

**Chapter 3 Where Prices Come From: The Interaction of Demand and Supply****3.2 The Supply Side of the Market**

1) A supply curve

A) is a table that shows the relationship between the price of a product and the quantity of the product supplied.

B) is a curve that shows the relationship between the price of a product and the quantity of the product supplied.

C) is the relationship between the supply of a good and the cost of producing the good.

D) is a curve that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.

Diff: 1 Page Ref: 78/78

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

2) If in the market for apples the supply has decreased then

A) the supply curve for apples has shifted to the right.

B) there has been a movement upwards along the supply curve for apples.

C) the supply curve for apples has shifted to the left.

D) there has been a movement downwards along the supply curve for apples.

Diff: 1 Page Ref: 80/80

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

3) If in the market for bananas the supply curve has shifted to the right, then

A) the supply of bananas increased.

B) the quantity of bananas supplied has increased.

C) the supply of bananas has decreases.

D) the quantity of bananas supplied has decreased.

Diff: 1 Page Ref: 80/80

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

- 4) Last month, the Tecumseh Corporation supplied 400 units of three-ring binders at \$6 per unit. This month, the company supplied the same quantity of binders at \$4 per unit. Based on this evidence, Tecumseh has experienced
- A) a decrease in supply.
  - B) an increase in supply.
  - C) an increase in the quantity supplied.
  - D) a decrease in the quantity supplied.

Diff: 2 Page Ref: 80/80

Topic: Supply Schedules

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 5) \_\_\_\_\_ means the supply curve has shifted to the right, while \_\_\_\_\_ refers to a movement along a given supply curve in response to an increase in price.
- A) An increase in supply; a decrease in supply
  - B) A decrease in supply; an increase in supply
  - C) An increase in supply; an increase in quantity supplied
  - D) A decrease in supply; a decrease in quantity supplied

Diff: 1 Page Ref: 80-81/80-81

Topic: Supply versus Quantity Supplied

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

- 6) One would speak of a movement along a supply curve for a good, rather than a change in supply, if
- A) the cost of producing the good changes.
  - B) supplier expectations about future prices change.
  - C) the price of the good changes
  - D) prices of substitutes in production change.

Diff: 1 Page Ref: 81/81

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

- 7) Which of the following would cause an increase in the supply of cheese?
- A) a decrease in the price of wine (assuming that cheese and wine are complements)
  - B) an increase in the price of cheese
  - C) an increase the price of a product that producers sell instead of cheese
  - D) an increase in the number of firms that produce cheese

Diff: 2 Page Ref: 80/80

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 8) In July, market analysts predict that the price of gold will rise in August. What happens in the gold market in July, holding everything else constant?
- A) The supply curve shifts to the right.
  - B) The supply curve shifts to the left.
  - C) The quantity demanded and the quantity supplied of gold increase.
  - D) The demand curve shifts to the left.

Diff: 2 Page Ref: 80/80

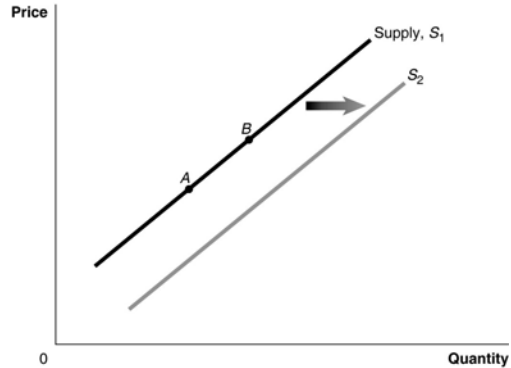
Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

**Figure 3-2**

- 9) **Refer to Figure 3-2.** A technological advancement would be represented by a movement from
- A) *A* to *B*.
  - B) *B* to *A*.
  - C)  $S_1$  to  $S_2$ .
  - D)  $S_2$  to  $S_1$ .

Diff: 2 Page Ref: 81/81

Topic: Technological Change

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 10) **Refer to Figure 3-2.** An increase in the expected future price of the product would be represented by a movement from
- A) *A* to *B*.
  - B) *B* to *A*.
  - C)  $S_1$  to  $S_2$ .
  - D)  $S_2$  to  $S_1$ .

Diff: 2 Page Ref: 81/81

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

11) **Refer to Figure 3-2.** A decrease in the price of inputs would be represented by a movement from

- A) *A* to *B*.
- B) *B* to *A*.
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Diff: 2 Page Ref: 81/81

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

12) **Refer to Figure 3-2.** An increase in the price of the product would be represented by a movement from

- A) *A* to *B*.
- B) *B* to *A*.
- C)  $S_1$  to  $S_2$ .
- D)  $S_2$  to  $S_1$ .

Diff: 2 Page Ref: 81/81

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

13) If the United States lifted the embargo on Cuban products, what would happen in the U.S. market for Cuban cigars?

- A) The supply curve would shift to the left.
- B) The supply curve would shift to the right.
- C) The demand curve would shift to the right.
- D) The demand curve would shift to the left.

Diff: 2 Page Ref: 80/80

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

14) George Gnat subscribes to a monthly pest control service for his home. Last week the owner of the service informed George that he will have to raise his monthly service fee because of increases in the price of gasoline used by his workers on their service trips. How is the market for pest control services affected by this?

- A) There is an increase in the supply of pest control services.
- B) There is a decrease in the demand for pest control services.
- C) There is a decrease in the quantity supplied of pest control services.
- D) There is a decrease in the supply of pest control services.

Diff: 2 Page Ref: 80/80

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

15) The growing popularity of energy conservation has enticed large home improvement stores like Home Depot and Lowes to offer tankless water heaters. How does the fact that home improvement stores now offer these products affect the tankless water heater market?

- A) The demand curve for tankless water heaters shifts to the right.
- B) The demand curve for tankless water heaters shifts to the left.
- C) The supply curve for tankless water heaters shifts to the right.
- D) The supply curve for tankless water heaters shifts to the left.

Diff: 2 Page Ref: 80/80

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

16) Farmers can plant either corn or soybeans in their fields. Which of the following would cause the supply of soybeans to increase?

- A) an increase in the price of soybeans
- B) a decrease in the price of corn
- C) an increase in the demand for corn
- D) an increase in the price of soybean seeds

Diff: 2 Page Ref: 80/80

Topic: Prices of Substitutes in Production

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

17) Which of the following would shift the supply curve for energy drinks to the left?

- A) a decrease in the expected future price of energy drinks
- B) an increase in consumer income (assuming that energy drinks are normal goods)
- C) a decrease in the number of firms that produce energy drinks
- D) a decrease in the price of an input used to produce energy drinks

Diff: 3 Page Ref: 80/80

Topic: Number of Firms in the Market

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

18) If a firm expects that the price of its product will be lower in the future than it is today

- A) the firm has an incentive to increase supply now and decrease supply in the future.
- B) the firm has an incentive to decrease supply now and increase supply in the future.
- C) the firm has an incentive to increase quantity supplied now and decrease quantity supplied in the future.
- D) the firm will not change supply until it knows for certain what will happen to its price.

Diff: 3 Page Ref: 80/80

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

19) A firm has an incentive to decrease supply now and increase supply in the future if it expects that

- A) more firms will enter the market in the future.
- B) the prices of inputs used to produce the product will rise in the future.
- C) the price of its product will be lower in the future than it is today.
- D) the price of its product will be higher in the future than it is today.

Diff: 2 Page Ref: 80/80

Topic: Expected Future Prices

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

20) The supply curve for umbrellas

- A) shows the supply of umbrellas consumers are willing and able to buy at any given price.
- B) is downward sloping.
- C) shows the relationship between the quantity of umbrellas firms are willing and able to supply and the quantity of umbrellas consumers are willing and able to purchase.
- D) shows the relationship between the price of umbrellas and the quantity of umbrellas supplied.

Diff: 1 Page Ref: 78/78

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

21) An increase in the price of MP3 players will result in

- A) a smaller quantity of MP3 players supplied.
- B) a larger quantity of MP3 players supplied.
- C) a decrease in the demand for MP3 players.
- D) an increase in the supply of MP3 players.

Diff: 1 Page Ref: 79/79

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

22) A positive technological change will cause the quantity supplied of a good to increase.

Answer: FALSE

Diff: 1 Page Ref: 80/80

Topic: Technological Change

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

23) An increase in quantity supplied is represented by a rightward shift of the supply curve.

Answer: FALSE

Diff: 1 Page Ref: 81/81

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None



24) A decrease in the price of inputs will cause the supply curve for a product to shift to the right.

Answer: TRUE

Diff: 1 Page Ref: 80/80

Topic: Prices of Inputs

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

25) All else equal, as the price of a product falls, the quantity supplied decreases.

Answer: TRUE

Diff: 1 Page Ref: 79/79

Topic: Law of Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

26) What are the five most important variables that shift the market supply curve?

Answer: Prices of inputs; Technological change; Prices of substitutes in production; The number of firms in the market; Expected future prices

Diff: 1 Page Ref: 79-80/79-80

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

27) Would a change in the price of in-line skates cause a change in the supply of in-line skates? Why or why not?

Answer: No, a change in the price of in-line skates would not cause a change in the supply of in-line skates. Rather, it would cause change in quantity supplied. Supply changes only when there is a change in any variable other than price that would affect the supply of the good in question.

Diff: 2 Page Ref: 81/81

Topic: Quantity Supplied

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

28) Indicate whether each of the following situations would shift the supply curve to the left, to the right, or not at all.

- a. An increase in the price of an input
- b. An increase in productivity
- c. An increase in the price of a substitute in production
- d. A decrease in the expected future price of a product
- e. A decrease in the current price of the product

Answer:

- a. Shift to the left
- b. Shift to the right
- c. Shift to the left
- d. Shift to the right
- e. No shift

Diff: 2 Page Ref: 81/81

Topic: Supply Curves

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

### 3.3 Market Equilibrium: Putting Demand and Supply Together

- 1) At market equilibrium,
  - A) demand equals supply.
  - B) quantity demanded equals quantity supplied.
  - C) surpluses are greater than shortages.
  - D) shortages are greater than surpluses.

Answer: B

Diff: 1 Page Ref: 82/82

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

2) At a product's equilibrium price

- A) anyone who needs the product will be able to buy the product, regardless of ability to pay.
- B) the federal government will provide the product to anyone who cannot afford it.
- C) not all sellers who are willing to accept the price will find buyers for their products.
- D) any buyer who is willing and able to pay the price will find a seller for the product.

Answer: D

Diff: 1 Page Ref: 82/82

Topic: Demand versus Quantity Demanded

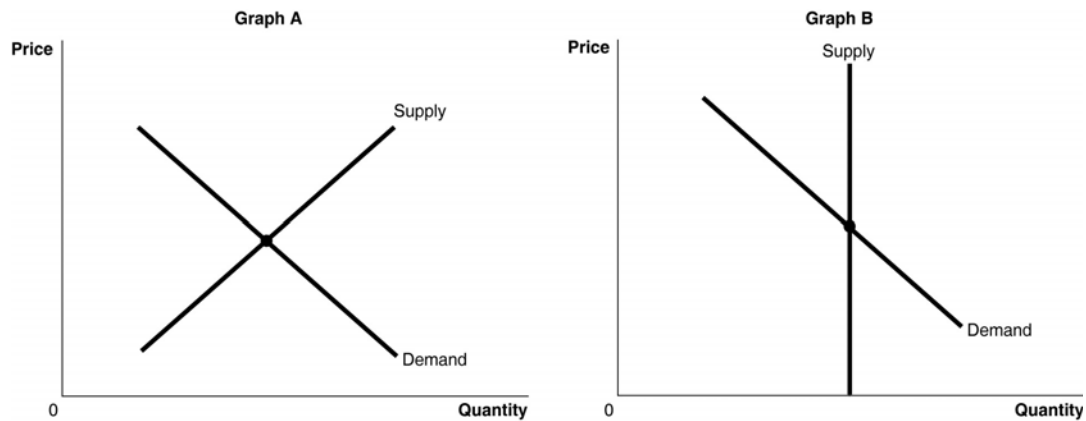
\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

**Figure 3-3**



3) **Refer to Figure 3-3.** The figure above shows the supply and demand curves for two markets: the market for original Michelangelo sculptures and the market for Ray Ban sunglasses. Which graph most likely represents which market?

- A) Graph B represents the market for original Michelangelo sculptures and Graph A represents the market for Ray Ban sunglasses.
- B) Graph A represents the market for original Michelangelo sculptures and Graph B represents the market for Ray Ban sunglasses.
- C) Graph A represents both the market for original Michelangelo sculptures and Ray Ban sunglasses.
- D) Graph B represents both the market for original Michelangelo sculptures and Ray Ban sunglasses.

Answer: A

Diff: 2 Page Ref: 82/82

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

4) Hurricane Katrina damaged a large portion of refining and pipeline capacity when it swept through the Gulf coast states in August 2005. As a result of this, many gasoline distributors were not able to maintain normal deliveries. At the pre-hurricane equilibrium price (i.e., at the initial equilibrium price), we would expect to see

- A) a surplus of gasoline.
- B) the quantity demanded equal to the quantity supplied.
- C) a shortage of gasoline.
- D) an increase in the demand for gasoline.

Answer: C

Diff: 2 Page Ref: 83/83

Topic: Shortage

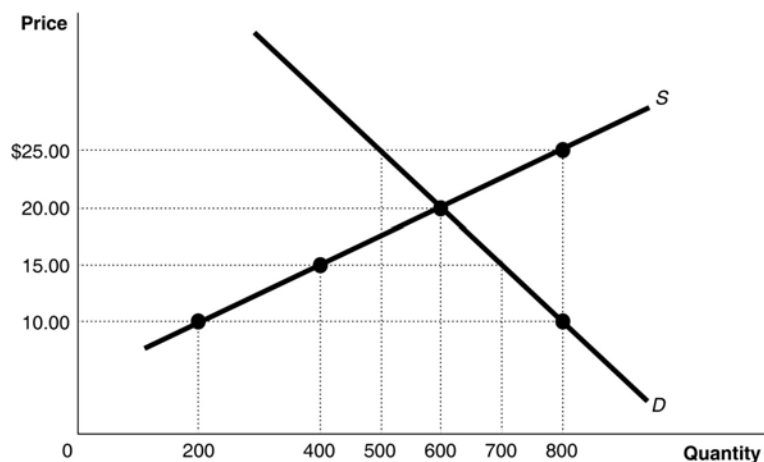
\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

**Figure 3-4**



5) **Refer to Figure 3-4.** If the price is \$25,

- A) there would be a surplus of 300 units.
- B) there would be a shortage of 300 units.
- C) there would be a surplus of 200 units.
- D) there would be a shortage of 200 units.

Answer: A

Diff: 2 Page Ref: 83/83

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

6) **Refer to Figure 3-4.** At a price of \$25, how many units will be sold?

- A) 400
- B) 500
- C) 600
- D) 800

Answer: B

Diff: 2 Page Ref: 83/83

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

7) **Refer to Figure 3-4.** If the current market price is \$25, the market will achieve equilibrium by

- A) a price increase, increasing the supply and decreasing the demand.
- B) a price decrease, decreasing the supply and increasing the demand.
- C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
- D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: C

Diff: 2 Page Ref: 83/83

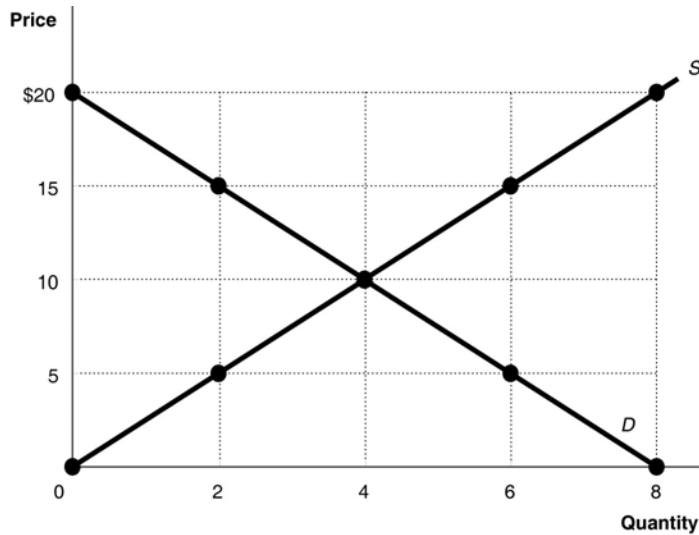
Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

**Figure 3-5**

- 8) **Refer to Figure 3-5.** At a price of \$5,
- A) there would be a surplus of 4 units.
  - B) there would be a scarcity of 4 units.
  - C) there would be a shortage of 6 units.
  - D) there would be a shortage of 4 units.

Answer: D

Diff: 2 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 9) **Refer to Figure 3-5.** At a price of \$15, the quantity sold

- A) is 2 units.
- B) is 4 units.
- C) is 6 units.
- D) cannot be determined.

Answer: A

Diff: 2 Page Ref: 83/83

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 10) *Refer to Figure 3-5.* In a free market such as that depicted above, a shortage is eliminated by
- A) a price increase, increasing the supply and decreasing the demand.
  - B) a price decrease, decreasing the supply and increasing the demand.
  - C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
  - D) a price increase, increasing the quantity supplied and decreasing the quantity demanded.

Answer: D

Diff: 2 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 11) Assume there is a surplus in the market for hybrid automobiles. Which of the following statements correctly describes this situation?

- A) The supply of hybrid automobiles is greater than the demand for hybrid automobiles.
- B) Some consumers will be unable to obtain hybrid automobiles at the market price and will have an incentive to offer to buy the product at a higher price.
- C) The price of hybrid automobiles will fall in response to the surplus; as the price falls the quantity demanded will increase and the quantity supplied will decrease.
- D) the surplus will cause an increase in the equilibrium price of hybrid automobiles.

Answer: C

Diff: 2 Page Ref: 83/83

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 12) Which of the following describes a characteristic of a perfectly competitive market?

- A) There are many buyers but few sellers.
- B) There are many sellers but few buyers.
- C) There are many buyers and sellers.
- D) Equilibrium is achieved when demand for the product sold in the market equals the supply.

Answer: C

Diff: 1 Page Ref: 82/82

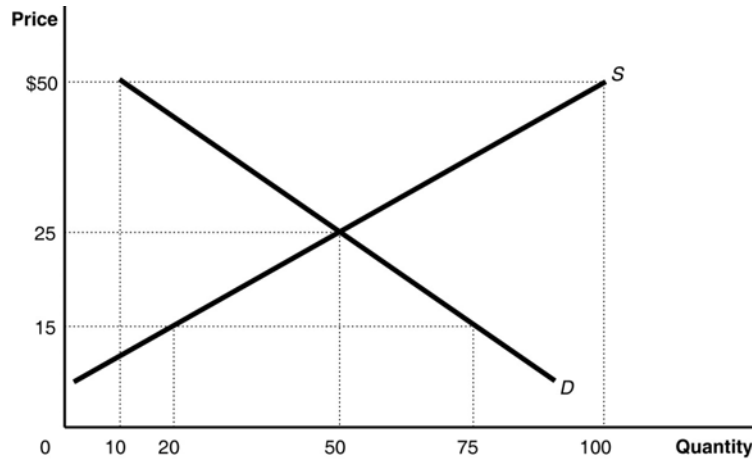
Topic: Perfectly Competitive Market

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

**Figure 3-6**

- 13) **Refer to Figure 3-6.** The figure above represents the market for coffee grinders. Assume that the market price is \$21. Which of the following statement is true?
- A) There is a shortage that will cause the price to increase; quantity demanded will then decrease and quantity supplied will increase until the price equals \$25.
- B) There is a shortage that will cause the price to increase; quantity supplied will then decrease and quantity demanded will increase until the price equals \$25.
- C) There will be a shortage that will cause the price to increase; demand will then decrease and supply will increase until the price equals \$25.
- D) There is a shortage that will cause the price to decrease; quantity demanded will then increase and quantity supplied will decrease until the price equals \$25.

Answer: A

Diff: 2 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None



14) **Refer to Figure 3-6.** The figure above represents the market for coffee grinders. Assume that the price of tote bags is \$50. At this price:

A) the quantity supplied exceeds the quantity demanded by 100. The price will eventually fall to \$25 where quantity demanded will equal quantity supplied.

B) the supply exceeds the demand by 90. Some producers will have an incentive to offer to sell tote bags at a lower price.

C) there is a surplus equal to 90 coffee grinders that will be eliminated when the price falls to \$25.

D) there is a surplus equal to 90 coffee grinders and the price of coffee grinders will fall until demand is equal to supply.

Answer: C

Diff: 3 Page Ref: 83/83

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

15) **Refer to Figure 3-6.** The figure above represents the market for coffee grinders. Compare the conditions in the market when the price is \$15 and when the price is \$21. Which of the following describes how the market differs at these prices?

A) At each price there is a shortage; the shortage is greater at \$15 than at \$21.

B) The difference between quantity supplied and quantity demanded is greater at \$21 than at \$15.

C) At each price there is a shortage; firms will raise the equilibrium price in order to eliminate the shortage.

D) At each price the demand for coffee grinders exceeds the supply of coffee grinders.

Answer: A

Diff: 3 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

16) If the quantity demanded for a product exceeds the quantity supplied, the market price will rise until

- A) the quantity demanded equals the quantity supplied. The product will then no longer be scarce.
- B) quantity demanded equals quantity supplied. The equilibrium price will then be greater than the market price.
- C) only wealthy consumers will be able to afford the product.
- D) quantity demanded equals quantity supplied. The market price will then equal the equilibrium price.

Answer: D

Diff: 2 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

17) Which of the following is evidence of a shortage of chocolate?

- A) Firms lower the price of chocolate.
- B) The price of chocolate is raised in order to increase sales.
- C) The equilibrium price of chocolate falls due to a decrease in demand.
- D) The quantity of chocolate demanded is greater than the quantity supplied.

Answer: D

Diff: 2 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

18) Even when the demand for one good is high, the price of the good is also affected by supply. The textbook illustrates this by comparing the price of two items that were auctioned on the same day. Which of the following describes the results of the auction?

- A) A letter written by Abraham Lincoln sold for a higher price than a letter written by John Wilkes Booth.
- B) A letter written by Abraham Lincoln was sold for a higher price than a letter written by Adam Smith.
- C) A letter written by John Wilkes Booth sold for a higher price than a letter written by Lee Harvey Oswald.
- D) A letter written by John Wilkes Booth sold for a higher price than a letter written by Abraham Lincoln.

Answer: D

Diff: 1 Page Ref: 84-85/84-85

Topic: Market Equilibrium

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

19) If the demand for letters written by Abraham Lincoln is higher than the demand for letters written by John Wilkes Booth, what would have to be true for the market equilibrium prices for these letters to be equal?

- A) The supply of Lincoln letters would have to be less than the supply of Booth letters.
- B) The supply of Booth letters would have to be less than the supply of Lincoln letters.
- C) The supply of Lincoln letters and the supply of Booth letters would have to be equal.
- D) If the demand for Lincoln letters is greater than the demand for Booth letters, the market equilibrium price for Lincoln letters will always be greater than the market equilibrium price for Booth letters.

Answer: B

Diff: 1 Page Ref: 84-85/84-85

Topic: Market Equilibrium

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

20) In response to a shortage the market price of a good will rise; as the price rises, the demand will decrease and supply will increase until equilibrium is reached.

Answer: FALSE

Diff: 2 Page Ref: 83/83

Topic: Shortage

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

21) A surplus is defined as the situation that exists when the quantity of a good supplied is greater than the quantity demanded.

Answer: TRUE

Diff: 1 Page Ref: 83/83

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

22) Market equilibrium occurs where the quantity supplied is equal to the quantity demanded.

Answer: TRUE

Diff: 1 Page Ref: 82/82

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

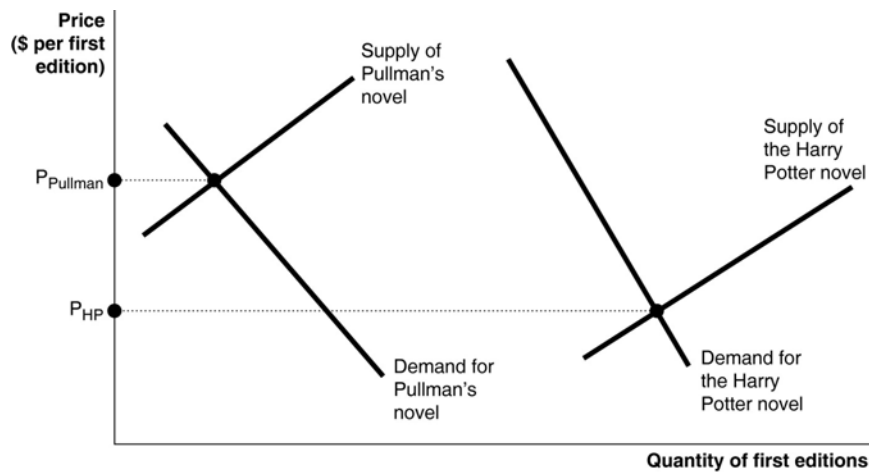
Special Feature: None

23) Consider the collectors' market for first editions of two popular children's books, *Harry Potter and the Order of the Phoenix* by J. K. Rowling and *Ruby in the Smoke* by Philip Pullman. Sales of the Harry Potter novel are much greater than sales of *Ruby in the Smoke* yet the price of the Harry Potter novel is much lower than the price of Pullman's novel.

- On one large diagram, draw a demand and supply graph for first editions of *Harry Potter and the Order of the Phoenix* and another demand and supply graph for first editions of *Ruby in the Smoke*.
- Show how it is possible for the price of the Harry Potter novel to be much lower than the price of Pullman's novel, even though the demand for the Harry Potter novel is much greater than the demand for *Ruby in the Smoke*.
- Provide a written explanation to accompany your graphical illustration.

Answer:

- and b. See the figure below.



- The demand for the Harry Potter novel is much greater than the demand for Pullman novel. Yet, the latter commands a higher price. The only way this can be true is if the supply of the Harry Potter book is much greater than the supply of the Pullman novel. Indeed this is true. Following the success of the earlier Harry Potter novels, the publisher increased the quantity of the first edition of J. K. Rowling's later book, *Harry Potter and the Order of the Phoenix*. Pullman's novels, on the other hand, have enjoyed only modest success.

Diff: 3 Page Ref: 84-85/84-85

Topic: Market Equilibrium

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: Solved Problem: Demand and Supply Both Count: A Tale of Two Letters

24) In much of Europe, the legal age to obtain a driver's license is 18. If the legal driving age in the United States was changed to 18, how would this affect the market for new automobiles? The market for automobile insurance?

Answer: The demand for new automobiles would decrease, as would the demand for automobile insurance.

Diff: 1 Page Ref: 84/84

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

**Table 3-2**

Price per Bushel	Quantity Demanded (bushels)	Quantity Supplied (bushels)
\$2	40,000	0
4	36,000	4,000
6	30,000	8,000
8	24,000	16,000
10	20,000	20,000
12	18,000	28,000
14	12,000	36,000
16	6,000	40,000

25) **Refer to Table 3-2.** The table contains information about the sorghum market. Use the table to answer the following questions.

- What are the equilibrium price and quantity of sorghum?
- Suppose the prevailing price is \$6 per bushel. Is there a shortage or a surplus in the market?
- What is the quantity of the shortage or surplus?
- How many bushels will be sold if the market price is \$6 per bushel?
- If the market price is \$6 per bushel, what must happen to restore equilibrium in the market?
- At what price will suppliers be able to sell 36,000 bushels of sorghum?
- Suppose the market price is \$14 per bushel. Is there a shortage or a surplus in the market?
- What is the quantity of the shortage or surplus?
- How many bushels will be sold if the market price is \$14 per bushel?
- If the market price is \$14 per bushel, what must happen to restore equilibrium in the market?

Answer:

- Equilibrium price = \$10; Equilibrium quantity = 20,000 bushels.
- There is a shortage.
- Shortage =  $30,000 - 8,000 = 22,000$  bushels.
- Quantity sold = 8,000 bushels.
- Price must rise.
- At \$4 per bushel.
- There is a surplus.
- Surplus =  $36,000 - 12,000 = 24,000$  bushels.
- Quantity sold = 12,000 bushels.
- Price must fall.

Diff: 2 Page Ref: 83/83

Topic: Market Equilibrium

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

## 3.4 The Effect of Demand and Supply Shifts on Equilibrium

1) Let  $D$  = demand,  $S$  = supply,  $P$  = equilibrium price,  $Q$  = equilibrium quantity. What happens in the market for solar panels if the government offers tax breaks to encourage manufacturers to produce more solar panels?

- A)  $D$  increases,  $S$  no change,  $P$  and  $Q$  increase
- B)  $S$  increases,  $D$  no change,  $P$  decreases,  $Q$  increases
- C)  $D$  and  $S$  increase,  $P$  and  $Q$  decrease
- D)  $D$  no change,  $S$  increases,  $P$  decreases,  $Q$  decreases

Answer: B

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

2) Hurricane Katrina damaged a large portion of oil refining and pipeline capacity in the Gulf coast states. In the market for gasoline,

- A) the supply curve shifted to the left resulting in an increase in the equilibrium price.
- B) the supply curve shifted to the right resulting in an increase in the equilibrium price.
- C) the demand curve shifted to the left resulting in a decrease in the equilibrium price.
- D) the demand curve shifted to the right resulting in an increase in the equilibrium price.

Answer: A

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

3) Electric car enthusiasts want to buy more electric cars at a lower price. All of the following events would have this effect *except*

- A) technological advancement in the production of electric car batteries.
- B) an increase in the number of manufacturers of electric cars.
- C) a decrease in the price of lithium, which is used in the electric car batteries.
- D) an increase in the price of gasoline.

Answer: D

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None



4) Which of the following would cause both the equilibrium price and equilibrium quantity of barley (assume that barley is an inferior good) to increase?

- A) an increase in consumer income
- B) a drought that sharply reduces barley output
- C) a decrease in consumer income
- D) unusually good weather that results in a bumper crop of barley

Answer: C

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

5) Which of the following would cause the equilibrium price of ketchup to increase and the equilibrium quantity of ketchup to decrease?

- A) a decrease in the price of tomatoes
- B) an increase in the price of tomatoes
- C) an increase in the price of mustard, a substitute for ketchup
- D) an increase in the price of french fries, a complement for ketchup

Answer: B

Diff: 3 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

6) Assume that the hourly price for the services of personal trainers has risen and sales of these services have also risen. One can conclude that

- A) the law of demand has been violated.
- B) the number of personal trainers has increased.
- C) the demand for personal trainers has increased.
- D) personal trainers are deliberately charging high prices because they provide services for wealthy clients.

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

7) Prices of commercial airline tickets (assume that this is a normal good) have fallen in recent months. Over this same period, the price of jet fuel has risen and consumer incomes have fallen. Which of the following best explains the falling prices of airline tickets?

- A) The supply curve for airline tickets has shifted to the left while the demand curve for airline tickets has shifted to the left.
- B) The demand curve for airline tickets has shifted to the left more than the supply curve has shifted to the left.
- C) The demand curve and the supply curve for airline tickets have both shifted to the right.
- D) The supply curve for airline tickets has shifted to the left more than the demand curve has shifted to the left.

Answer: B

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

8) In recent years the cost of producing wines in the U.S. has increased largely due to rising rents for vineyards. At the same time, more and more Americans prefer wine over beer. Which of the following best explains the effect of these events in the wine market?

- A) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result there has been an increase in the equilibrium quantity and an uncertain effect on the equilibrium price.
- B) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.
- C) Both the supply and demand curves have shifted to the right. As a result, there has been an increase in both the equilibrium price and the equilibrium quantity.
- D) The supply curve has shifted to the left and the demand curve has shifted to the right. As a result, there has been an increase in the equilibrium price and an uncertain effect on the equilibrium quantity.

Answer: D

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

9) Studies have shown that drinking one glass of red wine per day may help prevent heart disease. Assume this is true, and a fungal disease destroys a large portion of the grape harvest of California vineyards. In the market for red wine, these two developments would

A) increase demand and increase supply, resulting in an increase in the equilibrium quantity and a decrease in the equilibrium price of red wine.

B) increase demand and decrease supply resulting in a decrease in both the equilibrium quantity and the equilibrium price of red wine.

C) increase demand and decrease supply, resulting in an increase in the equilibrium price and an uncertain effect on the equilibrium quantity of red wine.

D) increase demand and decrease supply, resulting in an increase in both the equilibrium price and the equilibrium quantity of red wine.

Answer: C

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

10) A decrease in the demand for eggs due to changes in consumer tastes, accompanied by a decrease in the supply of eggs as a result of an outbreak of Avian flu, will result in

A) a decrease in the equilibrium quantity of eggs and no change in the equilibrium price.

B) a decrease in the equilibrium price of eggs and no change in the equilibrium quantity.

C) a decrease in the equilibrium price of egg; the equilibrium quantity may increase or decrease.

D) a decrease in the equilibrium quantity of eggs; the equilibrium price may increase or decrease.

Answer: D

Diff: 3 Page Ref: 87/87

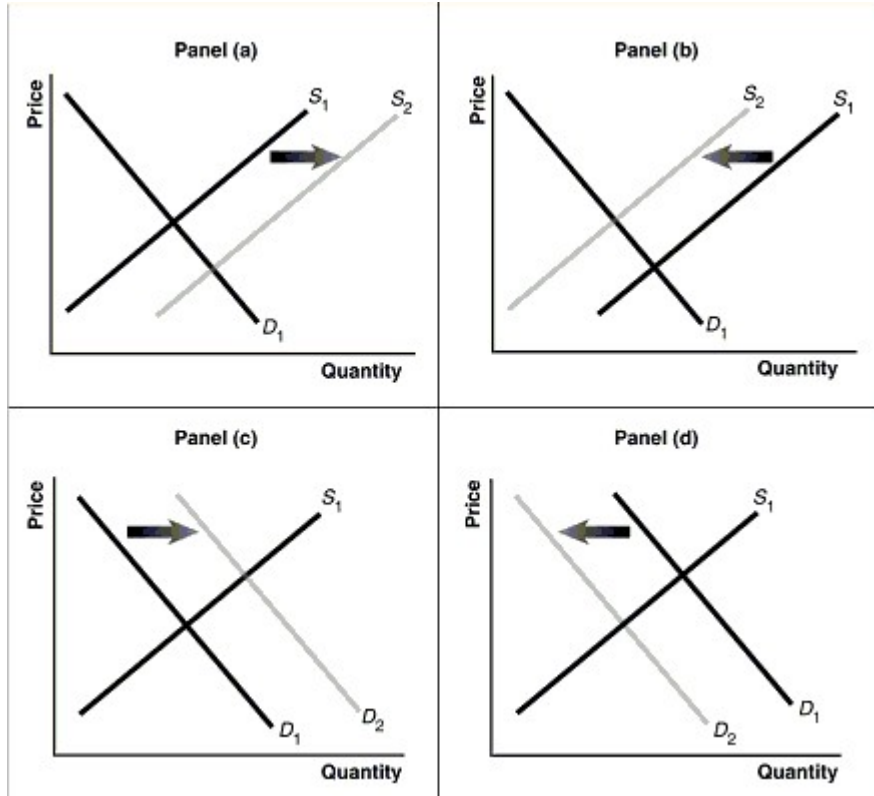
Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

**Figure 3-7**

11) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for blu-ray discs. Which panel best describes what happens in this market if there is a substantial increase in the price of blu-ray players?

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

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

12) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for laptop computers. Which panel best describes what happens in this market when the price of computer hard drives falls?

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

Answer: A

Diff: 2 Page Ref: 86/86

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

13) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for tuna. Which panel best describes what happens in this market when there is a decrease in the productivity of commercial fishermen?

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

Answer: B

Diff: 2 Page Ref: 86/86

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

14) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for frozen yogurt. Which panel describes what happens in the market for frozen yogurt when the price of ice cream, a substitute product, increases?

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

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

15) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for mustard and that bratwurst and mustard are complements. What panel describes what happens in this market when the price of bratwurst falls?

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

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

16) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for coffee. What happens in this market if buyers expect the price of coffee to rise?

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

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

17) **Refer to Figure 3-7.** Assume that the graphs in this figure represent the demand and supply curves for ramen noodles, an inferior good. Which panel describes what happens in this market as a result of an increase in income?

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

Answer: D

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

18) During the 1990s positive technological change in the production of chicken caused the price of chicken to fall. Holding everything else constant, how would this affect the market for pork (a substitute for chicken)?

- A) The supply of pork would increase and the equilibrium price of pork would decrease.
- B) The demand for pork would decrease and the equilibrium price of pork would decrease.
- C) The demand for pork would increase because consumers could afford to buy more chicken and pork.
- D) The demand for pork would decrease and the equilibrium price of pork would increase.

Answer: B

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

19) Assume that both the demand curve and the supply curve for DVD players shift to the left but the demand curve shifts more than the supply curve. As a result

- A) both the equilibrium price and quantity of DVD players will decrease.
- B) the equilibrium price of DVD players will decrease; the equilibrium quantity may increase or decrease.
- C) the equilibrium price of DVD players may increase or decrease; the equilibrium quantity will decrease.
- D) the equilibrium price of DVD players will increase; the equilibrium quantity may increase or decrease.

Answer: A

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

20) "The price of digital cameras fell because of improvements in production technology. As a result, the demand for non-digital cameras decreased. This caused the price of non-digital cameras to fall; as the price of non-digital cameras fell the demand for non-digital cameras decreased even further." Evaluate this statement.

A) The statement is false because the demand for non-digital cameras would increase as the price of digital cameras fell.

B) The statement is false. A decrease in the price of digital cameras would decrease the demand for non-digital cameras, but a decrease in the price of non-digital cameras would not cause the demand for non-digital cameras to decrease.

C) The statement is false because it confuses the law of demand with the law of supply.

D) The statement is false because digital camera producers would not reduce their prices as a result of improvements in technology; doing so would reduce their profits.

Answer: B

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

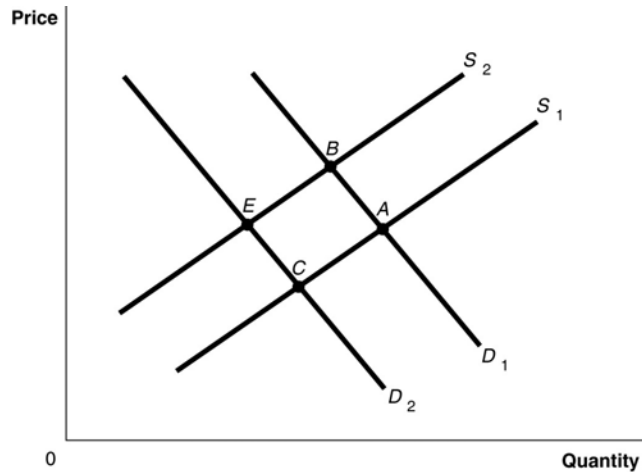
\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None



**Figure 3-8**

21) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_1$  (point A). If the price of motorcycle engines increases, and the wages of motorcycle workers increase, how will the equilibrium point change?

- A) The equilibrium point will move from A to E.
- B) The equilibrium point will move from A to B.
- C) The equilibrium point will move from A to C.
- D) The equilibrium will first move from A to B, then return to A.

Answer: B

Diff: 3 Page Ref: 88/88

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

22) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_1$  (point  $A$ ). If there is a surplus of motorcycles how will the equilibrium point change?

- A) The equilibrium point will move from  $A$  to  $B$ .
- B) The equilibrium point will move from  $A$  to  $C$ .
- C) There will be no change in the equilibrium point.
- D) The equilibrium point will move from  $A$  to  $E$ .

Answer: C

Diff: 2 Page Ref: 88/88

Topic: Surplus

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

23) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_2$  and  $S_1$  (point  $C$ ). Which of the following changes would cause the equilibrium to change to point  $B$ ?

- A) A positive change in the technology used to produce motorcycles and decrease in the price of motorcycle insurance, a complement to motorcycles.
- B) An increase in the wages of motorcycle workers and a decrease in the price of motorcycle insurance, a complement to motorcycles.
- C) An increase in the number of motorcycle producers and an increase in the number of consumers who prefer riding motorcycles.
- D) An increase in the wages of motorcycle workers and an increase in the price of motorcycle insurance, a complement to motorcycles.

Answer: B

Diff: 3 Page Ref: 88/88

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

24) **Refer to Figure 3-8.** The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of  $D_1$  and  $S_1$  (point A). If there is an increase in the wages of motorcycle workers and an increase in the price of motorcycle insurance, a complement to motorcycles, the equilibrium could move to which point?

- A) A
- B) B
- C) C
- D) E

Answer: D

Diff: 3 Page Ref: 88/88

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

25) Which of the following statements is true?

- A) An increase in demand causes an increase in equilibrium price; the increase in price causes supply to increase.
- B) A decrease in supply causes equilibrium price to rise; the increase in price then results in a decrease in quantity demanded.
- C) If both demand and supply decrease, there must be a decrease in equilibrium price; equilibrium quantity may either increase or decrease.
- D) If demand increases and supply decreases one cannot determine if equilibrium price will increase or decrease without knowing which change is greater.

Answer: B

Diff: 3 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 26) An increase in the equilibrium price for a product will result
- A) when the quantity demanded for the product exceeds the quantity supplied.
  - B) when there is a decrease in supply and an increase in demand for the product.
  - C) when there is a decrease in supply and a decrease in demand for the product.
  - D) when there is an increase in demand and an increase in the number of firms producing the product.

Answer: B

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 27) When Toyota introduced its 2010 Prius, it announced that the average retail price of the 2010 model would be lower than the average retail price was for the equivalent 2009 model. Which of the following would explain the price differential?

- A) The demand for the Prius had increased, and the supply of the Prius remained unchanged.
- B) The supply of the Prius had decreased, and the demand for the Prius remained unchanged.
- C) The demand for the Prius had decreased, and the supply of the Prius had increased.
- D) The demand for the Prius had increased, and the supply of the Prius had decreased.

Answer: C

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

- 28) Which of the following would cause an increase in the equilibrium price and decrease in the equilibrium quantity of watermelon?

- A) a decrease in demand and an increase in supply
- B) a decrease in supply
- C) an increase in demand and an increase in supply greater than the increase in demand
- D) an increase in demand and an increase in supply

Answer: B

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

29) Select the phrase that correctly completes the following statement. "A decrease in the number of manufacturers caused a decrease in the supply of sailboats. As a result, \_\_\_\_\_."

- A) the price of sailboats increased and the demand for sailboats decreased.
- B) the equilibrium quantity of sailboats increased.
- C) the price of sailboats increased and the quantity demanded of sailboats decreased.
- D) the price of sailboats increased. The higher price caused the supply of sailboats to increase.

Answer: C

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

30) Digital video recorders (DVRs) were introduced to the market in 1999, and new technology has allowed for the cost of manufacturing the recorders to decline significantly since the initial introduction. How did this change in technology affect the market for DVRs?

- A) The new technology caused an increase in the supply of DVRs and a decrease in price of DVRs.
- B) The new technology caused an increase in the supply of DVRs and an increase in price of DVRs.
- C) The new technology caused a decrease in the demand for DVRs.
- D) The new technology caused an increase in the quantity of DVRs supplied.

Answer: A

Diff: 2 Page Ref: 85-86/85-86

Topic: Shifts in Supply

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: Making the Connection: The Falling Price of Blu-ray Players

31) The price of lobster is typically lower in the summer than in the spring. Which of the following explanations for this difference is given in the textbook?

- A) Hot, humid weather usually reduces the demand for lobster.
- B) People who usually eat lobster in other seasons substitute less expensive fish when they go on vacation; this drives down the demand for lobster.
- C) The supply of lobster is greater in the summer than in the spring.
- D) Import restrictions are eased in the summer; as more lobsters are imported the price of lobster falls.

Answer: C

Diff: 1 Page Ref: 88-90/88-90

Topic: Shifts in Supply

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: Solved Problem: High Demand and Low Prices in the Lobster Market?

32) "Because Coke and Pepsi are substitutes, a decrease in the price of Pepsi will cause the demand for Coke to decrease. This initial shift in demand for Coke results in a lower price for Coke; this lower price will cause the demand curve for Coke to shift to the left." Which of the following correctly comments on this statement?

- A) The statement will be true if consumer tastes for Coke and Pepsi do not change.
- B) The statement is false because a change in the price of Coke would not change the demand for Coke.
- C) The statement is false because Pepsi is an inferior good; Coke is a normal good.
- D) The statement is false because one cannot assume that Coke and Pepsi are substitutes for all consumers.

Answer: B

Diff: 2 Page Ref: 90/90

Topic: Shifts in Demand

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: Don't Let This Happen to You: Remember: A Change in a Good's Price Does Not Cause the Demand or Supply Curve to Shift.

33) All else equal, a \_\_\_\_\_ of display screens used in the manufacture of tablet computers would shift the \_\_\_\_\_ curve for tablet computers to the left.

- A) shortage; demand
- B) shortage; supply
- C) surplus; demand
- D) surplus; supply

Answer: B

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: An Inside LOOK: Will Shortage of Display Screens Derail Computer Tablet Sales?

34) All else equal, a shortage of display screens used in the manufacture of tablet computers would cause the

- A) equilibrium quantity of the tablet computers to increase and the equilibrium price of the tablet computers to decrease.
- B) equilibrium price of the tablet computers to increase and the equilibrium quantity of the tablet computers to decrease.
- C) equilibrium price and quantity of the tablet computers to increase.
- D) equilibrium price and quantity of the tablet computers to decrease.

Answer: B

Diff: 1 Page Ref: 85/85

Topic: Shifts in Supply

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: An Inside LOOK: Will Shortage of Display Screens Derail Computer Tablet Sales?

35) If the demand for a product increases and the supply of the same product decreases, the equilibrium price will increase.

Answer: TRUE

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

36) As the number of firms in a market increases, the supply curve will shift to the left and the equilibrium price will rise.

Answer: FALSE

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

37) If the population increases and input prices increase, the equilibrium price of a product will definitely increase.

Answer: TRUE

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

38) If the demand for a product decreases and the supply of the product does not change, equilibrium price and equilibrium quantity will both increase.

Answer: TRUE

Diff: 2 Page Ref: 87/87

Topic: Shifts in Demand

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

39) Discuss the correct and incorrect economic analysis in the following statements.

"If a disease kills a large number of turkeys, the supply of turkeys will decrease. This will result in a price increase, which will then cause the supply of turkeys to increase."

Answer: The supply of turkeys will decrease resulting in a higher equilibrium price and a lower equilibrium quantity but the higher price will not shift the supply curve for turkeys.

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None

40) If pilots and flight attendants agree to wage and benefit reductions in the wake of the financial difficulties in the airline industry, what impact would this have on the supply and demand in the market for airline service, assuming no other changes take place in this market?

Answer: A reduction of wages and benefits will shift the supply curve to the right, but will not shift the demand curve. This will decrease the equilibrium price and increase the equilibrium quantity in the market for airline service.

Diff: 3 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None



41) Shrimp is an increasingly popular part of the American diet. Louisiana shrimpers who represent the bulk of the U.S. industry were almost all put out of business by Hurricane Katrina. How did this affect the equilibrium price and quantity of shrimp?

Answer: The supply curve for shrimp shifted to the left resulting in a higher equilibrium price and lower equilibrium quantity.

Diff: 2 Page Ref: 85/85

Topic: Shifts in Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Reflective Thinking

Special Feature: None

42) In each of the following situations, list what will happen to the equilibrium price and the equilibrium quantity for a particular product, which is an inferior good.

- a. The population decreases and productivity increases
- b. The income increases and the price of inputs increase
- c. The number of firms in the market decreases and income decreases
- d. Consumer preference decreases and the price of a complement increases
- e. The price of a substitute in consumption increases and the price of a substitute in production increases

Answer:

- a. Price decreases; Quantity may increase or decrease
- b. Quantity decreases; Price may increase or decrease
- c. Price increases; Quantity may increase or decrease
- d. Price decreases; Quantity decreases
- e. Price increases; Quantity may increase or decrease

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

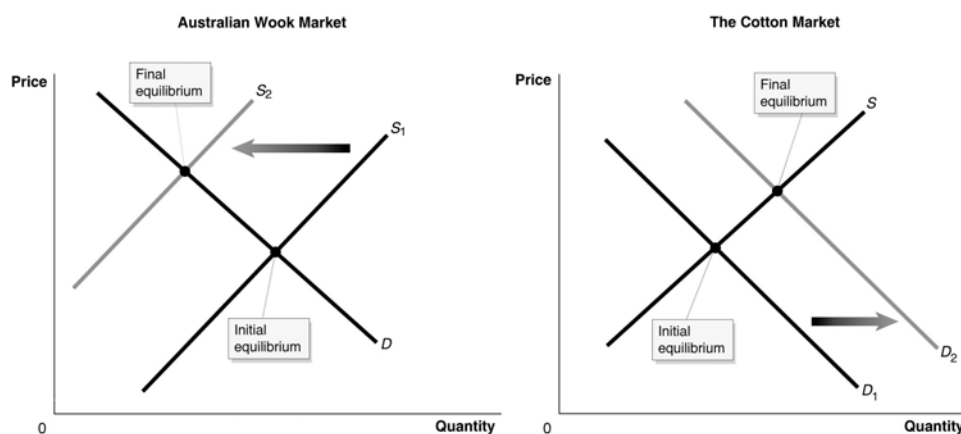
Special Feature: None

43) According to the Australian Wool Innovation, severe drought conditions in Australia contributed to the lowest level of wool production in 50 years. This record low production has driven up prices sharply in Australian wool markets. Meanwhile, the price of raw cotton increased significantly for the first time in many years.

- Illustrate this observation with one demand and supply graph for the market for Australian wool and another demand and supply graph for raw cotton.
- Make sure that your graphs clearly show (1) the initial equilibrium before the decrease in the supply of Australian wool and (2) the final equilibrium.
- Use arrows to indicate any shifts in the demand and supply curves for each market.
- Label your graphs fully and write an explanation of your work.

Answer:

- b and c. See the figure below.



d. In the Australian wool market, the supply curve shifts to the left as a result of the drought. This leads to an increase in the equilibrium price of wool and a decrease in the equilibrium quantity. The higher price of wool causes buyers to substitute cotton for wool, thereby increasing the demand for cotton. In the cotton market, the demand curve for cotton moves to the right along a given supply curve resulting in a higher equilibrium price and higher equilibrium quantity of cotton.

Diff: 3 Page Ref: 87/87

Topic: Shifts in Demand and Supply

\*: Recurring

Learning Outcome: Micro 4: Explain how supply and demand function in competitive markets

AACSB: Analytic Skills

Special Feature: None