Supply and Demand

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. The law of demand states that, other things equal:
   a. as the price increases, the quantity demanded will increase.
   b. as the price decreases, the demand curve will shift to the right.
   c. as the price increases, the demand will decrease.
   d. as the price increases, the quantity demanded will decrease.
   e. as the price decreases, the demand curve will shift to the left.

2. Which of the following factors cause a movement along the demand curve for good X?
   a. change in the price of related good Y
   b. change in the price of good X
   c. change in the population
   d. both a change in the price of good X and a change in the population
   e. change in the popularity of good X

3. If goods A and B are substitutes, a decrease in the price of good B will:
   a. increase the demand for good A.
   b. increase the demand for good B.
   c. decrease the demand for good A.
   d. increase the demand for good B and decrease the demand for good A.
   e. increase the quantity of good B demanded and increase the demand for good A.

4. If goods A and Z are complements, an increase in the price of good Z will:
   a. increase the demand for good A.
   b. increase the quantity of good Z demanded and decrease the demand for good A.
   c. decrease the demand for good Z.
   d. decrease the demand for good A and decrease the demand for good Z.
   e. decrease the demand for good A.

5. Over the past several years, consumer tastes for tattoos have increased. This means that the ________ for tattoos has ________.
   a. quantity demanded; increased
   b. demand; decreased
   c. demand; increased
   d. quantity demanded; decreased
   e. demand; remained the same

6. A good is normal if:
   a. when income increases, the demand remains unchanged.
   b. when income increases, the demand decreases.
   c. when income increases, the demand increases.
   d. income and the demand are unrelated.
   e. when income decreases, the demand increases.
7. A good is inferior if:
   a. when income increases, the demand remains unchanged.
   b. when income increases, the demand decreases.
   c. when income increases, the demand increases.
   d. income and the demand are unrelated.
   e. when income decreases, the demand decreases.

8. When the price of gasoline goes up and the demand for tires goes down, this means tires and gasoline are:
   a. substitutes.
   b. complements.
   c. both expensive.
   d. both inexpensive.
   e. inferior goods.

9. A direct relationship between price and quantity is represented by:
   a. the demand curve.
   b. the supply curve.
   c. the production possibility frontier.
   d. equilibrium.
   e. the utility curve.

10. A technological advance in the production of automobiles will:
    a. increase the demand for automobiles.
    b. increase the supply of automobiles.
    c. decrease the demand for automobiles.
    d. decrease the supply of automobiles.
    e. have no effect on the demand or supply of automobiles.

Figure 6-1: Supply of Coconuts

11. (Figure 6-1: Supply of Coconuts) If the price of coconuts decreases, then the movement that would take place in the model could be:
    a. A to C.
    b. B to A.
    c. C to A.
    d. E to B.
    e. A to B.
12. (Figure 6-1: Supply of Coconuts) If the prices of inputs (e.g., labor, fertilizer, and fuel) used to produce and transport coconuts are increasing, then the movement in the model could be:
   a. A to B.
   b. B to A.
   c. C to A.
   d. E to B.
   e. B to C

13. (Figure 6-1: Supply of Coconuts) If there is an improvement in the technology used to harvest coconuts (e.g., a faster, less expensive coconut picker), then the movement in the model could be:
   a. A to C.
   b. B to A.
   c. C to A.
   d. B to E.
   e. A to B

14. (Figure 6-1: Supply of Coconuts) If there is an expectation on the part of coconut suppliers that the price of coconuts will be significantly higher in the very near future, then the movement in the model to reflect today's market behavior would be:
   a. A to B.
   b. B to A.
   c. A to C.
   d. B to E.
   e. E to B

15. Economists believe that the supply of solar panels has recently increased. In a graph this means that
   a. at any price, producers are willing to supply more solar panels for sale in the market.
   b. at any quantity, producers are willing to accept a higher price for solar panels that they sell.
   c. the supply curve for solar panels has become steeper.
   d. the supply curve for solar panels has shifted leftward.
   e. the quantity of solar panels supplied has increased as the price has increased.

16. Which of the following will result in an increased price of milk?
   a. a shift to the right of the supply curve for milk
   b. a shift to the right of the demand curve for milk
   c. an increase in the number of milk suppliers
   d. a decrease in the number of milk buyers
   e. an increase in the production technology of milk suppliers.

17. A shift of a demand curve to the right, all other things unchanged, will:
   a. increase equilibrium price and quantity.
   b. decrease equilibrium price and quantity.
   c. decrease equilibrium quantity and increase equilibrium price.
   d. increase equilibrium quantity and decrease equilibrium price.
   e. increase equilibrium price while leaving equilibrium quantity unchanged.
18. The market for milk is initially in equilibrium. Assume that an advertising campaign succeeds in shifting consumer tastes toward drinking milk. Due to the increased popularity of milk, more milk producers enter the market. Standard demand and supply analysis tells us that:
   a. the equilibrium price and quantity of milk will rise.
   b. the equilibrium price and quantity of milk will fall.
   c. the equilibrium quantity of milk will rise, but we can't determine how the equilibrium price will be affected.
   d. the equilibrium price of milk will rise, but we can't determine how the equilibrium quantity will be affected.
   e. the equilibrium price will fall, and the equilibrium quantity of milk will rise.

19. Assume that corn is an input in the production of beef but not in the production of pork. Further, beef and pork are substitutes. A decrease in the price of corn will:
   a. increase the supply of beef and increase the demand for pork.
   b. decrease the supply of beef and increase the demand for pork.
   c. decrease the supply of beef and decrease the demand for pork.
   d. increase the supply of beef and decrease the demand for pork.
   e. decrease the supply of beef and have no impact on the demand for pork.

20. If tortilla chips are a normal good, what happens to equilibrium price and quantity when there is an increase in income?
   a. Equilibrium price decreases and equilibrium quantity increases.
   b. Equilibrium price decreases and equilibrium quantity decreases.
   c. Equilibrium price increases and equilibrium quantity increases.
   d. Equilibrium price increases and equilibrium quantity decreases.
   e. Equilibrium price increases and the equilibrium quantity stays the same.

21. In the local market for coffee, what would happen if Joyce's Java and Everyday Joe's coffee shops go out of business?
   a. The supply curve shifts to the right.
   b. The demand curve shifts to the left.
   c. The supply curve shifts to the left.
   d. The demand curve shifts to the right.
   e. Both the demand curve and supply curve shift to the left.
22. Use the “Supply and Demand in the Orange Juice Market” Figure 7-3. Assume that a hurricane damages the Florida orange crop. In response, what would be the most likely equilibrium point in the orange juice market illustrated?
   a. A
   b. B
   c. D
   d. E
   e. C

23. Use the “Supply and Demand in the Orange Juice Market” Figure 7-3. Suppose most people only drink orange juice with champagne. What will be the new equilibrium point in the orange juice market if a law banning alcohol passes?
   a. A
   b. B
   c. D
   d. E
   e. C

24. Use the “Supply and Demand in the Orange Juice Market” Figure 7-3. A reputable scientist asserts in a major scientific publication that drinking orange juice will increase your life span. We can expect the new equilibrium point in the orange juice market to be at:
   a. A
   b. B
   c. D
   d. E
   e. C

25. Consider the market for corn. What happens if there is an increased demand for corn tortillas and, at the same time, a new corn seed becomes available that dramatically increased the per-acre output?
   a. Price and quantity both decrease.
   b. The change in price is uncertain, quantity decreases.
   c. The change in price is uncertain, quantity increases.
   d. Price increases, the change in quantity is uncertain.
   e. Price and quantity both increase.

26. The market for corn is currently in equilibrium. Which of the following is most likely to increase the equilibrium price of corn?
   a. a bountiful harvest
   b. increasing production of corn-based ethanol
   c. decreasing household incomes and corn is a normal good
   d. a subsidy given by the government to growers of corn
   e. the price of soybeans, an alternative crop for many farmers, is rising.

27. Consider two competing motorcycle manufacturers, Harley-Davidson and Honda. If Harley-Davidson raises the price that it charges for its motorcycles, we can expect:
   a. a shift to the right in the supply curve of Hondas and lower prices for Hondas.
   b. a shift to the left in the supply curve of Hondas and higher prices for Hondas.
   c. a shift to the right in the demand curve for Hondas and higher prices for Hondas.
   d. a shift to the left in the demand curve for Hondas and lower prices for Hondas.
   e. a shift to the right in the demand curve for Hondas and lower prices for Hondas.
28. The price of microchips used to produce computers falls. As a result, the equilibrium price of computers _______ and the equilibrium quantity _______.
   a. rises; increases
   b. rises; decreases
   c. falls; decreases
   d. falls; increases
   e. stays the same; decreases

29. The United States increases tariffs on imports of lumber from Canada, which causes the price of lumber to increase in the United States. The equilibrium price of new homes in the United States will _______ and the equilibrium quantity of new homes in the United States will _______.
   a. increase; increase
   b. increase; decrease
   c. decrease; increase
   d. decrease; decrease
   e. stay the same; stay the same

30. Consider a Texaco gas station. If it introduces a new technology where customers pay at the pump, thus decreasing production costs, there will be:
   a. a shift to the right in the station's supply curve and lower gas prices.
   b. a shift to the left in the station's supply curve and higher gas prices.
   c. a shift to the right in the customers' demand curve and higher gas prices.
   d. a shift to the left in the customers' demand curve and lower gas prices.
   e. a shift to the right in the station's supply curve and higher gas prices.