

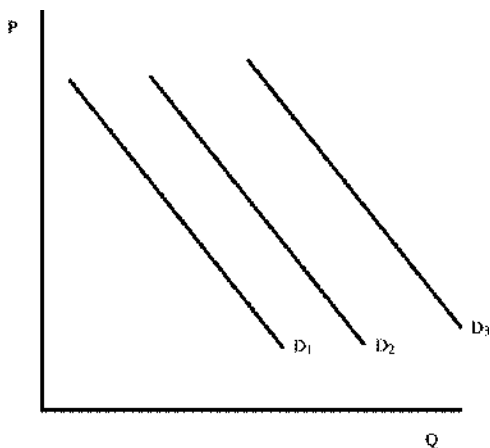
## UNIT II A TEST STUDY GUIDE

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. If price rises, what happens to quantity demanded for a product?
- It increases.
  - It decreases.
  - It does not change.
  - Uncertain-economic theory has no answer to this question.
- \_\_\_\_\_ 2. Some medical authorities announced in the late 1980s that an acne medicine named Retin-A also had previously unknown wrinkle-reducing properties. An economist would expect to find that, after this announcement, the price of Retin-A \_\_\_\_\_ and the quantity sold \_\_\_\_\_.
- rose; fell
  - rose; rose
  - fell; fell
  - fell; rose
- \_\_\_\_\_ 3. What factors are held constant along a given demand curve for a good?
- the price of the good
  - the technology used to produce the good
  - the supply of the good
  - consumer incomes and the prices of other goods

**Figure 4-4**

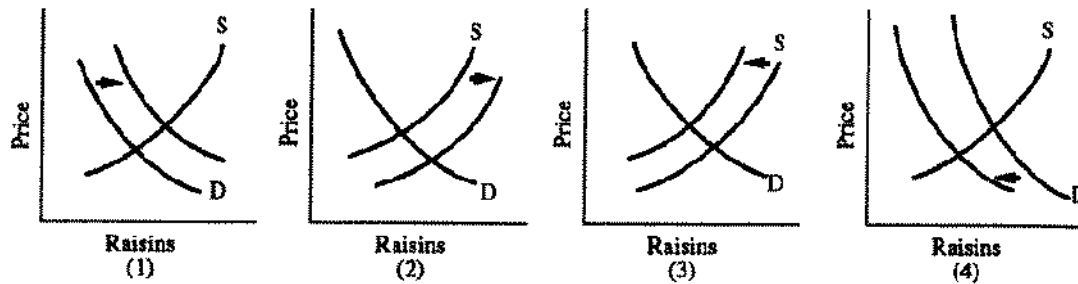


- \_\_\_\_\_ 4. In Figure 4-4, an increase in population will change demand from
- $D_1$  to  $D_2$ .
  - $D_2$  to  $D_1$ .
  - $D_3$  to  $D_2$ .
  - $D_3$  to  $D_1$ .
- \_\_\_\_\_ 5. Assume that Figure 4-4 shows demand for orange juice. An increase in the price of soda will change demand from
- $D_1$  to  $D_2$ .
  - $D_2$  to  $D_1$ .
  - $D_3$  to  $D_2$ .

d.  $D_3$  to  $D_1$ .

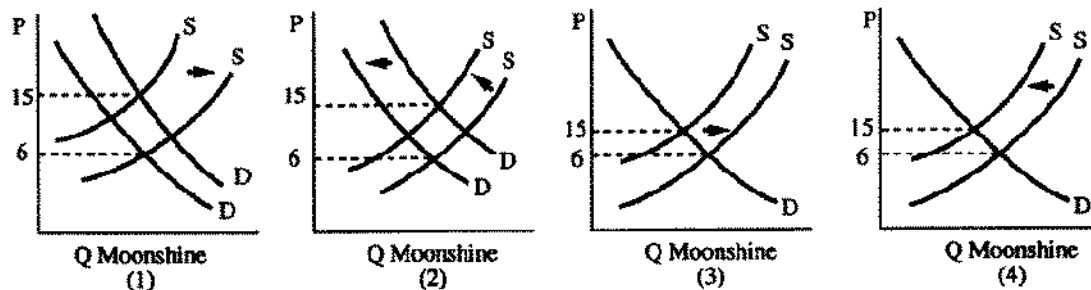
6. A shift in the supply curve of bicycles resulting from higher steel prices will lead to
- higher prices of bicycles.
  - lower prices of bicycles.
  - a shift in the demand curve for bicycles.
  - larger output of bicycles.
  - no change in the price of bicycles.

**Figure 4-6**



7. Grapes can be used for wine or for raisins. Which graph in Figure 4-6 best depicts the effects on the U.S. raisin market of an increase in imports of foreign wines?
- 1
  - 2
  - 3
  - 4
8. The following price-quantity coordinates for gold used by U.S. dentists were observed: 1980,  $P = \$875/\text{ounce}$ ,  $Q = 342,000$ ; 1978,  $P = \$200/\text{ounce}$ ,  $Q = 706,000$ . These points most likely lie along the
- supply curve for gold for dental use.
  - demand curve for dental use.
  - equilibrium curve for dental use.
  - production possibilities curve for dental use.

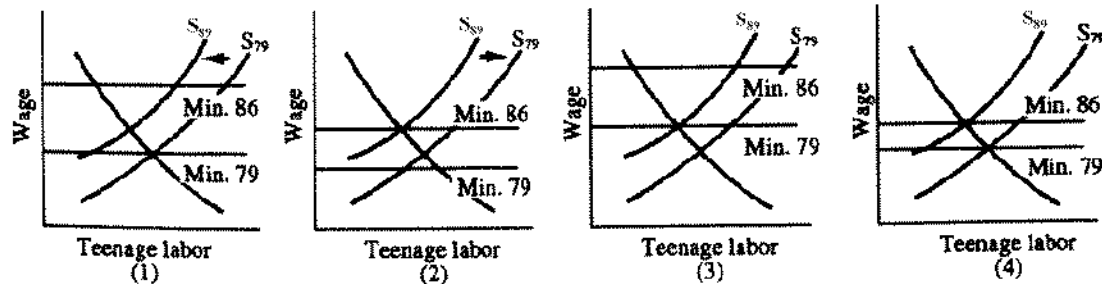
**Figure 4-9**



9. "Moonshine" is illegal home brew made by adding sugar to accelerate corn fermentation. Ten pounds of sugar are necessary to make a gallon of moonshine. In the mid-1970s, the price of sugar tripled and the price of moonshine skyrocketed from \$6 to \$15 a gallon. Which graph in Figure 4-9 best illustrates this?

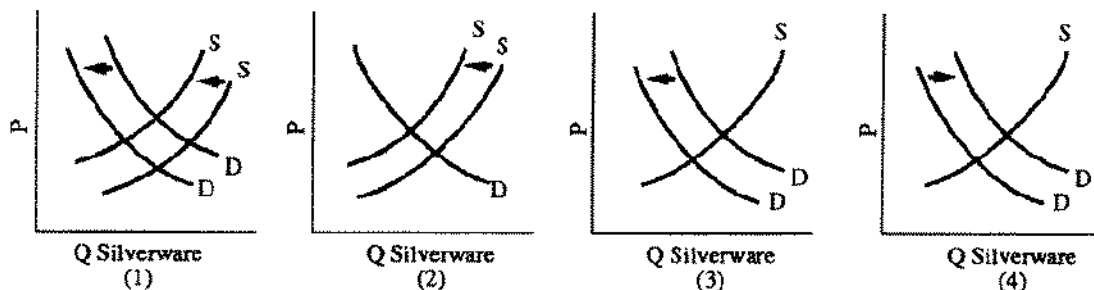
- a. 1
- b. 2
- c. 3
- d. 4

**Figure 4-10**



10. The rising minimum wage allegedly has reduced the quantity demanded of teenage labor. For example, restaurants and hotels automated their dishwashing systems in response to the law. However, demographics (the "baby bust") have reduced the supply of teenage labor. The U.S. Department of Labor reported that teenage unemployment, a problem in 1979, was worse in 1986. Which graph in Figure 4-10 is consistent with these facts?
- a. 1
  - b. 2
  - c. 3
  - d. 4

**Figure 4-12**



11. The silverware industry has been in serious decline since the 1980s. Family dining habits are less formal so people purchase less silverware. Also, in 1979-1980, the price of silver increased from \$5 to \$21 per ounce. Which graph in Figure 4-12 best illustrates these developments?
- a. 1
  - b. 2
  - c. 3
  - d. 4
12. Studies at Cornell University revealed that chickens grow 2 percent larger when a red mitten is placed in their cage and Vivaldi is played in the coop. Resultant feed savings are estimated at \$60 million a year. In the chicken market, the

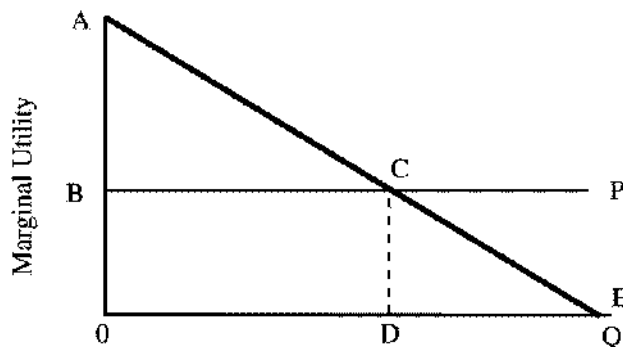
- a. demand curve shifts to the right.
- b. supply curve shifts to the right.
- c. price will rise.
- d. quantity sold will fall.

**Table 5-2**

Number of coconuts	0	1	2	3	4
Robinson's marginal utility	C	\$2.00	\$1.88	\$1.60	\$1.30

- \_\_\_\_ 13. According to Table 5-2, Robinson's total utility from having two coconuts is \_\_\_\_.
- a. \$1.87
  - b. \$1.66
  - c. \$3.88
  - d. This is not determinable from the information in the table.
- \_\_\_\_ 14. Consumer's surplus can be written as
- a. total expenditure - total utility.
  - b. total utility - total expenditure.
  - c. marginal utility - marginal expenditure.
  - d. marginal expenditure - marginal utility.

**Figure 5-2**

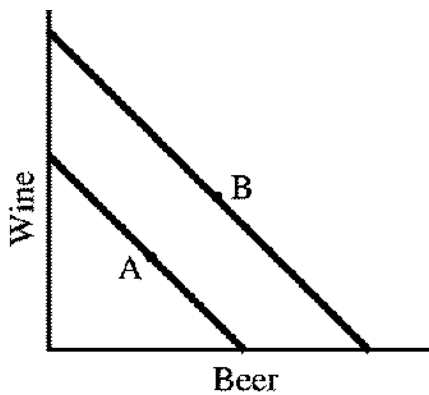


- \_\_\_\_ 15. In Figure 5-2, consumer surplus is measured by the area
- a. ABC.
  - b. OBCD.
  - c. OACD.
  - d. DCE.
- \_\_\_\_ 16. When the price of one product falls,
- a. consumers' real income will increase.
  - b. consumers will buy less of that product.
  - c. consumers will not change their buying patterns.
  - d. consumers' real income will decrease.
- \_\_\_\_ 17. The *Wall Street Journal* reports that "hard times aid poultry companies as people eat cheaper fowl." In the language of economists, this means
- a. chicken is an inferior good.
  - b. chicken has a negative substitution effect.
  - c. chicken has a positive substitution effect.
  - d. people's tastes change during recessions.

e. chicken has a positive income effect.

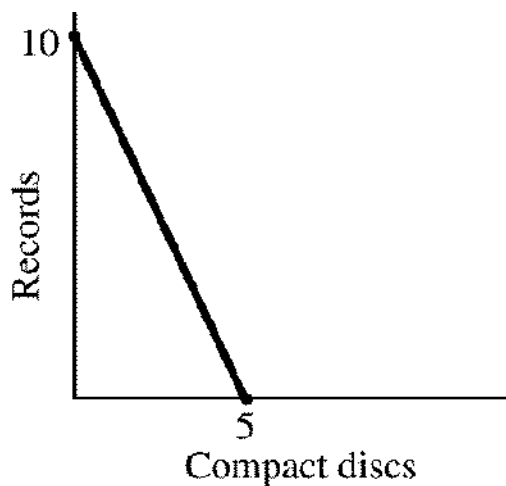
18. Market demand curves are found by
- vertically summing individual demand curves.
  - horizontally summing individual demand curves.
  - summing individual demand curves in a parallel fashion.
  - adding the slopes of individual demand curves.
19. The law of demand states that as the price
- increases, total quantity demanded will increase.
  - decreases, total quantity demanded will decrease.
  - increases, total quantity demanded will decrease.
  - increases, total quantity demanded will stay the same.

**Figure 5-4**



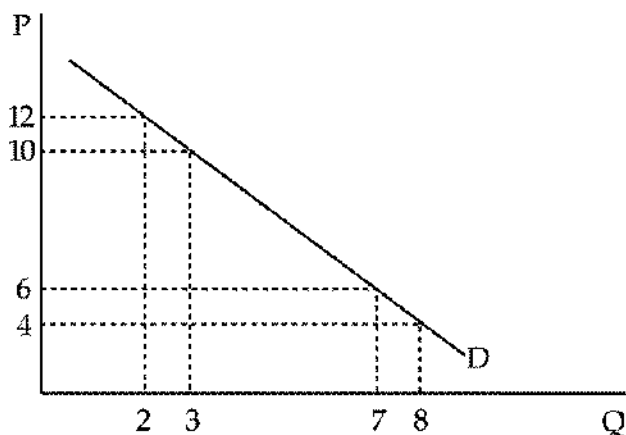
20. In Figure 5-4, the rightward shift in budget lines from the one containing point A to the one containing point B
- resulted from equal price reductions in beer and wine.
  - resulted from an increase in the consumer's income.
  - could have been caused by income or price changes.
  - All of the answers above are correct possibilities.
  - None of the above is correct.

**Figure 5-5**



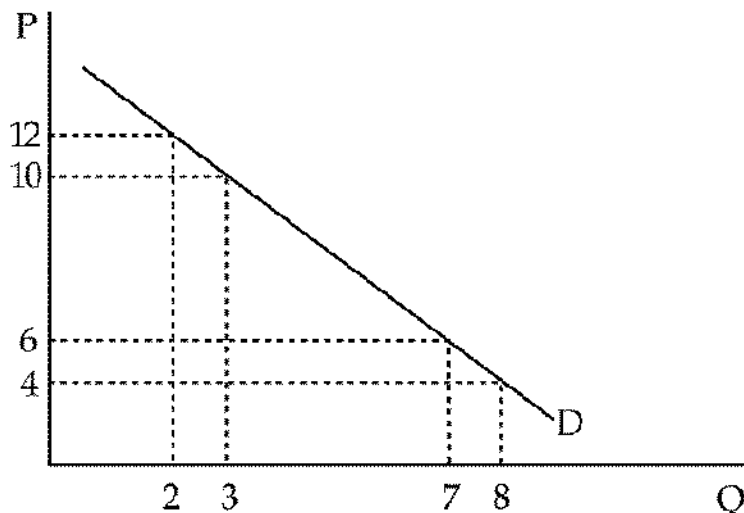
21. Figure 5-5 shows a consumer budget line for records and compact discs. The price of records is \$7. The price of a compact disc is
- \$7.
  - \$14.
  - \$5.
  - \$10.
22. Figure 5-5 shows a consumer budget line for records and compact discs. The household allocates a budget to records and compact discs. If the price of a record is \$7, how much income is allocated to discs and records?
- \$5
  - \$50
  - \$70
  - \$10
23. In Figure 5-5, if the household is spending enough of its budget to purchase 3 records and the price of a record is \$7, the remainder of the budget available for compact discs is
- \$10.
  - \$4.
  - \$50.
  - \$49.

**Figure 6-2**



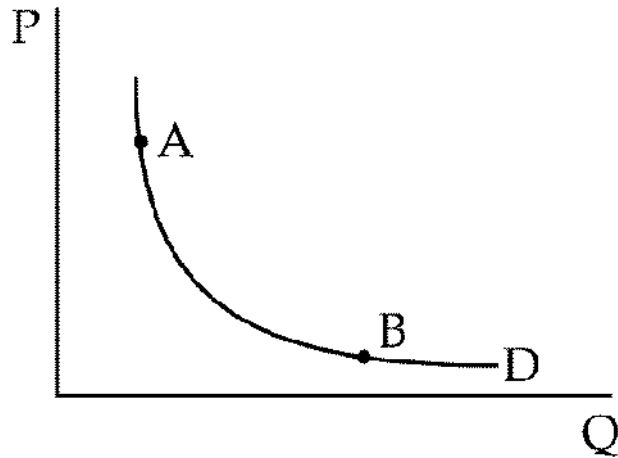
- \_\_\_\_ 24. In Figure 6-2, the price elasticity of demand (dropping all minus signs) is \_\_\_\_ between  $P = 4$  and  $P = 6$  than between  $P = 10$  and  $P = 12$  because between the lower set of prices the percentage change in price is \_\_\_\_.
- smaller; smaller
  - smaller; greater
  - greater; smaller
  - greater; greater

**Figure 6-4**



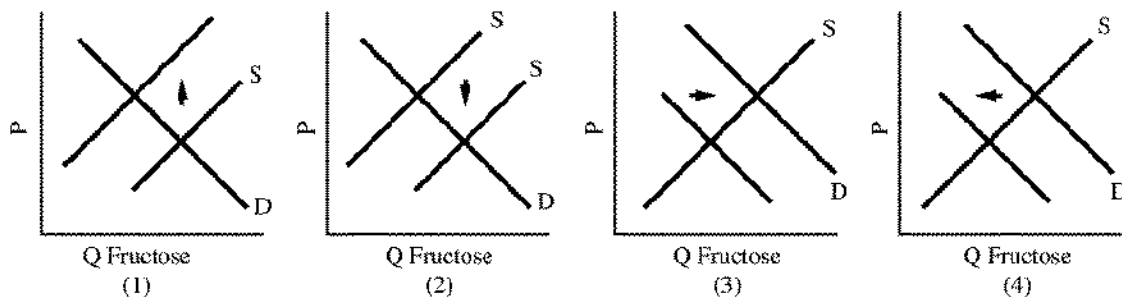
- \_\_\_\_ 25. In Figure 6-4, total expenditure \_\_\_\_ as price falls from  $P = 12$  to  $P = 10$ .
- falls
  - stays constant
  - rises
  - rises by more than \$12
- \_\_\_\_ 26. If the elasticity of demand for cigarettes is 0.4, then an increase in the price of a pack of cigarettes from \$1.00 to \$1.30 would reduce quantities demanded by about
- 27 percent.
  - 40 percent.
  - 12 percent.
  - 95 percent.
- \_\_\_\_ 27. If the price of apples decreases by 2 percent and causes apple consumption to increase by 4 percent, the price elasticity of demand is \_\_\_\_, indicating the demand is \_\_\_\_.
- 2, elastic
  - 2, inelastic
  - 0.5, elastic
  - 0.5, inelastic

**Figure 6-5**



- \_\_\_ 28. If the demand curve in Figure 6-5 is unit elastic, then total expenditure at A is \_\_\_ total expenditure at B.
- greater than
  - less than
  - equal to
  - less elastic than
- \_\_\_ 29. A 10 percent increase in the cost of restaurant meals, which are a luxury, will most likely
- increase the purchase of meals by 10 percent.
  - increase the purchase of meals by less than 10 percent.
  - decrease the purchase of meals by more than 10 percent.
  - decrease the purchase of meals by less than 10 percent.
- \_\_\_ 30. If both matches and automobile prices increase by 10 percent, consumers will likely buy
- more matches and more automobiles.
  - approximately the same quantity of matches and fewer automobiles.
  - less matches and fewer automobiles.
  - more matches and fewer automobiles.
- \_\_\_ 31. A decrease in the price of rice from 50 cents to 40 cents a pound increases consumption from 16 to 20 tons a week in Gainesville and from 160 to 200 tons in the larger city of Miami. The elasticity of demand for rice is
- greater in Miami than in Gainesville, even taking into account the population difference.
  - greater in Gainesville than in Miami in spite of the population difference.
  - equal in Gainesville and Miami regardless of the population difference.
  - impossible to compare because of the population difference.

**Figure 6-9**





- \_\_\_\_\_ 32. In 1983, government price supports raised the price of sugar above its equilibrium value. Which graph in Figure 6-9 illustrates the impact of sugar price supports on the sugar substitute fructose?
- a. 1
  - b. 2
  - c. 3
  - d. 4
- \_\_\_\_\_ 33. The definition of cross elasticity of demand for two products X and Y is
- a. percentage change in quantity of X demanded/percentage change in quantity of Y demanded.
  - b. percentage change in price of Y/percentage change in quantity of X demanded.
  - c. percentage change in price of Y/percentage change in price of X.
  - d. percentage change in quantity of X demanded/percentage change in price of Y.
- \_\_\_\_\_ 34. If the cross elasticity of demand for potato chips and pretzels equals 1.5,
- a. potato chips and pretzels must both be luxury goods.
  - b. either potato chips or pretzels must be a luxury good, and both may be luxury goods.
  - c. potato chips and pretzels must be substitutes.
  - d. potato chips and pretzels must be complements.
- \_\_\_\_\_ 35. Scientific evidence suggests that consumption of foods rich in fiber lowers cholesterol. As a result, the demand for bran increases at every price by 5,000 bushels and the supply curve for bran is perfectly price elastic. The quantity of bran consumed will
- a. not change.
  - b. change unless the demand curve is perfectly inelastic.
  - c. rise by exactly 5,000 bushels.
  - d. not rise by exactly 5,000 bushels unless the demand curve is perfectly inelastic.

## UNIT II A TEST STUDY GUIDE

### Answer Section

#### MULTIPLE CHOICE

- |   |                |   |
|---|----------------|---|
| 1. ANS: B   | DIF: Moderate  | TOP: Demand and Quantity Demanded                     |
| 2. ANS: B   | DIF: Difficult | TOP: Demand and Quantity Demanded                     |
| 3. ANS: D   | DIF: Easy      | TOP: Demand and Quantity Demanded                     |
| 4. ANS: A   | DIF: Moderate  | TOP: Demand and Quantity Demanded                     |
| 5. ANS: A   | DIF: Moderate  | TOP: Demand and Quantity Demanded                     |
| 6. ANS: A   | DIF: Moderate  | TOP: Supply and Quantity Supplied                     |
| 7. ANS: B   | DIF: Moderate  | TOP: Supply and Quantity Supplied                     |
| 8. ANS: B   | DIF: Moderate  | TOP: Supply and Quantity Supplied                     |
| 9. ANS: D   | DIF: Moderate  | TOP: Supply and Quantity Supplied                     |
| 10. ANS: C  | DIF: Moderate  | TOP: Supply and Quantity Supplied                     |
| 11. ANS: A  | DIF: Difficult | TOP: Supply and Quantity Supplied                     |
| 12. ANS: B  | DIF: Moderate  | TOP: Supply and Quantity Supplied                     |
| 13. ANS: C  | DIF: Moderate  | TOP: Utility: A Tool to Analyze Purchase Decisions    |
| 14. ANS: B  | DIF: Moderate  | TOP: Consumer Choice as a Trade-Off: Opportunity Cost |
| 15. ANS: A  | DIF: Moderate  | TOP: Consumer Choice as a Trade-Off: Opportunity Cost |
| 16. ANS: A  | DIF: Moderate  | TOP: Consumer Choice as a Trade-Off: Opportunity Cost |
| 17. ANS: A  | DIF: Moderate  | TOP: Consumer Choice as a Trade-Off: Opportunity Cost |
| 18. ANS: B  | DIF: Moderate  |   |
| TOP: From Individual Demand Curves to Market Demand Curves    |                |   |
| 19. ANS: C  | DIF: Moderate  |   |
| TOP: From Individual Demand Curves to Market Demand Curves    |                |   |
| 20. ANS: D  | DIF: Difficult |   |
| TOP: Appendix: Geometry of Available Choices: The Budget Line |                |   |
| 21. ANS: B  | DIF: Moderate  |   |
| TOP: Appendix: Geometry of Available Choices: The Budget Line |                |   |
| 22. ANS: C  | DIF: Moderate  |   |
| TOP: Appendix: Geometry of Available Choices: The Budget Line |                |   |
| 23. ANS: D  | DIF: Difficult |   |
| TOP: Appendix: Geometry of Available Choices: The Budget Line |                |   |
| 24. ANS: B  | DIF: Moderate  | TOP: Elasticity: The Measure of Responsiveness        |
| 25. ANS: C  | DIF: Moderate  | TOP: Elasticity: The Measure of Responsiveness        |
| 26. ANS: C  | DIF: Moderate  | TOP: Elasticity: The Measure of Responsiveness        |
| 27. ANS: A  | DIF: Moderate  | TOP: Elasticity: The Measure of Responsiveness        |
| 28. ANS: C  | DIF: Moderate  | TOP: Elasticity: The Measure of Responsiveness        |
| 29. ANS: C  | DIF: Moderate  | TOP: What Determines Demand Elasticity?               |
| 30. ANS: B  | DIF: Moderate  | TOP: What Determines Demand Elasticity?               |
| 31. ANS: C  | DIF: Moderate  | TOP: What Determines Demand Elasticity?               |
| 32. ANS: C  | DIF: Moderate  | TOP: Elasticity as a General Concept                  |
| 33. ANS: D  | DIF: Easy      | TOP: Elasticity as a General Concept                  |
| 34. ANS: C  | DIF: Easy      | TOP: Elasticity as a General Concept                  |
| 35. ANS: C  | DIF: Moderate  |   |

TOP: Changes in Demand: Movements Along the Demand Curve vs. Shifts in the Demand Curve