1. "Holding all other relevant factors constant, consumers will purchase more of a good as its price falls."
   This statement reflects the behavior underlying
   A) the demand curve.  D) a decrease in the demand curve.
   B) an increase in demand.  E) the production possibilities curve.
   C) the supply curve.

2. The demand curve illustrates the fact that consumers
   A) tend to purchase more of a good as its price rises.
   B) purchase name brand products more frequently than generic products.
   C) tend to purchase more of a good as its price falls.
   D) purchase more of a good as their incomes fall.
   E) purchase more of a good as their incomes rise.

3. Which of the following is NOT true of a demand curve?
   A) It has negative slope.
   B) It shows the amount consumers are willing and able to purchase at various prices, holding
      other factors constant.
   C) It relates the price of an item to the quantity demanded of that item.
   D) It shows how an increase in price leads to an increase in quantity demanded of a good.
   E) It shows that consumers tend to purchase less of a good as its price rises.

4. The shape, slope, and position of a demand curve is determined by
   A) competition in the marketplace.  D) by (a), (b), and (c).
   B) consumers’ preferences.  E) by (b) and (c).
   C) consumers’ wealth.

5. A demand curve is ______ sloping because __________________.
   A) downward; of increasing opportunity costs.
   B) upward; people prefer to purchase high quality consumer goods.
   C) downward; reservation prices tend to fall over time.
   D) upward; people are upwardly mobile.
   E) downward; fewer people are willing to buy the item at higher prices.

6. As coffee becomes more expensive, Joe starts drinking tea, therefore quantity demanded for coffee
   decreases. This is called
   A) the income effect.  D) a shift in the supply curve.
   B) the change in equilibrium.  E) a shift in the demand curve.
   C) the substitution effect.

7. Sellers tend to offer ______ for sale as price increases, and so the supply curve is ______ sloping.
   A) goods; not  B) less; downward  C) more; downward  D) less; upward  E) more; upward

8. The supply curve illustrates that firms
   A) increase the supply of a good when its price rises.
   B) increase the quantity supplied of a good when its price rises.
   C) decrease the quantity supplied of a good when input prices fall.
   D) increase the quantity supplied of a good when input prices rise.
   E) decrease the quantity supplied to earn higher profits.

9. As the price of a good rises,
   A) firms earn larger profits.
   B) more firms can cover their opportunity costs of producing the good.
   C) firms find they can raise price by even more.
   D) consumers become more willing to purchase the good.
E) government regulation becomes more justified.

10. Supply curves are generally ______ sloping because _____________.
   A) downward; more consumers will buy the good if the price falls.
   B) upward; of the principle of increasing opportunity costs
   C) downward; it is less expensive to mass produce goods
   D) upward; of inflation
   E) downward; prices fall when firms specialize

11. A market comprised of a downward sloping demand curve that intersects an upward sloping supply curve is said to be stable because
   A) price will never change.
   B) quantity will never change.
   C) demand will never change.
   D) supply will never change.
   E) at any price other than equilibrium, forces in the market move price towards the equilibrium.

12. Which of the following is NOT a characteristic of a market in equilibrium?
   A) Quantity demanded equals quantity supplied.
   B) Excess supply is zero.
   C) All consumers are able to purchase as much as they wish.
   D) Excess demand is zero.
   E) The equilibrium price is stable, i.e., there is no pressure for it to change.

13. A market in disequilibrium would feature
   A) a stable price.
   B) consumers able to purchase all they wish at the market price.
   C) a stable quantity.
   D) either excess supply or excess demand.
   E) firms able to sell all they wish at the market price.

14. The equilibrium price and quantity of any good or service is established by
   A) only demanders.
   B) only suppliers.
   C) government regulations.
   D) both demanders and suppliers.
   E) custom and tradition.

Use the following to answer questions 15-20:

This graph shows the original market for plywood in a coastal Florida town.

**Price of Plywood**

![Graph showing the demand and supply curves for plywood.](image-url)
15. In the graph above,  
A) line A is the demand curve and line B is the supply curve.  
B) line B is the demand curve and line A is the equilibrium curve.  
C) line A is the supply curve and line B is the equilibrium curve.  
D) line B is the demand curve and line A is the supply curve.  
E) line B is the demand curve and line A is the price control.  

16. As drawn, the equilibrium price is _____ and the equilibrium quantity is ____.  
A) $20; 300 B) $35; 300 C) $50; 400 D) $60; 200 E) $40; 200  

17. A hurricane has been spotted headed directly toward the town in which this market is located. The residents know that the best way to protect themselves is to board up all of their windows. You would expect the curve(s) labeled _____ to shift _______.  
A) A; rightward  B) B; rightward  C) A and B; rightward  D) A; leftward  E) B; leftward  

18. A hurricane has been spotted headed directly toward the town in which this market is located. The residents know that the best way to protect themselves is to board up all of their windows. You would expect  
A) the price of plywood to rise.  
B) the supply of plywood to fall.  
C) the price of plywood to remain constant, but the quantity demanded to increase.  
D) the price of plywood to remain constant, but demand to increase.  
E) the price of plywood to remain constant, but the quantity supplied to increase.  

19. The Governor of Florida would like to alleviate the plywood shortage in the wake of the hurricane. What should he do?  
A) Impose price controls to prevent gouging.  
B) Require all plywood suppliers to maintain their pre-hurricane price and inventory.  
C) Allow prices to fall to the new post-hurricane equilibrium  
D) Allow prices to rise to the new post-hurricane equilibrium  
E) None of these would help.  

20. The Governor of Florida has decided to impose price controls in the wake of the hurricane. What is the most likely outcome?  
A) People will be able to obtain the plywood that they need in order to rebuild.  
B) Plywood suppliers from out of state will increase deliveries to Florida to take advantage of the strong demand.  
C) There will be persistent excess demand for plywood.  
D) Quantity supplied will increase to meet new demand.  
E) Both B and D.  

21. A movement along a demand curve from one price-quantity combination to another is called  
A) a change in quantity demanded.  
B) a shift in the demand curve.  
C) a change in demand.  
D) a change in quantity supplied.  
E) a change in supply.  

22. If the price of computers increases and the demand for monitors decreases, then  
A) computers and monitors are complements.  
B) computers are a normal good and monitors are inferior.  
C) computers and monitors are substitutes.  
D) computers are an inferior good and monitors are normal.  
E) none of the above is true.  

23."As the price of personal computers continues to fall, demand increases." This headline is inaccurate because  
A) a change in the price of personal computers shifts the demand curve.  
B) a change in the price of personal computers shifts the supply curve.
C) the statement is backwards: increased demand leads to lower prices.
D) falling prices for personal computers increases quantity demanded, not demand.
E) falling prices for personal computers increases quantity supplied.

24. If the demand for a good decreases as income decreases, it is a(n)
A) complementary good.  
B) normal good.  
C) inferior good.

D) substitute good.  
E) consumer good.

25. What might cause a demand curve to shift to the right?
A) An increase in the price of a substitute.  
B) An increase in the product's own price.  
C) An increase in the price of a complement.  
D) A decrease in the price of a substitute.  
E) An expectation that the product's own price will fall in the future.

26. If pizzas are normal good, then a decrease in the price of pizza will cause a(n)
A) increase in demand.  
B) increase in quantity demanded.  
C) decrease in quantity demanded.

D) decrease in supply.  
E) decrease in the number of consumers.

27. Suppose the price of gasoline increases and that sport utility vehicles get poor gas mileage compared to other available cars. One would expect
A) the demand for gasoline to decrease.  
B) the demand for sport utility vehicles to decrease.  
C) the demand for sport utility vehicles to increase.  
D) the quantity of gasoline demanded to increase.  
E) the quantity of sport utility vehicles demanded to decrease.

28. Suppose the local slaughterhouse gives off an unpleasant stench. The price of meat would then be _______ because not all of the ________ are accounted for in the marketplace.
A) too high; benefits  
B) too low; benefits  
C) too high; costs  
D) too low; costs

29. Suppose that the production of oranges reduces global warming by .1%. The equilibrium price of oranges is _______ because not all of the ________ are accounted for in the marketplace.
A) too high; benefits  
B) too low; benefits  
C) too low; costs  
D) optimal; costs

30. Efficiency occurs when
A. a market is in equilibrium.  
B. the socially optimal quantity of goods and services is being produced.  
C. the individually rational quantity of goods and services is being produced.  
D. the government does not interfere with market prices.

31. GDP is a measure of an economy's:
A. domestic price level.  
B. level of unemployment.  
C. total output.  
D. domestic productivity.

32. The value of intermediate goods are excluded from the measurement of GDP in order to:
A. adjust for inflation.  
B. avoid double counting.  
C. index economic activity.  
D. measure GDP in constant prices.

33. If the Citrus Growers Association grows $1 million worth of oranges, sells $500,000 worth of oranges
to consumers, uses the rest to make orange juice that is sold to consumers for $3 million, Citrus Grower's contribution to GDP is:
A. $500,000.
B. $1,000,000.
C. $3,500,000.
D. $4,000,000.

34. The sum of the value added by all firms equals total:
A. profits.
B. spending on capital goods.
C. investment spending.
D. value of final goods and services.

35. Changes in business inventories are:
A. classified as consumption expenditures.
B. classified as investment expenditures.
C. classified as government purchases.
D. excluded from GDP.

36. In the base year real GDP ______ nominal GDP.
A. is greater than
B. is less than
C. is equal to
D. could be greater or less than

Use the following to answer questions 37-38:

Assume an economy produces only footballs and baseballs and the base year is 2005

<table>
<thead>
<tr>
<th>Quantities Produced</th>
<th>Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Footballs</td>
<td>200</td>
</tr>
<tr>
<td>Baseballs</td>
<td>500</td>
</tr>
</tbody>
</table>

37. What is the value of real GDP in 2006?
A. $ 9,000
B. $10,000
C. $12,000
D. $12,500

38. What is the value of nominal GDP in 2006?
A. $10,000
B. $12,000
C. $12,500
D. $16,500

39. Suppose that the total expenditures for a typical household in 2000 equaled $2,500 per month, while the cost of purchasing exactly the same items in 2005 was $3,000. If 2000 is the base year, the CPI for 2000 equals:
A) 0.83  B) 1.00  C) 1.20  D) 1.25  E) 1.30

40. The CPI in 1930 equaled 0.17. The CPI in 1931 equaled 0.15. The rate of inflation between 1930 and 1931 was _____ percent.
A) -13.3  B) -11.8  C) 1.5  D) 11.8  E) 13.3
41. Determine whether each of the following would or would not be included in the calculation of the current year's (2008) GDP. If it should not be included, explain why.

a. The purchase of a 1990 Ford Bronco

b. A purchase of a share of IBM stock.

c. Steel purchased by General Motors.

d. A dry cleaning bill.

e. The money you saved by doing your own laundry rather than using a dry cleaning service.

f. $25 paid to a neighborhood kid to mow your lawn.

g. $25 if you mow your lawn yourself.

42. Here is some data for the economy of the fictitious country "Alpha." Calculate Alpha's GDP. Explain why each item was or was not included in GDP.

a. Consumption expenditures  
   1000

b. Exports  
   125

c. Government purchases of goods and services  
   300

d. Construction of new homes and apartments  
   125

e. Sales of existing homes and apartments  
   320

f. Imports  
   90

g. Beginning-of-year inventory stocks  
   140

h. End of year inventory stocks  
   160

i. Business fixed investments  
   250

j. Government payments to retirees  
   160

k. Household purchases of durable goods  
   265
43. Here are the values of the CPI (multiplied by 100) for the fictitious country "Alpha" for the years 1995 - 2000. For each year, beginning with 1996, calculate the rate of inflation from the previous year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>120</td>
</tr>
<tr>
<td>1996</td>
<td>130</td>
</tr>
<tr>
<td>1997</td>
<td>138</td>
</tr>
<tr>
<td>1998</td>
<td>144</td>
</tr>
<tr>
<td>1999</td>
<td>147</td>
</tr>
<tr>
<td>2000</td>
<td>150</td>
</tr>
</tbody>
</table>