CHAPTER 3  SUPPLY AND DEMAND

MULTIPLE CHOICE

1. In a perfectly competitive market a single buyer or seller _________ while in an imperfectly competitive market at least one buyer or seller _________.
   a. cannot influence price; cannot influence quantity bought and sold
   b. cannot influence tax policy; cannot influence price
   c. cannot influence price; can influence price
   d. acts alone; acts just like all the other participants in the market
   e. can influence price; cannot influence price

2. In the market for computer operating systems, Microsoft has significant control over the price of software. This is an example of a(n)
   a. perfectly competitive market
   b. imperfectly competitive market
   c. supply curve
   d. production possibilities frontier
   e. shared market

3. The law of demand says that as the price of a good or service rises, the _________ will fall
   a. demand
   b. quantity supplied
   c. supply
   d. quantity demanded
   e. production possibilities frontier

4. The table below shows the market demand schedule for digital video disks (DVDs).

<table>
<thead>
<tr>
<th>Price Per DVD</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15</td>
<td>10 million</td>
</tr>
<tr>
<td>$16</td>
<td>9.8 million</td>
</tr>
<tr>
<td>$17</td>
<td>9 million</td>
</tr>
<tr>
<td>$18</td>
<td>8.5 million</td>
</tr>
<tr>
<td>$19</td>
<td>8.3 million</td>
</tr>
<tr>
<td>$20</td>
<td>8 million</td>
</tr>
</tbody>
</table>

If the price of a DVD falls from $20 to $17,
   a. quantity demanded will fall by 1 million disks
   b. the demand curve for disks will shift to the right
   c. quantity demanded will rise by 1 million disks
   d. the quantity supplied will increase by 1 million disks
   e. demand will increase by 1 million disks
5. A decrease in the price of a good results in a(n)
   a. increase in demand
   b. decrease in demand
   c. increase in quantity demanded
   d. decrease in quantity demanded
   e. decrease in supply

6. Which of the following would cause the demand curve for handheld computers to shift to the right?
   a. an increase in the price of the labor used to manufacture the handhelds
   b. a decrease in the price of the handheld computers
   c. a decrease in the price of cell phones, a substitute for the handheld computers
   d. an increase in buyers’ incomes
   e. a decrease in the price of components used to manufacture handheld computers

7. If the price of soft drink A increases, the demand for soft drink B will
   a. increase because the two goods are substitutes
   b. increase because the two goods are complements
   c. decrease because the two goods are complements
   d. decrease because the two goods are substitutes
   e. not change, since the price of soft drink B did not change

8. If bagels are a normal good and buyers’ incomes decrease, then
   a. the demand for bagels will increase
   b. the supply of bagels will increase
   c. the supply of bagels will decrease
   d. there is no relationship between income and demand
   e. the demand for bagels will decrease

9. Apples and pears are often substitutes, therefore a increase in the price of apples will result in a(n)
   a. increase in the supply of apples
   b. decrease in the demand for apples
   c. decrease in the demand for pears
   d. increase in the demand for pears
   e. violation of the law of demand

10. A good is said to be inferior if a(an)
    a. decrease in income leads to a decrease in the demand for the good
    b. increase in price lead to an increase in the demand for the good
    c. decrease in the price of substitute products leads to a decrease in the demand for the good
    d. increase in income leads to an increase in the demand for the good
    e. increase in income leads to a decrease in the demand for the good
Chapter 3 – Supply and Demand      Practice Question

11. In the above figure, which of the following would cause the demand curve for CDs to shift from $D_0$ to $D_1$?
   a. increased availability of free music over the Internet
   b. increased production costs for CDs
   c. decreased production costs for CDs
   d. the music industry announces that price hikes for CDs are coming in the next month
   e. decreased incomes of music buyers

12. The fact that price and quantity supplied are positively related is an example of the
   a. law of demand
   b. law of opportunity cost
   c. law of supply
   d. law of quantity supplied
   e. law of algebra

13. Which of the following would cause a decrease in quantity supplied rather than a decrease in supply?
   a. a decline in productive capacity
   b. an increase in input prices
   c. a decrease in the price of the good
   d. an increase in taxes
   e. the suppliers begin to expect the price to decrease in the near future

14. Which of the following would cause a rightward shift of the supply curve for cell phones?
   a. a decrease in the price of a crucial component used in the production of cell phones
   b. an increase in the price of cell phone themselves
   c. an increase in the expected future price of cell phones
   d. a decrease in the number of companies selling cell phones
   e. a new tax on each cell phone produced
15. Which of the following could cause the movement from $S_0$ to $S_1$ shown in the above figure?
   a. a drop in population
   b. a decrease in the price of a complementary good
   c. a decrease in taxes
   d. an increase in input prices
   e. a shift of consumers’ tastes and preferences away from the product

16. If the government offers a subsidy to the producers of a particular good,
   a. the demand for the product will increase
   b. the supply of the product will decrease
   c. the supply curve for the product will shift leftward
   d. the supply of the product will increase
   e. the demand for the product will decrease

17. Equilibrium is defined as the point at which
   a. supply and demand are equal
   b. quantity supplied is greater than quantity demanded
   c. quantity demanded is greater than quantity supplied
   d. all scarcity has been eliminated
   e. there is no tendency for the price to change

18. Supply and demand schedules for soda are given in the table below. What is the equilibrium price?

<table>
<thead>
<tr>
<th>Price Per Bottle</th>
<th>Quantity Supplied</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.80</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>$0.90</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>$1.00</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>$1.10</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>$1.20</td>
<td>20</td>
<td>11</td>
</tr>
</tbody>
</table>

   a. $0.90
   b. $1.00
   c. $1.10
   d. $1.20
   e. $1.30
19. Suppose the market for watches is currently in equilibrium. Which of the following would cause the price of watches to fall while at the same time the quantity of watches bought and sold increases?
   a. an increase in the population of watch buyers
   b. an increase in the cost of an important input used to manufacture watches
   c. a decrease in the wages of the laborers who make the watches
   d. a decrease in the price of watch bands, a complement to watches
   e. a new tax is placed on watches

20. Suppose the market for athletic shoes is currently in equilibrium at point E in the above figure. Which of the following could make the equilibrium move from point E to point G in the graph? Assume that shoes are a normal good.
   a. Buyers’ incomes decrease while a technological advance allows shoes to be produced at a lower cost.
   b. Buyers’ incomes increase while a technological advance allows shoes to be produced at a lower cost.
   c. Buyers’ incomes decrease while labor strife causes shoes to be produced at a higher cost.
   d. Buyers’ incomes increase while labor strife causes shoes to be produced at a higher cost.
   e. Buyers’ incomes increase while the price of shoe-laces, a complement to the shoes, falls.

21. When the price of oil rose rapidly, it caused the demand and price of natural gas to
   a. increase, because oil and natural gas are substitutes
   b. decrease, because oil and natural gas are substitutes
   c. increase, because oil and natural gas are complements
   d. decrease, because oil and natural gas are complements
   e. neither increase nor decrease
**Short Answer type question**

1. How would each of the following affect the market for blue jeans in the US? Illustrate each answer with a supply and demand diagram
   a) Price of denim cloth increases.
   b) An influx of immigrants (explicitly state any assumption you are making)
   c) An economic slowdown in the US causes households incomes to decrease.

2. (Similar to the example I gave you in the class)
   Following table gives hypothetical data for the quantity of electric scooters demanded and supplied in Iowa per month

<table>
<thead>
<tr>
<th>Price per Electric scooter (in $)</th>
<th>Quantity Demanded</th>
<th>Quantity supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>150</td>
<td>500</td>
<td>250</td>
</tr>
<tr>
<td>175</td>
<td>475</td>
<td>350</td>
</tr>
<tr>
<td>200</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td>225</td>
<td>425</td>
<td>550</td>
</tr>
<tr>
<td>250</td>
<td>400</td>
<td>650</td>
</tr>
<tr>
<td>275</td>
<td>375</td>
<td>750</td>
</tr>
</tbody>
</table>

   a) Graph the demand and supply
   b) Find the equilibrium price and quantity
   c) How an increase in the wage rate paid to scooters assemblers would affect the market
   d) What would happen if there was an increase in the wage rate paid to scooter assemblers at the same time that tastes for electric scooters increased