# Chapter 02 Testbank

1. An economy where private individuals, guided by the invisible hand, make decisions is known as a:
A. market economy.
B. centrally planned economy.
C. socialist economy.
D. barter economy.

2. The term 'market' refers to:
A. the physical location where buyers and sellers meet to exchange goods for money.
B. the buyers and sellers who trade a particular good or service, and not a physical location.
C. the location where buyers go to fulfil their wants and needs.
D. a physical or virtual place of exchange.

3. A perfectly competitive market is one in which:
A. fully informed, price-taking buyers and sellers easily trade a standardised good or service.
B. fully informed, price-making buyers and sellers easily trade a standardised good or service.
C. uninformed, price-taking buyers and sellers easily trade a standardised good or service.
D. uninformed, price-making buyers and sellers easily trade a standardised good or service.

4. A standardised good or service is one:
A. for which any two units have the same features and are interchangeable.
B. for which any two units have similar features that could be considered close substitutes.
C. for which any two units have different, unique features.
D. that has very distinguishable characteristics, with each unit being economically unique.

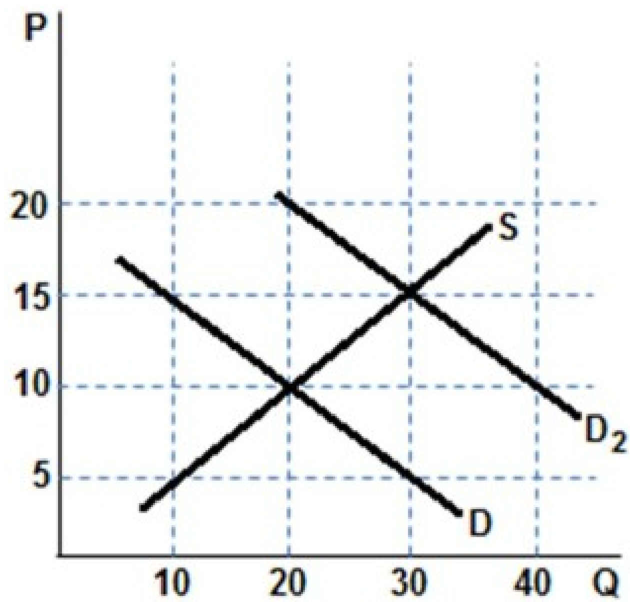
5. Transaction costs can be defined as:
A. the costs incurred by buyer and seller in agreeing to and executing a sale of goods or services.
B. the costs the government must pay to allow for an exchange.
C. the costs the government must pay to ensure the execution of a sale of goods or services takes place.
D. the costs the government incur to create a structured market for the exchange of buyers and sellers.

6. The best example of a perfectly competitive market would be the market for:
A. grain.
B. shoes.
C. coffee.

D. cameras.

7. Shopping at a warehouse, such as Costco, allows its members to pay very low prices on the goods and services they buy. Customers who shop at such a store incur:
A. transaction costs because they must be members to shop there.
B. no transaction costs because they pay prices that are lower than any other location.
C. transaction costs because they must buy a product in bulk.
D. no transaction costs because members can return any item purchased for any reason.

8. The market for used cars is *not* considered perfectly competitive because:
A. there is complete information.
B. the buyers are not price takers.
C. the good is standardised.
D. there are always very low transaction costs.




9.
Assume the graph shown represents the market for bottles of wine and was originally in equilibrium with D and S. Something changes, and demand shifts to $D_2$. Which of the following is true?
A. Equilibrium price increased by $5.
B. Equilibrium quantity increased by 20.
C. Equilibrium price increased by $15.
D. Equilibrium quantity increased by 30.

10. A non-price determinant of demand refers to:
A. something that affects the price other than demand.
B. something that affects demand other than the price.

C. something that determines how large a role prices play in the demand decision.
D. something that determines how prices are affected by income.

11. A demand schedule is a:
A. table which shows the quantities of a particular good or service that consumers are willing to purchase at various prices.
B. graph which shows the quantities of a particular good or service that consumers are willing to purchase at various prices.
C. table which shows the quantities of a particular good or service that consumers are willing to purchase at various income levels.
D. line which shows the quantities of a particular good or service that consumers are willing to purchase at various prices.

12. The demand curve:
A. is a downward-sloping line that reflects the inverse relationship between price and quantity.
B. is an upward-sloping line that reflects the inverse relationship between price and quantity.
C. is a downward-sloping line that reflects the direct relationship between price and quantity.
D. is an upward-sloping line that reflects the direct relationship between price and quantity.

13. An article about how coffee boosts critical thinking is likely to affect which determinant of demand?
A. Incomes
B. Preferences
C. Number of sellers in the market
D. Price

14. After getting a raise at work, Matt now regularly buys steak instead of chicken. Which factor of demand has influenced Matt's demand for steak?
A. Price of a substitute good
B. Price of a complementary good
C. Income
D. Preferences

15. An increase in the price of butter is likely to cause:
A. the demand for margarine to increase.
B. the demand for margarine to stay the same.
C. the demand for butter to increase.
D. the demand for butter to stay the same.

16. We say that goods are substitutes when they:
A. serve similar enough purposes that a consumer might purchase one in place of the other.

B. are related goods that are consumed together, so that purchasing one will make a consumer more likely to purchase the other.
C. can replace something consumers typically purchase at a significantly lower price.
D. change a consumer's preferences.

17. We say that goods are complements when they:
A. serve similar enough purposes that a consumer might purchase one in place of the other.
B. are related goods that are consumed together, so that purchasing one will make a consumer more likely to purchase the other.
C. can replace something consumers typically purchase at a significantly lower price.
D. change a consumer's preferences.

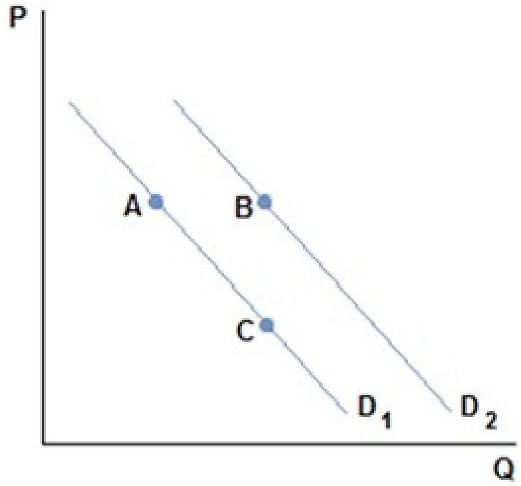
18. Bob just got made redundant and now has no income. We can assume that:
A. his demand for all normal goods will increase.
B. his demand for all inferior goods will increase.
C. his demand for all inferior goods will decrease.
D. his demand for all normal goods will stay the same, but demand will decrease for inferior goods.

19. The baby boomer generation is just starting to retire and waiting lists to get into nursing homes are on the rise. We could reasonably expect:
A. the demand for geriatric care to increase due to the number of buyers increasing.
B. the demand for geriatric care to decrease due to the number of buyers increasing.
C. the demand for geriatric care to increase due to expectations of future prices.
D. the demand for geriatric care to decrease due to expectations of future prices.

20. There has been an increase in the demand for chicken. This change can be shown graphically as a:
A. shift in the demand curve to the right.
B. shift in the demand curve to the left.
C. movement along the demand curve to the right.
D. movement along the demand curve to the left.

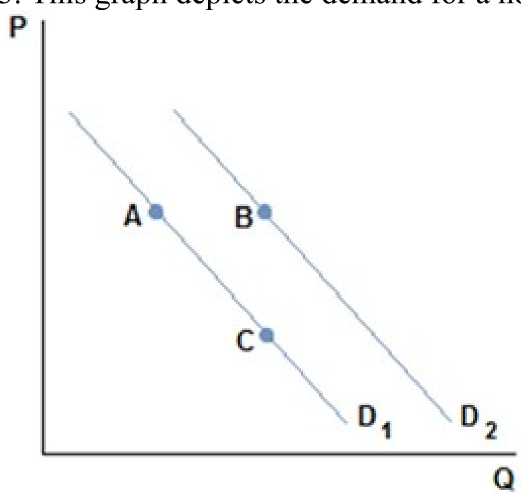
21. The price of house paint, a normal good, has gone up. This change can be shown graphically as:
A. a shift in the demand curve to the right.
B. a shift in the demand curve to the left.
C. a movement along the demand curve to the right.
D. a movement along the demand curve to the left.

22. This graph depicts the demand for a normal good.

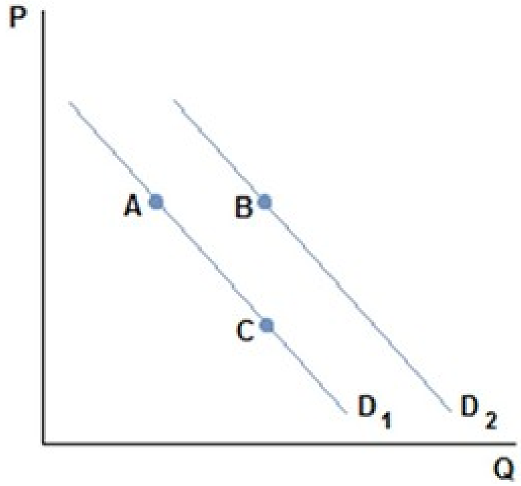



A movement from A to B in the graph shown might be caused by:
A. an increase in price.
B. a decrease in price.
C. an increase in income.
D. a decrease in income.

23. This graph depicts the demand for a normal good:

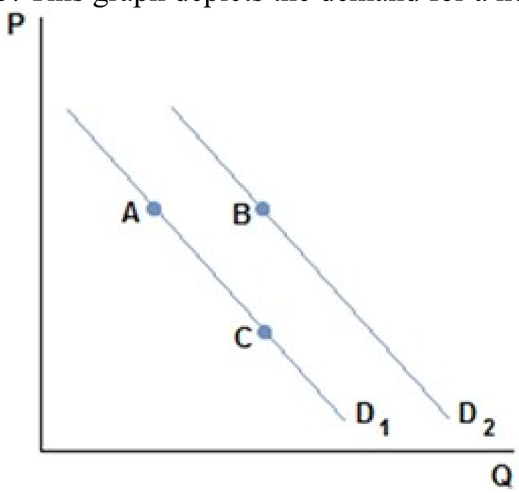



A movement from A to C in the graph shown might be caused by:
A. an increase in price.
B. a decrease in price.
C. an increase in income.
D. a decrease in income.




24.
A movement from B to A in the graph shown might be caused by:
A. a decrease in the good's price.
B. an increase in the good's price.
C. a decrease in the price of a substitute.
D. an increase in the price of a substitute.

25. This graph depicts the demand for a normal good:




A movement from A to B in the graph shown might be caused by:
A. a decrease in the price of a substitute.
B. a decrease in the price of a complement.
C. an increase in the price of a complement.
D. an increase in the good's price.

26. Supply describes how much of something producers:
A. are willing and able to buy under certain circumstances.
B. want to buy under certain circumstances, although they may not be able to.
C. are willing and able to offer for sale under certain circumstances.
D. want to offer for sale under certain circumstances, although they may not be able to.

27. For almost all goods, the:
A. lower the price goes, the higher the quantity supplied.
B. higher the price goes, the more luxurious it is.
C. lower the price goes, the more luxurious it is.
D. higher the price goes, the higher the quantity supplied.

28. The law of supply describes the:
A. inverse relationship between price and quantity supplied.
B. direct relationship between price and quantity supplied.
C. inverse relationship between income and quantity supplied.
D. direct relationship between income and quantity supplied.

29. The supply curve is a __________ line that reflects the _______ relationship between price and quantity supplied.
A. downward-sloping; inverse
B. upward-sloping; inverse
C. downward-sloping; direct
D. upward-sloping; direct

30. The amount of a particular good that sellers in a market will sell at a given price during a specified period is called:
A. quantity demanded.
B. quantity supplied.
C. demand.
D. supply.

31. A factory recently adds new robots to their production line, increasing productivity. This will likely cause:
A. a rightward shift of the supply curve.
B. a leftward shift of the supply curve.
C. a shift straight up of the supply curve.
D. a movement up along the supply curve.

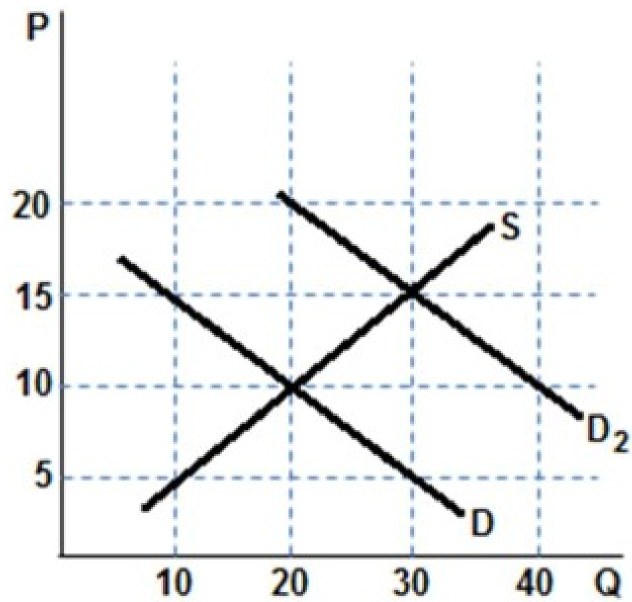
32. A drought causes most fruit crops to fail, decreasing the amount of available fruit. The fruitcake market would see:
A. an increase in the supply of fruitcake.
B. a decrease in the supply of fruitcake.
C. no change in the supply of fruitcake, but the demand would increase.
D. no change in the supply of fruitcake, but the demand would decrease.

33. There was a bumper crop of blueberries last year due to the increased rainfall. This plentiful supply of blueberries caused their price to drop. Bakeries regularly produce and sell blueberry pie. Considering the market for blueberry pies, what factor of supply has been affected and what was the overall effect on the supply?
A. The price of an input has been affected; supply will increase.
B. The price of an input has been affected; supply will decrease.
C. The new technology has been affected; supply will increase.
D. The number of sellers has been affected; supply will increase.

34. The price of chocolate chips has increased. For the producers of chocolate chip cookies, this means:
A. they can supply more at each price because some of the competition will drop out.
B. they can supply less at each price because the price of a main input has gone up.
C. they can supply more at each price because the price of a main input has gone up.
D. they can supply more at each price because of more competition.

35. A change in a non-price determinant of supply will cause:
A. a movement along the supply curve.
B. a shift of the supply curve.
C. the supply curve to rotate inward.
D. the supply curve to rotate outward.

36. A paper mill discovers that burning old tyres is a cheaper way to get power than using coal, and they adopt the new technology. How does this impact the market for paper?
A. The demand for paper will increase.
B. The supply of paper will increase.
C. The supply for paper will remain constant.
D. The supply for paper will decrease.




37.
Assume the market in the graph shown was originally at an equilibrium with demand D and supply S. The original equilibrium price and quantity were, respectively:
A. $5 and 30.
B. $5 and 20.
C. $10 and 20.
D. $20 and 10.

38. The term 'equilibrium' refers to the point where:
A. quantity supplied equals quantity demanded.
B. buyers and sellers 'agree' on the quantity of a good they are willing to exchange at all prices.
C. the supply curve and demand curve do not intersect.
D. every buyer and seller achieves their best possible outcome.

39. The point at which buyers and sellers 'agree' on the quantity of a good they are willing to exchange at a given price is called:
A. equilibrium.
B. optimisation.
C. maximisation.
D. efficiency.

40. The equilibrium price is sometimes called:
A. the market-clearing price.
B. the optimum price.
C. the maximum.
D. the quantity-clearing price.

41. If producers set the price of their product too high, the result is:
A. a shortage, and consumers will bid the price down to equilibrium.
B. a surplus, and excess goods in inventory will signal to producers to lower their prices.
C. a shortage, and consumers will bid the price up to equilibrium.
D. a surplus, and excess goods in inventory will signal the producers to restrict output until sales increase.

42. If producers set the price of their product too low, the result is:
A. a shortage, and consumers will bid the price down to equilibrium.
B. a surplus, and excess goods in inventory will signal the producers to lower their prices.
C. a shortage, and consumers will bid the price up to equilibrium.
D. a surplus, and excess goods in inventory will signal the producers to restrict output until sales increase.

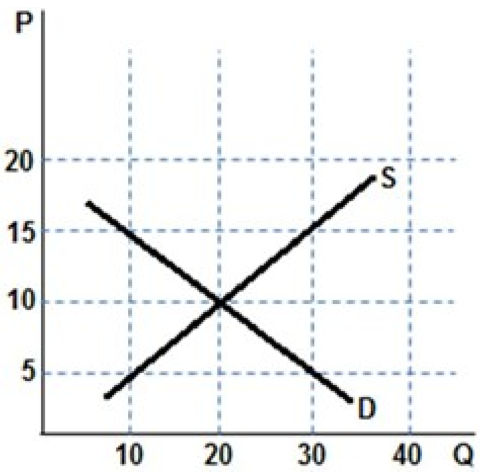
43. A shortage will occur if:
A. the quantity being supplied at a given price is less than the quantity demanded at that price.
B. the quantity being demanded at a given price exceeds the quantity supplied at that price.
C. there are not enough buyers in the market.
D. there are only inexperienced firms in the market.

44. A surplus will occur in a market if:
A. the quantity being supplied at a given price exceeds the quantity demanded at that price.
B. the quantity being demanded at a given price is less than the quantity supplied at that price.
C. there are not enough buyers.
D. there are only secondary goods being sold.

45. Consider a market that is in equilibrium. If it experiences a decrease in demand, what will happen?
A. The demand curve will shift to the left and the equilibrium price and quantity will rise.
B. The demand curve will shift to the left and the equilibrium price will increase and the equilibrium quantity will decrease.
C. The demand curve will shift to the left and the equilibrium price and quantity will fall.
D. The demand curve will shift to the right and the equilibrium price and quantity will fall.

46. Consider a market that is in equilibrium. If it experiences an increase in supply, what will happen?
A. The supply curve will shift to the right and the equilibrium price and quantity will rise.
B. The supply curve will shift to the right and the equilibrium price will decrease and the equilibrium quantity will increase.
C. The supply curve will shift to the right and the equilibrium price and quantity will fall.
D. The supply curve will shift to the left and the equilibrium price and quantity will fall.

47. Consider a market that is in equilibrium. If it experiences both an increase in demand and an increase in supply, what can be said of the new equilibrium?
A. The equilibrium price and quantity will both rise.
B. The equilibrium quantity will definitely rise, while the equilibrium price cannot be predicted.
C. The equilibrium price will definitely rise, while the equilibrium quantity cannot be predicted.
D. The equilibrium price and quantity will both fall.




48.
According to the graph shown, at a price of $15, there is a:
A. shortage of 10.
B. shortage of 20.
C. shortage of 30.
D. surplus of 20.

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Price of Good
$Q_{Demand}$
$Q_{Supply}$
$0.00
50
25
$0.50
40
26
$1.00
35
28

$1.50
31
31
$2.00
28
35
$2.50
27
40
According to the table shown, at a price of $0.50, quantity demanded:
A. exceeds quantity supplied and a shortage exists.
B. is less than quantity supplied and a shortage exists.
C. exceeds quantity supplied and a surplus exists.
D. is less than quantity supplied and a surplus exists.

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Price of Good
$Q_{Demand}$
$Q_{Supply}$
$0.00
50
25
$0.50
40
26
$1.00
35
28
$1.50
31
31
$2.00
28
35
$2.50
27
40
According to the table shown, at a price of $2.00, quantity demanded:
A. exceeds quantity supplied and a shortage exists.
B. is less than quantity supplied and a shortage exists.

C. exceeds quantity supplied and a surplus exists.
D. is less than quantity supplied and a surplus exists.

# Chapter 02 Testbank Key

1. An economy where private individuals, guided by the invisible hand, make decisions is known as a:
A. market economy.
B. centrally planned economy.
C. socialist economy.
D. barter economy.
Ans: A

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

2. The term 'market' refers to:
A. the physical location where buyers and sellers meet to exchange goods for money.
B. the buyers and sellers who trade a particular good or service, and not a physical location.
C. the location where buyers go to fulfil their wants and needs.
D. a physical or virtual place of exchange.
Ans: B

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Medium*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

3. A perfectly competitive market is one in which:
A. fully informed, price-taking buyers and sellers easily trade a standardised good or service.
B. fully informed, price-making buyers and sellers easily trade a standardised good or service.
C. uninformed, price-taking buyers and sellers easily trade a standardised good or service.
D. uninformed, price-making buyers and sellers easily trade a standardised good or service.
Ans: A

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

4. A standardised good or service is one:
A. for which any two units have the same features and are interchangeable.
B. for which any two units have similar features that could be considered close substitutes.
C. for which any two units have different, unique features.
D. that has very distinguishable characteristics, with each unit being economically unique.

Ans: A

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

5. Transaction costs can be defined as:
A. the costs incurred by buyer and seller in agreeing to and executing a sale of goods or services.
B. the costs the government must pay to allow for an exchange.
C. the costs the government must pay to ensure the execution of a sale of goods or services takes place.
D. the costs the government incur to create a structured market for the exchange of buyers and sellers.
Ans: A

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

6. The best example of a perfectly competitive market would be the market for:
A. grain.
B. shoes.
C. coffee.
D. cameras.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

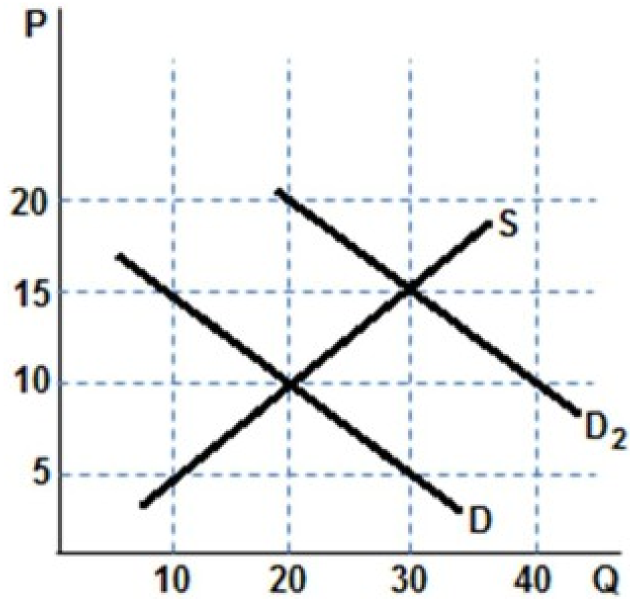
7. Shopping at a warehouse, such as Costco, allows its members to pay very low prices on the goods and services they buy. Customers who shop at such a store incur:
A. transaction costs because they must be members to shop there.
B. no transaction costs because they pay prices that are lower than any other location.
C. transaction costs because they must buy a product in bulk.
D. no transaction costs because members can return any item purchased for any reason.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*

8. The market for used cars is *not* considered perfectly competitive because:

A. there is complete information.
B. the buyers are not price takers.
C. the good is standardised.
D. there are always very low transaction costs.
Ans: B

*AACSB: Reflective Thinking*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.1 Identify the defining characteristics of a competitive market.*
*Topic: Markets*




9.
Assume the graph shown represents the market for bottles of wine and was originally in equilibrium with D and S. Something changes, and demand shifts to $D_2$. Which of the following is true?
A. Equilibrium price increased by $5.
B. Equilibrium quantity increased by 20.
C. Equilibrium price increased by $15.
D. Equilibrium quantity increased by 30.
Ans: A

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

10. A non-price determinant of demand refers to:
A. something that affects the price other than demand.
B. something that affects demand other than the price.
C. something that determines how large a role prices play in the demand decision.
D. something that determines how prices are affected by income.

Ans: B

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
*Topic: Demand*

11. A demand schedule is a:
A. table which shows the quantities of a particular good or service that consumers are willing to purchase at various prices.
B. graph which shows the quantities of a particular good or service that consumers are willing to purchase at various prices.
C. table which shows the quantities of a particular good or service that consumers are willing to purchase at various income levels.
D. line which shows the quantities of a particular good or service that consumers are willing to purchase at various prices.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
*Topic: Demand*

12. The demand curve:
A. is a downward-sloping line that reflects the inverse relationship between price and quantity.
B. is an upward-sloping line that reflects the inverse relationship between price and quantity.
C. is a downward-sloping line that reflects the direct relationship between price and quantity.
D. is an upward-sloping line that reflects the direct relationship between price and quantity.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
*Topic: Demand*

13. An article about how coffee boosts critical thinking is likely to affect which determinant of demand?
A. Incomes
B. Preferences
C. Number of sellers in the market
D. Price
Ans: B

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
*Topic: Demand*

14. After getting a raise at work, Matt now regularly buys steak instead of chicken. Which factor of demand has influenced Matt's demand for steak?
A. Price of a substitute good
B. Price of a complementary good
C. Income
D. Preferences
Ans: C

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
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15. An increase in the price of butter is likely to cause:
A. the demand for margarine to increase.
B. the demand for margarine to stay the same.
C. the demand for butter to increase.
D. the demand for butter to stay the same.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
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16. We say that goods are substitutes when they:
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B. are related goods that are consumed together, so that purchasing one will make a consumer more likely to purchase the other.
C. can replace something consumers typically purchase at a significantly lower price.
D. change a consumer's preferences.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

17. We say that goods are complements when they:
A. serve similar enough purposes that a consumer might purchase one in place of the other.
B. are related goods that are consumed together, so that purchasing one will make a consumer more likely to purchase the other.
C. can replace something consumers typically purchase at a significantly lower price.
D. change a consumer's preferences.
Ans: B

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

18. Bob just got made redundant and now has no income. We can assume that:
A. his demand for all normal goods will increase.
B. his demand for all inferior goods will increase.
C. his demand for all inferior goods will decrease.
D. his demand for all normal goods will stay the same, but demand will decrease for inferior goods.
Ans: B

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Medium*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
*Topic: Demand*

19. The baby boomer generation is just starting to retire and waiting lists to get into nursing homes are on the rise. We could reasonably expect:
A. the demand for geriatric care to increase due to the number of buyers increasing.
B. the demand for geriatric care to decrease due to the number of buyers increasing.
C. the demand for geriatric care to increase due to expectations of future prices.
D. the demand for geriatric care to decrease due to expectations of future prices.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.2 Draw a demand curve and describe the external factors that determine demand.*
*Topic: Demand*

20. There has been an increase in the demand for chicken. This change can be shown graphically as a:
A. shift in the demand curve to the right.
B. shift in the demand curve to the left.
C. movement along the demand curve to the right.
D. movement along the demand curve to the left.
Ans: A

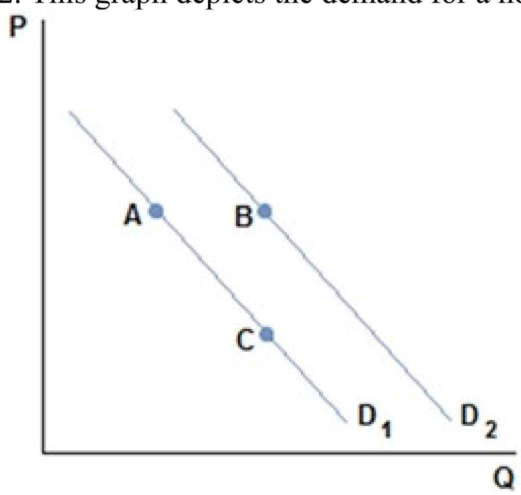
*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

21. The price of house paint, a normal good, has gone up. This change can be shown graphically as:

A. a shift in the demand curve to the right.
B. a shift in the demand curve to the left.
C. a movement along the demand curve to the right.
D. a movement along the demand curve to the left.
Ans: D

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

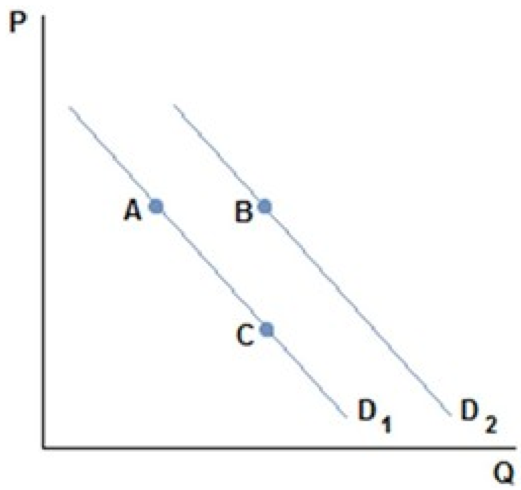
22. This graph depicts the demand for a normal good.




A movement from A to B in the graph shown might be caused by:
A. an increase in price.
B. a decrease in price.
C. an increase in income.
D. a decrease in income.
Ans: C

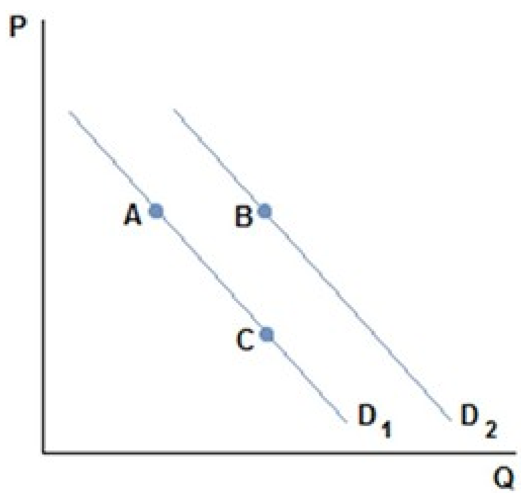
*AACSB: Analytical Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

23. This graph depicts the demand for a normal good:




A movement from A to C in the graph shown might be caused by:
A. an increase in price.
B. a decrease in price.
C. an increase in income.
D. a decrease in income.
Ans: B

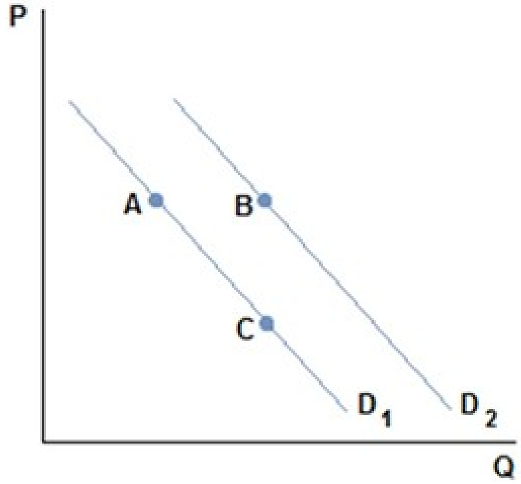
*AACSB: Analytical Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*




24.
A movement from B to A in the graph shown might be caused by:
A. a decrease in the good’s price.
B. an increase in the good’s price.
C. a decrease in the price of a substitute.
D. an increase in the price of a substitute.
Ans: C

*AACSB: Analytical Thinking*
*Blooms: Comprehension*
*Difficulty: Medium*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

25. This graph depicts the demand for a normal good:




A movement from A to B in the graph shown might be caused by:
A. a decrease in the price of a substitute.
B. a decrease in the price of a complement.
C. an increase in the price of a complement.
D. an increase in the good's price.
Ans: B

*AACSB: Analytical Thinking*
*Blooms: Comprehension*
*Difficulty: Hard*
*Learning Objective: 2.3 Distinguish between a shift of and a movement along the demand curve.*
*Topic: Demand*

26. Supply describes how much of something producers:
A. are willing and able to buy under certain circumstances.
B. want to buy under certain circumstances, although they may not be able to.
C. are willing and able to offer for sale under certain circumstances.
D. want to offer for sale under certain circumstances, although they may not be able to.
Ans: C

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Easy*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

27. For almost all goods, the:
A. lower the price goes, the higher the quantity supplied.
B. higher the price goes, the more luxurious it is.

C. lower the price goes, the more luxurious it is.
D. higher the price goes, the higher the quantity supplied.
Ans: D

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Medium*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

28. The law of supply describes the:
A. inverse relationship between price and quantity supplied.
B. direct relationship between price and quantity supplied.
C. inverse relationship between income and quantity supplied.
D. direct relationship between income and quantity supplied.
Ans: B

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Medium*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

29. The supply curve is a __________ line that reflects the _______ relationship between price and quantity supplied.
A. downward-sloping; inverse
B. upward-sloping; inverse
C. downward-sloping; direct
D. upward-sloping; direct
Ans: D

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Medium*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

30. The amount of a particular good that sellers in a market will sell at a given price during a specified period is called:
A. quantity demanded.
B. quantity supplied.
C. demand.
D. supply.
Ans: B

*AACSB: Knowledge Application*
*Blooms: Knowledge*
*Difficulty: Medium*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

31. A factory recently adds new robots to their production line, increasing productivity. This will likely cause:
A. a rightward shift of the supply curve.
B. a leftward shift of the supply curve.
C. a shift straight up of the supply curve.
D. a movement up along the supply curve.
Ans: A

*AACSB: Reflective Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

32. A drought causes most fruit crops to fail, decreasing the amount of available fruit. The fruitcake market would see:
A. an increase in the supply of fruitcake.
B. a decrease in the supply of fruitcake.
C. no change in the supply of fruitcake, but the demand would increase.
D. no change in the supply of fruitcake, but the demand would decrease.
Ans: B

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

33. There was a bumper crop of blueberries last year due to the increased rainfall. This plentiful supply of blueberries caused their price to drop. Bakeries regularly produce and sell blueberry pie. Considering the market for blueberry pies, what factor of supply has been affected and what was the overall effect on the supply?
A. The price of an input has been affected; supply will increase.
B. The price of an input has been affected; supply will decrease.
C. The new technology has been affected; supply will increase.
D. The number of sellers has been affected; supply will increase.
Ans: A

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.4 Draw a supply curve and describe the external factors that determine supply.*
*Topic: Supply*

34. The price of chocolate chips has increased. For the producers of chocolate chip cookies, this means:
A. they can supply more at each price because some of the competition will drop out.
B. they can supply less at each price because the price of a main input has gone up.
C. they can supply more at each price because the price of a main input has gone up.
D. they can supply more at each price because of more competition.

Ans: B

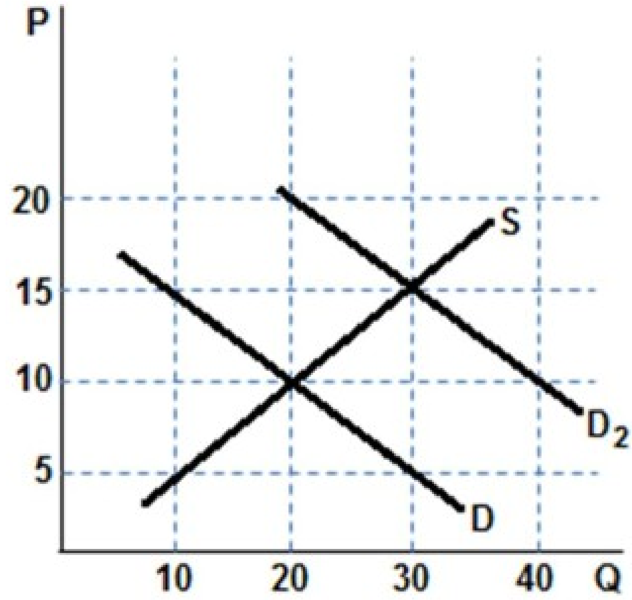
*AACSB: Reflective Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.5 Distinguish between a shift of and a movement along the supply curve.*
*Topic: Supply*

35. A change in a non-price determinant of supply will cause:
A. a movement along the supply curve.
B. a shift of the supply curve.
C. the supply curve to rotate inward.
D. the supply curve to rotate outward.
Ans: B

*AACSB: Knowledge Application*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.5 Distinguish between a shift of and a movement along the supply curve.*
*Topic: Supply*

36. A paper mill discovers that burning old tyres is a cheaper way to get power than using coal, and they adopt the new technology. How does this impact the market for paper?
A. The demand for paper will increase.
B. The supply of paper will increase.
C. The supply for paper will remain constant.
D. The supply for paper will decrease.
Ans: B

*AACSB: Reflective Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.5 Distinguish between a shift of and a movement along the supply curve.*
*Topic: Supply*




37.
Assume the market in the graph shown was originally at an equilibrium with demand D and supply S. The original equilibrium price and quantity were, respectively:
A. $5 and 30.
B. $5 and 20.
C. $10 and 20.
D. $20 and 10.
Ans: C

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Medium*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

38. The term ‘equilibrium’ refers to the point where:
A. quantity supplied equals quantity demanded.
B. buyers and sellers ‘agree’ on the quantity of a good they are willing to exchange at all prices.
C. the supply curve and demand curve do not intersect.
D. every buyer and seller achieves their best possible outcome.
Ans: A

*AACSB: Knowledge Application*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

39. The point at which buyers and sellers ‘agree’ on the quantity of a good they are willing to exchange at a given price is called:
A. equilibrium.
B. optimisation.
C. maximisation.

D. efficiency.
Ans: A

*AACSB: Knowledge Application*
*Blooms: Comprehension*
*Difficulty: Medium*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

40. The equilibrium price is sometimes called:
A. the market-clearing price.
B. the optimum price.
C. the maximum.
D. the quantity-clearing price.
Ans: A

*AACSB: Knowledge Application*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

41. If producers set the price of their product too high, the result is:
A. a shortage, and consumers will bid the price down to equilibrium.
B. a surplus, and excess goods in inventory will signal to producers to lower their prices.
C. a shortage, and consumers will bid the price up to equilibrium.
D. a surplus, and excess goods in inventory will signal the producers to restrict output until sales increase.
Ans: B

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

42. If producers set the price of their product too low, the result is:
A. a shortage, and consumers will bid the price down to equilibrium.
B. a surplus, and excess goods in inventory will signal the producers to lower their prices.
C. a shortage, and consumers will bid the price up to equilibrium.
D. a surplus, and excess goods in inventory will signal the producers to restrict output until sales increase.
Ans: C

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Easy*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

43. A shortage will occur if:

A. the quantity being supplied at a given price is less than the quantity demanded at that price.
B. the quantity being demanded at a given price exceeds the quantity supplied at that price.
C. there are not enough buyers in the market.
D. there are only inexperienced firms in the market.
Ans: B

*AACSB: Knowledge Application*
*Blooms: Comprehension*
*Difficulty: Medium*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

44. A surplus will occur in a market if:
A. the quantity being supplied at a given price exceeds the quantity demanded at that price.
B. the quantity being demanded at a given price is less than the quantity supplied at that price.
C. there are not enough buyers.
D. there are only secondary goods being sold.
Ans: C

*AACSB: Reflective Thinking*
*Blooms: Comprehension*
*Difficulty: Medium*
*Learning Objective: 2.6 Explain how supply and demand interact to drive markets to equilibrium.*
*Topic: Market equilibrium*

45. Consider a market that is in equilibrium. If it experiences a decrease in demand, what will happen?
A. The demand curve will shift to the left and the equilibrium price and quantity will rise.
B. The demand curve will shift to the left and the equilibrium price will increase and the equilibrium quantity will decrease.
C. The demand curve will shift to the left and the equilibrium price and quantity will fall.
D. The demand curve will shift to the right and the equilibrium price and quantity will fall.
Ans: C

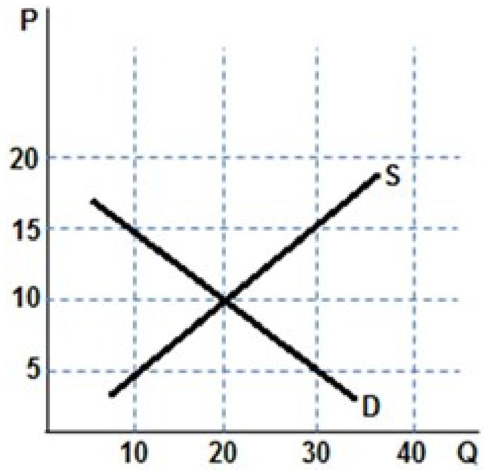
*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

46. Consider a market that is in equilibrium. If it experiences an increase in supply, what will happen?
A. The supply curve will shift to the right and the equilibrium price and quantity will rise.
B. The supply curve will shift to the right and the equilibrium price will decrease and the equilibrium quantity will increase.
C. The supply curve will shift to the right and the equilibrium price and quantity will fall.
D. The supply curve will shift to the left and the equilibrium price and quantity will fall.
Ans: B

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

47. Consider a market that is in equilibrium. If it experiences both an increase in demand and an increase in supply, what can be said of the new equilibrium?
A. The equilibrium price and quantity will both rise.
B. The equilibrium quantity will definitely rise, while the equilibrium price cannot be predicted.
C. The equilibrium price will definitely rise, while the equilibrium quantity cannot be predicted.
D. The equilibrium price and quantity will both fall.
Ans: B

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*




48.
According to the graph shown, at a price of $15, there is a:
A. shortage of 10.
B. shortage of 20.
C. shortage of 30.
D. surplus of 20.
Ans: D

*AACSB: Analytical Thinking*
*Blooms: Evaluation*
*Difficulty: Hard*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

| Price of Good | $Q_{Demand}$ | $Q_{Supply}$ |
|---|---|---|
| $0.00 | 50 | 25 |
| $0.50 | 40 | 26 |
| $1.00 | 35 | 28 |
| $1.50 | 31 | 31 |
| $2.00 | 28 | 35 |
| $2.50 | 27 | 40 |

According to the table shown, at a price of $0.50, quantity demanded:

A. exceeds quantity supplied and a shortage exists.
B. is less than quantity supplied and a shortage exists.
C. exceeds quantity supplied and a surplus exists.
D. is less than quantity supplied and a surplus exists.

Ans: A

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

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| Price of Good | $Q_{Demand}$ | $Q_{Supply}$ |
|---|---|---|

$0.00
50
25
$0.50
40
26
$1.00
35
28
$1.50
31
31
$2.00
28
35
$2.50
27
40
According to the table shown, at a price of $2.00, quantity demanded:
A. exceeds quantity supplied and a shortage exists.
B. is less than quantity supplied and a shortage exists.
C. exceeds quantity supplied and a surplus exists.
D. is less than quantity supplied and a surplus exists.
Ans: D

*AACSB: Analytical Thinking*
*Blooms: Analysis*
*Difficulty: Hard*
*Learning Objective: 2.7 Evaluate the effect of changes in supply and demand on the equilibrium price and quantity.*
*Topic: Market equilibrium*

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