

TEST BANK



Contemporary
Economics 4e
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An Applications Approach



Chapter 2

Market Transactions: Demand and Supply Analysis

TRUE/FALSE

1. A market is a mechanism through which buyers and sellers communicate to trade goods and services.

ANS: T

2. According to the income effect, when the price of Coca Cola falls, its price falls relative to the price of Pepsi Cola. Consumers thus have an incentive to purchase more Coca Cola and less Pepsi Cola.

ANS: F

3. According to the substitution effect, a decrease in the price of Cheerios creates an increase in the purchasing power of consumers' money incomes. Therefore, consumers can purchase more Cheerios with a given amount of money income.

ANS: F

4. The demand curve for pizza will shift in response to a change in consumer tastes, prices of related goods, or consumer expectations.

ANS: T

5. The demand curve for a normal good increases as income rises and falls as income decreases.

ANS: T

6. For complementary goods, a reduction in the price of one good will decrease the demand for the other good.

ANS: F

7. For inferior goods, a decrease in the price of one good will increase the demand for the other good.

ANS: F

8. Supply is a schedule showing the amounts of a good or service that a firm or household is willing and able to sell at each possible price during a specified period.

ANS: T

9. According to the law of demand, there is a direct relation between price and quantity demanded.

ANS: F

10. According to the law of supply, there is a direct relation between price and quantity supplied.

ANS: T

11. The tendency for the cost of producing additional output to decrease explains the law of supply.

ANS: F

12. An increase in the price of corn would cause the supply curve of corn to shift to the right.

ANS: F

13. A tax placed on the sale of gasoline imposes an additional cost on gas stations, and the supply curve shifts leftward.

ANS: T

14. A subsidy placed on the production of wheat results in lower costs for wheat farmers and an increase in the supply.

ANS: T

15. Market equilibrium occurs when the price of a product adjusts so that the quantity that consumers will purchase at that price is identical to the quantity that suppliers will sell.

ANS: T

16. The amount by which quantity supplied exceeds quantity demanded is called a shortage.

ANS: F

17. An increase in the price of baseballs will cause the demand curve for baseballs to shift to the left.

ANS: F

18. When demand increases and the supply curve remains unchanged, both the equilibrium price and the equilibrium quantity decrease.

ANS: F

19. When demand decreases and the supply curve remains unchanged, both the equilibrium price and the equilibrium quantity decrease.

ANS: T

20. When supply increases, the equilibrium price rises and the equilibrium quantity falls.

ANS: F

21. When supply decreases, the equilibrium price rises and the equilibrium quantity falls.

ANS: T

22. A surplus of watermelon is most likely to cause a decrease in the price of watermelon.

ANS: T

23. If the price of paper decreases, the supply curve of textbooks will shift to the right.

ANS: T

24. The demand curve for Pepsi Cola tends to shift to the left as the price of Coca Cola increases.

ANS: F

25. The demand curve slopes downward to the right because buyers are willing and able to purchase less at higher prices.

ANS: T

26. A change in the number of suppliers will cause both the demand curve and the supply curve to shift.

ANS: F

27. When a market is in equilibrium, there will be no tendency for the market price to change over a given period of time.

ANS: T

28. From 1999 to 2003, the price of oil declined considerably, causing gasoline prices to rise.

ANS: F

29. Economists expect that a decline in home building will cause lower lumber prices.

ANS: T

30. Suppose a market is initially in equilibrium. If the demand for a good increases, and the price of that good stays the same, then we would expect a shortage to occur.

ANS: T

MULTIPLE CHOICE

1. A _____ is a mechanism through which buyers and sellers communicate to trade goods and services.
 - a. production possibilities curve
 - b. supply curve
 - c. demand curve
 - d. market

ANS: D

2. _____ is a schedule that shows various amounts of a good or service a buyer is willing and able to purchase at each possible price during a particular period.
- Production possibilities curve
 - Capacity utilization
 - Demand
 - Supply

ANS: C

3. All of the following would cause the demand curve for Coca Cola to increase *except*
- the price of Coca Cola decreases because of a price war among grocery stores
 - the price of Pepsi Cola, a substitute good, increases
 - there is an increase in the number of consumers in the market
 - a new government study concludes that Coca Cola helps prevent head colds

ANS: A

4. According to the law of demand, price and quantity demanded are
- inversely related
 - directly related
 - not related
 - the same

ANS: A

5. If buyers expect that the price of steel will increase soon due to a fall in the productivity of steel workers, the immediate effect will be a(n)
- increase in the demand for steel as buyers switch from substitute goods
 - decrease in the quantity demanded of steel due to the change in supply
 - increase in the demand for steel due to the expectations of a higher price
 - decrease in the demand for steel due to worsening tastes and preferences

ANS: C

6. All of the following are consistent with the law of supply *except*
- the supply curve is positively sloped
 - as price increases, the quantity supplied increases
 - the extra cost of producing additional units of output rises as output rises
 - the extra cost of producing additional units of output falls as output rises

ANS: D

7. If advances in technology make it possible for farmers to grow 25 percent more wheat per acre than they did in the past, the result would be an increase in the
- supply of wheat because of declining costs of production
 - supply of wheat because of rising wheat prices
 - demand for wheat because of falling wheat prices.
 - quantity supplied of wheat because of greater willingness to sell wheat

ANS: A

8. Successful advertising by Pizza Hut would
- cause a downward movement along its existing demand curve
 - cause an upward movement along its existing demand curve
 - shift its demand curve backward to the left
 - shift its demand curve outward to the right

ANS: D

9. Which of the following would result in the demand curve for beer shifting to the left among college students?
- a decrease in the price of soft drinks, a substitute good
 - a decrease in the price of pizza, a complementary good
 - an increase in the number of students attending college
 - an increase in the price of beer

ANS: A

10. If the demand for a good is negatively related to the price of another good, the two goods are
- substitute goods
 - complementary goods
 - normal goods
 - inferior goods

ANS: B

11. Assume that the supply of computers increased, while at the same time the demand for computers increased. The net effect of these two changes would be a(n)
- increase in the equilibrium price and an indeterminate effect on the equilibrium quantity
 - decrease in the equilibrium price and an indeterminate effect on the equilibrium quantity
 - indeterminate effect on the equilibrium price and an increase in the equilibrium quantity
 - indeterminate effect on the equilibrium price and a decrease in the equilibrium quantity

ANS: C

12. Assume that the demand for apples increased. The effect would be a(n)
- increase in the equilibrium price and a decrease in the equilibrium quantity
 - increase in the equilibrium price and an increase in the equilibrium quantity
 - decrease in the equilibrium price and an increase in the equilibrium quantity
 - decrease in the equilibrium price and a decrease in the equilibrium quantity

ANS: B

13. If the demand for a good is positively related to the price of another good, the two goods are
- complementary goods
 - substitute goods
 - inferior goods
 - normal goods

ANS: B

14. Assume that apples and oranges are substitute goods. A frost that destroys 50 percent of orange production in Florida would likely increase the price of oranges, therefore decreasing the
- quantity demanded of oranges and increasing the demand curve for apples
 - demand curve for oranges and increasing the demand curve for apples
 - demand curve for oranges and increasing the supply curve of apples
 - demand curves of both oranges and apples

ANS: A

15. If lima beans are an inferior good for Alice, a decrease in her income would
- shift her demand curve for lima beans to the left
 - shift her demand curve for lima beans to the right
 - cause her to move upward along her demand curve for lima beans
 - cause her to move downward along her demand curve for lima beans

ANS: B

16. Suppose that both demand and supply curves shift. If the equilibrium price decreases, but equilibrium quantity remains unchanged, the cause is a(n)
- increase in demand and an increase in supply
 - increase in demand and a decrease in supply
 - decrease in demand and an increase in supply
 - decrease in demand and a decrease in supply

ANS: C

17. Which of the following will cause the demand curve for a normal good to increase?
- an increase in the price of the good under consideration
 - a decrease in the price of the good under consideration
 - an increase in income
 - a decrease in income

ANS: C

18. All else being equal, if the demand curve for hamburgers decreases as consumers' incomes decrease, hamburgers are a(n)
- normal good
 - inferior good
 - substitute good
 - complementary good

ANS: A

19. When we draw a demand curve for automobiles, which of the following is allowed to vary along the demand curve?
- tastes and preferences of consumers
 - future expectations of consumers
 - money income of consumers
 - the price of automobiles

ANS: D

20. Suppose that the supply of music CDs increases. What happens to the equilibrium price and equilibrium quantity of music CDs?
- increase in the equilibrium price and a decrease in the equilibrium quantity
 - increase in the equilibrium price and an increase in the equilibrium quantity
 - decrease in the equilibrium price and an increase in the equilibrium quantity
 - decrease in the equilibrium price and a decrease in the equilibrium quantity

ANS: C

21. Which of the following causes a decrease in the quantity demanded of Canadian wheat?
- an increase in the price of U.S. wheat
 - an increase in the price of Canadian wheat
 - an increase in the number of farmers growing Canadian wheat
 - a decrease in the cost of producing Canadian wheat

ANS: B

22. When we draw a supply curve of pencils, which of the following is allowed to vary along the supply curve?
- the prices of inputs used in pencil production
 - the price of pencils
 - the productivity of labor used in making pencils
 - the prices of pens and markers

ANS: B

23. A rise in the price of corn gives farmers a greater incentive to
- decrease the costs of producing corn
 - decrease the price of corn
 - devote more acreage to corn production
 - devote more acreage to wheat production

ANS: C

24. In a competitive market, the price of a good is determined by
- only the market power of buyers
 - only the market power of only sellers
 - the market power of the government
 - the interaction of buyers and sellers

ANS: D

25. An decrease in demand for gasoline will
- increase equilibrium quantity but have an indeterminate effect on the equilibrium price
 - decrease equilibrium price but have an indeterminate effect on the equilibrium quantity
 - decrease equilibrium quantity and decrease equilibrium price
 - increase equilibrium price and increase equilibrium quantity

ANS: C

26. People like to put marshmallows in their hot chocolate. An increase in the price of hot chocolate mix will have what effect on the marshmallow market?
- decrease the equilibrium price and quantity of marshmallows
 - increase the equilibrium price and quantity of marshmallows
 - decrease the equilibrium quantity and increase the equilibrium price of marshmallows
 - have no effect on the equilibrium quantity or price of marshmallows

ANS: A

27. Jogging becomes more fashionable. What happens to the equilibrium price and quantity of jogging shoes?
- decrease in equilibrium price and decrease in equilibrium quantity
 - decrease in equilibrium price and increase in equilibrium quantity
 - increase in equilibrium price and decrease in equilibrium quantity
 - increase in equilibrium price and increase in equilibrium quantity

ANS: D

28. A decrease in the supply of blankets, with the demand for blankets being unchanged, will
- increase the equilibrium quantity and decrease the equilibrium price
 - increase the equilibrium quantity and increase the equilibrium price
 - decrease the equilibrium quantity and decrease the equilibrium price
 - decrease the equilibrium quantity and increase the equilibrium price

ANS: D

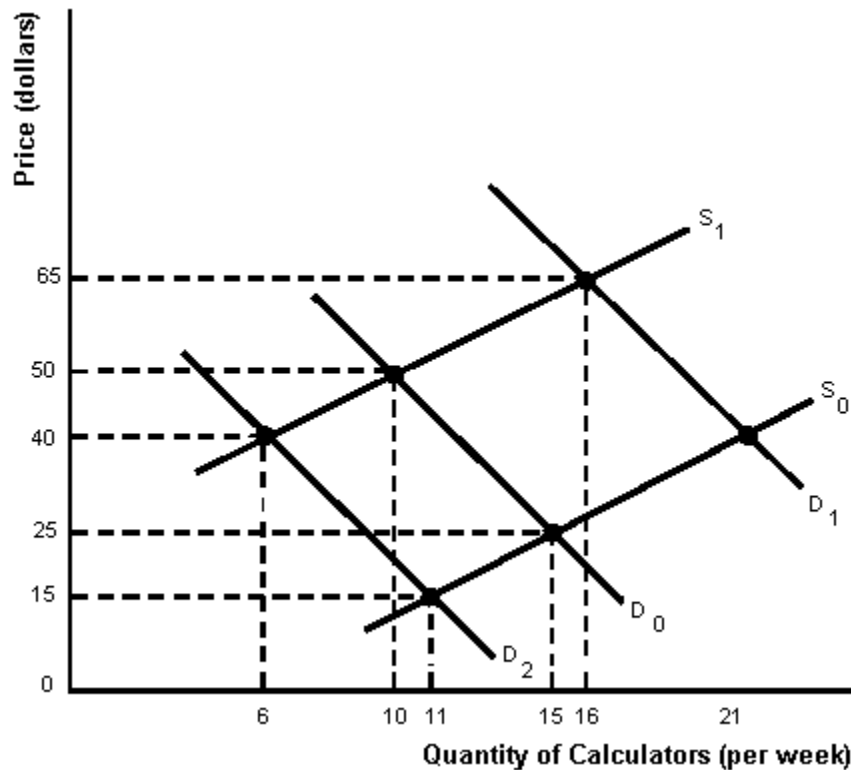
29. Economists explain the law of _____ in terms of the income effect, the substitution effect, and the law of diminishing marginal utility.
- demand
 - supply
 - rationality
 - price

ANS: A

30. A technological advance reduces the cost of manufacturing pocket calculators. As part of the transition to a new equilibrium in the pocket calculator market, there would occur an
- upward movement along the demand curve for pocket calculators
 - excess demand for pocket calculators
 - increase in the supply curve of pocket calculators
 - increase in the demand curve for pocket calculators

ANS: C

Figure 2.1 The Market for Calculators



31. Refer to Figure 2.1. Initially, the market is in equilibrium at a price of \$25 and quantity of 15 calculators. If consumer incomes decrease and calculators are normal goods, which of the following would best represent the new equilibrium price and quantity?
- price = \$40, quantity = 21 calculators
 - price = \$65, quantity = 15 calculators
 - price = \$15, quantity = 11 calculators
 - price = \$50, quantity = 10 calculators

ANS: C

32. Refer to Figure 2.1. Initially, the market is in equilibrium at a price of \$25 and quantity of 15 calculators. If productivity decreases for workers who produce calculators, which of the following would best represent the new equilibrium price and quantity?
- price = \$40, quantity = 21 calculators
 - price = \$15, quantity = 11 calculators
 - price = \$50, quantity = 10 calculators
 - price = \$40, quantity = 6 calculators

ANS: C

33. Refer to Figure 2.1. Initially, the market is in equilibrium at a price of \$25 and quantity of 15 calculators. If consumer tastes and preferences worsen for calculators, which of the following would best represent the new equilibrium price and quantity?
- price = \$65, quantity = 16 calculators
 - price = \$40, quantity = 21 calculators
 - price = \$40, quantity = 6 calculators
 - price = \$15, quantity = 11 calculators

ANS: D

34. Refer to Figure 2.1. Initially, the market is in equilibrium at a price of \$25 and quantity of 15 calculators. If union negotiations result in higher wages but not higher worker productivity, which of the following would best represent the new equilibrium price and quantity?
- price = \$40, quantity = 6 calculators
 - price = \$50, quantity = 10 calculators
 - price = \$40, quantity = 21 calculators
 - price = \$65, quantity = 16 calculators

ANS: B

Table 2.1 Demand and Supply Data for CD Players

Price	Quantity Demanded	Quantity Supplied
\$100	1,000	100
150	900	300
200	800	500
250	600	600
300	300	650

35. Refer to Table 2.1. The equilibrium price and equilibrium quantity of CD players are
- \$150 and 300 players
 - \$200 and 800 players
 - \$250 and 600 players
 - \$300 and 650 players

ANS: C

36. Refer to Table 2.1. If the price of CD players is \$200,
- there will be a surplus
 - there will be a shortage
 - the market is in equilibrium
 - the supply will increase

ANS: B

37. Refer to Table 2.1. Suppose that an increase in consumer incomes results in the demand for CD players increasing by 350 units at every price. With the supply of CD players remaining constant, the new equilibrium price will be
- \$100
 - \$150
 - \$200
 - \$300

ANS: D

38. According to the law of supply, as price decreases, the
- quantity supplied of the good increases
 - quantity supplied of the good decreases
 - supply curve of the good shifts to the left
 - supply curve of the good shifts to the right

ANS: B

39. In a competitive market, the price of pears serves to
- signal consumers to buy more pears when there is a shortage
 - signal producers to supply more pears when there is a surplus
 - signal consumers to buy fewer pears when there is a surplus
 - ration pears among competing consumers

ANS: D

40. Temporary shortages in a market are eliminated by
- decreases in the price, which cause quantity supplied to fall and quantity demanded to rise
 - decreases in the price, which cause quantity supplied to rise and quantity demanded to fall
 - increases in the price, which cause quantity supplied to fall and quantity demanded to rise
 - increases in the price, which cause quantity supplied to rise and quantity demanded to fall

ANS: D

41. A decrease in the price of a movie ticket creates an increase in consumers' purchasing power, so that they can afford to buy more movie tickets. This is called the
- substitution effect
 - income effect
 - demand effect
 - diminishing marginal utility effect

ANS: B

42. Which of the following is a demand shifter for coffee?
- price of tea
 - price of coffee
 - number of coffee growers
 - technology of coffee production

ANS: A

43. Which of the following is a supply shifter for cigarettes?
- household incomes
 - price of cigars
 - number of smokers
 - cigarette taxes

ANS: D

44. All of the following are demand shifters *except*
- prices of related goods
 - consumer income
 - technology
 - consumer expectations

ANS: C

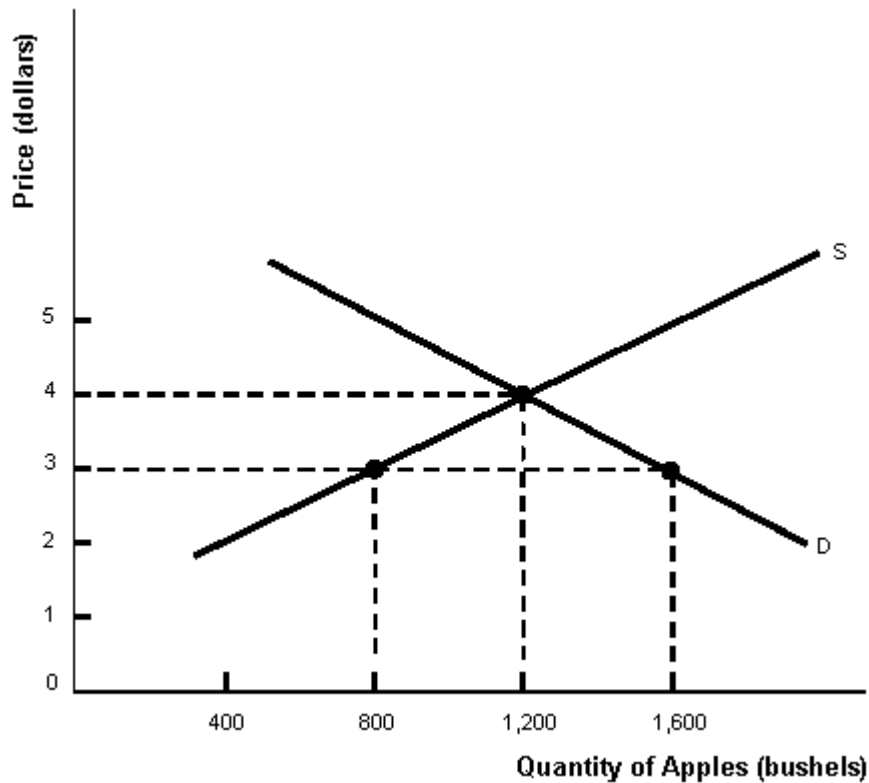
45. All of the following are supply shifters *except*
- number of suppliers
 - consumer tastes
 - producer expectations
 - resource prices

ANS: B

46. When economists say that demand for dry cleaning services has decreased, they mean that
- there was a downward movement along the demand curve
 - there was an upward movement along the demand curve
 - the demand curve has shifted to the right
 - the demand curve has shifted to the left

ANS: D

Figure 2.2 The Market for Apples



47. Refer to Figure 2.2. Equilibrium in the apple market occurs where price is _____ and quantity is _____.
- \$4; 1,200 bushels
 - \$3; 800 bushels
 - \$4; 1,600 bushels
 - \$5; 1,200 bushels

ANS: A

48. Refer to Figure 2.2. When the price is \$3, there is a(n)
- equilibrium
 - quantity demanded of 800 bushels
 - surplus of 800 bushels
 - shortage of 800 bushels

ANS: D

49. Which of the following goods are likely to be classified as complementary goods?
- cheeseburgers and pickles
 - coffee and tea
 - milk and ginger ale
 - sugar and artificial sweetener

ANS: A

50. Which of the following goods are likely to be classified as substitute goods?
- pancakes and maple syrup
 - cameras and film
 - train tickets and bus tickets
 - shoes and shoe laces

ANS: C

51. Suppose that under the North American Trade Agreement (NAFTA), more Canadian potatoes are shipped to the U.S. to be sold. Assuming the market moves to its new equilibrium, we can expect an increased
- demand for potatoes in the U.S.
 - demand for potatoes in Canada
 - supply of potatoes in Canada
 - supply of potatoes in the U.S.

ANS: D

52. A severe drought causes a sharp decline in the peanut crop this year. This would be expected to cause peanut butter
- demand to increase
 - demand to decrease
 - supply to increase
 - supply to decrease

ANS: D

53. As the economy comes out of a recession, consumers start traveling more. What can be expected to happen to hotel room prices and quantities?
- prices will fall and quantities will rise
 - prices will rise and quantities will rise
 - prices will fall and quantities will fall
 - prices will fall and quantities will fall

ANS: B

54. According to the text, many economists believe an effective way to reduce congestion on roads at rush-hour times would be to
- impose restrictions on who may drive at those times
 - reduce speed limits on highways
 - impose tolls on rush-hour drivers
 - have police give more tickets at rush hours

ANS: C

55. Productivity increases in lumber production lead to
- less home building
 - lower lumber prices
 - increased demand for lumber
 - decreased supply of lumber

ANS: B

56. Something that causes a change in demand is called a
- shortage
 - supply shifter
 - price
 - demand shifter

ANS: D

57. If the government decides to raise the tax on gasoline, what will happen in the gasoline market?
- price will rise and quantity will rise
 - price will fall and quantity will rise
 - price will rise and quantity will fall
 - price will fall and quantity will fall

ANS: C

58. According to the text, U.S. steelmakers slashed steel prices in 1998 in response to
- higher salaries they paid to their managers to remain competitive
 - large increases in imported steel from Russia, Japan, and other countries
 - productivity gains that led to higher profits and passing along some savings to consumers
 - more households wishing to upgrade their kitchens with stainless steel appliances

ANS: B

59. According to the text, which of the following occupations has faced persistent shortages in recent years?
- nurses
 - economists
 - gas station attendants
 - apple pickers

ANS: A

60. A record amount of foreign-produced steel has entered the U.S. market in recent years. What has happened in the market for U.S.-produced steel?
- supply has increased
 - the price has risen
 - the demand has decreased
 - no changes have occurred

ANS: C