase in income increases the supply of all goods.

ANS: F PTS: 1 DIF: Moderate REF: The distinction between changes in quantity supplied and changes in supply