

Student: _____

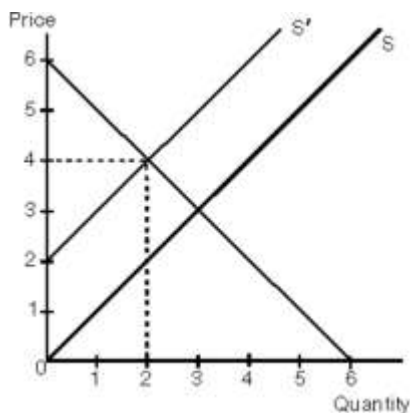
1. Which is not true of market equilibrium?
 - A. All sellers who want to sell at the equilibrium price can find a buyer to sell to.
 - B. The highest possible welfare is achieved when many positive externalities exist.
 - C. All buyers who want to buy at the equilibrium price can find a seller to buy from.
 - D. Sudden unforeseen changes in circumstances can alter the equilibrium position.

2. The "law of demand" states that
 - A. scarcity can never be solved.
 - B. supply creates its own demand.
 - C. when the price of a product falls, people buy more of it.
 - D. prices will continue to rise as long as the population grows.

3. The *real* price of a product on any given day is
 - A. its absolute level on that day
 - B. its absolute level on that day divided by the cost of its inputs.
 - C. its absolute level on that day minus any external costs resulting from production of the good.
 - D. its price on that day relative to the prices of other goods and services.

4. Which of the follow statements is false?

- A. With unchanging circumstances, the equilibrium price is the price at which there are no surpluses or shortages.
- B. With unchanging circumstances, the equilibrium price is the price at which quantity supplied equals quantity demanded.
- C. With unchanging circumstances, the equilibrium price is the price from which there is no tendency to move away.
- D. With unchanging circumstances, the equilibrium price is the price at which there is unlimited supply.



5. In the diagram, if the supply curve is S, the equilibrium price (in \$/unit) is

- A. 4.
- B. 3.
- C. 2.
- D. 1.

6. If the supply curve is S , at a price of \$4/unit there will be a
- A. surplus of 1 unit.
 - B. surplus of 2 units.
 - C. shortage of 1 unit.
 - D. shortage of 2 units.
7. If the supply curve is S' , then at a price of \$3/unit there will be a
- A. surplus of 1 unit.
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8. Economists generally agree that welfare is *necessarily* enhanced in society when
- A. those helped by a resource reallocation are helped more than those hurt by the same reallocation.
 - B. at least someone is helped and no one is hurt.
 - C. the poor are made better off by at least the same amount as the rich are made worse off.
 - D. B and C.

9. If the government decides to set the maximum price of widgets in a competitive market below the equilibrium price, then
- A. most economists would argue that a costless reallocation of resources could make everyone at least as well off.
 - B. people will be better off, since widgets are now cheaper.
 - C. some people will be better off; some worse off.
 - D. A and C are true.
10. If an airline overbooks, it pays people who volunteer to leave the overbooked flight. This system
- A. leads to an increase in overall consumer welfare.
 - B. helps some passengers but hurts others, since not everyone can get a payment.
 - C. means that the airline has no incentive to avoid overbooking.
 - D. means that the airline has an incentive to avoid overbooking.
11. My income rose and the price of good y rose by the same percentage. That means that my demand curve for good x shifted right.
- A. This statement is always true.
 - B. This statement will always be true if y is a substitute for x and x is a normal good.
 - C. This statement will always be true if good y is a substitute for good x .
 - D. This statement will always be true if good x is a normal good.

12. Most economists are against rent control in a competitive market because it can, for all of the following reasons except,

- A. lead to shortages.
- B. encourage landlords not to maintain apartments.
- C. discourage new apartments.
- D. encourage new apartments.

13. Which of the following statements would most economists agree with?

- A. Rent control hurts everyone.
- B. Rent control hurts some people and helps others.
- C. On balance, rent control hurts.
- D. Both A and C.
- E. Both B and C.

14. For good X , if income rises:

- A. the demand curve for X will shift right.
- B. the demand curve for X will shift left.
- C. the demand curve for X will remain unchanged, since only price affects it.
- D. one cannot tell which way the demand curve for X will shift, with the information given.

15. If a major research study discovers that colas cause cancer, then we would expect that
- A. the demand for colas will shift right.
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16. A major Alberta petroleum discovery causes the price of gasoline to fall. What would we expect to happen to the demand for automobile tires?
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17. If the Newfoundland government decides to raise the legal drinking age to 25, what will happen to the demand for beer?
- A. The demand for beer will shift right.
 - B. The demand for beer will shift left.
 - C. The demand for beer will stay the same.
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18. A new technology is discovered which allows manufacturers to produce widgets at lower cost. Widgets are a key input in the production of Whatchamacallits. What would we expect to happen in the market for Whatchamacallits?
- A. The supply curve would shift left.
 - B. The demand curve would shift left.
 - C. The supply curve would shift right.
 - D. The demand curve would shift right.
19. A massive hailstorm destroys all of the wheat in Saskatchewan. What will happen to the price and quantity of wheat sold in Canada?
- A. Equilibrium price falls, equilibrium quantity rises.
 - B. Equilibrium price rises, equilibrium quantity falls.
 - C. Equilibrium price falls, equilibrium quantity falls.
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20. The price of peanut butter rises due to blight, and peanut butter and jelly are complements. What happens to the equilibrium price and quantity of jelly?
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21. If the number of suppliers in the microcomputer industry increases, other things unchanged, what would we *not* expect to happen?
- A. The number of microcomputers sold will rise.
 - B. The price of microcomputers will fall.
 - C. The supply curve will shift to the right.
 - D. The demand curve will shift to the right.
22. A new discovery makes ink-jet computer printers less expensive to produce. At the same time laser printers also become less expensive. What would you expect to happen to the equilibrium price and quantity of ink-jet printers?
- A. Equilibrium price will fall, and equilibrium quantity will fall.
 - B. Equilibrium price will rise, and equilibrium quantity will fall.
 - C. Equilibrium price will fall, and equilibrium quantity will move indeterminately.
 - D. Equilibrium price will rise, and equilibrium quantity will move indeterminately.
 - E. Equilibrium price will fall, and equilibrium quantity will rise.
23. Two changes simultaneously affect the market for domestically produced automobiles: (1) an increase in relatively inexpensive Korean imports; and (2) an increase in the cost of materials. What can we *definitely* say about the new market equilibrium that results?
- A. Equilibrium price will fall.
 - B. Equilibrium price will rise.
 - C. Equilibrium quantity will fall.
 - D. Equilibrium quantity will rise.
 - E. We can say *nothing* definite based on the information provided.

24. Price has fallen in the kumquat market, and so has the quantity. This could happen because
- A. kumquat-harvesting technology is rapidly advancing.
 - B. input prices are falling.
 - C. either A or B is true.
 - D. of reasons other than A or B, because neither by itself would cause this result.
25. A long hot summer increases the demand for beer; and at the same time a tax is placed on all alcoholic beverages. What can we say about the equilibrium price and quantity?
- A. Equilibrium price rises; equilibrium quantity falls.
 - B. Equilibrium price is indeterminate; equilibrium quantity rises.
 - C. Equilibrium price rises; equilibrium quantity is indeterminate.
 - D. Equilibrium price is indeterminate; equilibrium quantity falls.
26. Pizza and beer are complements. The price of beer increases. What happens in the market for pizza?
- A. Equilibrium price rises; equilibrium quantity falls.
 - B. Equilibrium price falls; equilibrium quantity falls.
 - C. Equilibrium price rises; equilibrium quantity rises.
 - D. Equilibrium price falls; equilibrium quantity rises.

27. In the spinach market, demand is given by $P = 100 - Q$ and supply is given by $P = 10 + 2Q$, where P is in \$/tonne and Q is in tonnes. What is the equilibrium price, in \$/tonne?

- A. 10
- B. 30
- C. 70
- D. 90
- E. 100

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- A. 10
- B. 30
- C. 70
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29. If a good is inferior over the relevant range, then an increase in income will *necessarily* cause the demand curve for the good to

- A. shift left.
- B. shift right.
- C. stay the same.
- D. become vertical.

30. If price and quantity are not at their equilibrium positions, then all of the following could happen *except*
- A. costless reallocation of resources can make some people better off without harming others.
 - B. a move to another position could hurt someone.
 - C. a move to another position could help someone.
 - D. a move to another position could help everyone.
31. In a market economy, price or price changes serve to do all of the following except
- A. make goods more available.
 - B. ration goods.
 - C. bring about equality of quantity supplied and quantity demanded.
 - D. allocate goods.
32. A crisis in the Middle East would likely cause what to happen in the gold market?
- A. The demand curve for gold would shift right.
 - B. The demand curve for gold would shift left.
 - C. The demand curve for gold would become vertical.
 - D. The demand curve for gold would become horizontal.

33. A price support system that raises price above the normal equilibrium level will in the short run cause

A. a decrease in the quantity demanded.

B. a shift right in supply.

C. a shift left in demand.

D. an increase in the quantity supplied.

E. both A and D.

34. Demand is given by $P = 20 - 3Q$ and supply by $P = 5 + 2Q$. Equilibrium quantity will be

A. 3 units.

B. 5 units.

C. $6 \frac{2}{3}$ units.

D. 15 units.

35. Which of the following reflects a change in the quantity demanded?

A. People buy more computers as prices fall.

B. People buy more computers because of a surge in the economy.

C. People buy more computers because of a change in tastes.

D. People buy more computers because their incomes have increased.

36. Which statement is true?

- A. You can have a shortage without scarcity.
- B. You can have scarcity without a shortage.
- C. The terms "shortage" and "scarcity" are identical concepts in economics.
- D. No scarcity will exist at a market equilibrium price.

37. In the market for left-handed skyhooks, the equilibrium price increases, and the equilibrium quantity exchanged is unchanged. It is definitely true that:

- A. demand has increased and supply has increased.
- B. demand has increased and supply has decreased.
- C. demand has increased and supply has remained unchanged.
- D. demand has decreased and supply has increased.
- E. demand has decreased and supply has decreased.

38. In the market for chocolate-covered strawberries, the equilibrium price has decreased, and the equilibrium quantity exchanged has increased. Which of the following could **not** have occurred?

- A. Demand has increased and supply has increased.
- B. Demand has decreased and supply has increased.
- C. Demand has remained constant and supply has increased.
- D. Demand has increased and supply has remained constant.
- E. Neither C nor D could have occurred.

39. If videogames are a normal good, then which of the following events (other factors remaining unchanged) would **not** cause an increase in the demand for videogames?

- A. an increase in population.
- B. an increase in per capita income.
- C. a decrease in the cost of videogame computer chips.
- D. a decrease in the price of a complement.
- E. an increase in the price of a substitute.

40. Sketch ("sketch" means that specific numbers are not required) supply (S) and demand (D) curves and a starting equilibrium point for a drug that extends the life of AIDS patients.

Then:

- a. Draw in a new curve (labelled W) to show what would happen if the ingredient of the drug were found to exist in sand, in addition to the rare tree from which the drug is now made. Assume that extraction costs, from sand or from the tree, are the same, although the raw material costs differ.
- b. Describe in a sentence or two what happens to the price and quantity of the drug in the marketplace. Answer the quantity part by referring to what happens to both the demand and supply side of the market. Be sure to use the correct vocabulary.
- c. Draw a new graph with the same starting point, only now instead of (a) above, assume that it is found that AIDS cannot be acquired if people take 1 gram of vitamin C each day.
- d. Describe in a sentence or two what happens to the price and quantity of the drug in the marketplace. Articulate the answer using the vocabulary requested in (b) above.
- e. Sketch the change that occurs in the market for vitamin C if the discovery in (c) above occurs.
- f. Again, describe in proper vocabulary the changes in price and quantity that occur in the market for vitamin C.

41. If we have a market demand curve is given by $P = 14 - Q$ and a market supply curve given by $P = 2 + 2Q$, how much excess supply results if a price support level of \$12/unit is imposed in the market?

42. If the demand and supply functions are the same as in question 41 above but a price ceiling of \$6/unit is imposed, how much excess demand will result?

43. If the demand and supply functions are the same as in question 41 above but a price ceiling of \$11/unit is imposed, what will be the effect on the market equilibrium position?

2 Key

1. Which is not true of market equilibrium?

(p. 32)

- A. All sellers who want to sell at the equilibrium price can find a buyer to sell to.
- B. The highest possible welfare is achieved when many positive externalities exist.
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FrankParker - Chapter 02 #1

2. The "law of demand" states that

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- B. supply creates its own demand.
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FrankParker - Chapter 02 #2

3. The *real* price of a product on any given day is

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- A. its absolute level on that day
- B. its absolute level on that day divided by the cost of its inputs.
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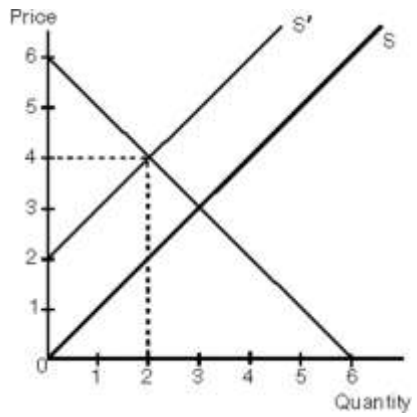
FrankParker - Chapter 02 #3

4. Which of the follow statements is false?

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FrankParker - Chapter 02 #4



FrankParker - Chapter 02

5. In the diagram, if the supply curve is S, the equilibrium price (in \$/unit) is
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FrankParker - Chapter 02 #5

6. If the supply curve is S, at a price of \$4/unit there will be a
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FrankParker - Chapter 02 #6

7. If the supply curve is S' , then at a price of \$3/unit there will be a

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- A. surplus of 1 unit.
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FrankParker - Chapter 02 #7

8. Economists generally agree that welfare is *necessarily* enhanced in society when

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- B. at least someone is helped and no one is hurt.
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- D. B and C.

FrankParker - Chapter 02 #8

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FrankParker - Chapter 02 #9

10. If an airline overbooks, it pays people who volunteer to leave the overbooked flight. This system

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FrankParker - Chapter 02 #10

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FrankParker - Chapter 02 #11

12. Most economists are against rent control in a competitive market because it can, for all of the following reasons except,

(p. 37)

- A. lead to shortages.
- B. encourage landlords not to maintain apartments.
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FrankParker - Chapter 02 #12

13. Which of the following statements would most economists agree with?

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- A. Rent control hurts everyone.
- B. Rent control hurts some people and helps others.
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- D. Both A and C.
- E. Both B and C.

FrankParker - Chapter 02 #13

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- D. one cannot tell which way the demand curve for X will shift, with the information given.

FrankParker - Chapter 02 #14

15. If a major research study discovers that colas cause cancer, then we would expect that

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- A. the demand for colas will shift right.
- B. the demand for colas will shift left.
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FrankParker - Chapter 02 #15

16. A major Alberta petroleum discovery causes the price of gasoline to fall. What would we expect to happen to the demand for automobile tires?
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- D. We cannot tell what will happen, with the information given.

FrankParker - Chapter 02 #16

17. If the Newfoundland government decides to raise the legal drinking age to 25, what will happen to the demand for beer?
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FrankParker - Chapter 02 #17

18. A new technology is discovered which allows manufacturers to produce widgets at lower cost.
(p. 41) Widgets are a key input in the production of Whatchamacallits. What would we expect to happen in the market for Whatchamacallits?

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

FrankParker - Chapter 02 #18

19. A massive hailstorm destroys all of the wheat in Saskatchewan. What will happen to the price and quantity of wheat sold in Canada?
(p. 42)

- A. Equilibrium price falls, equilibrium quantity rises.
- B. Equilibrium price rises, equilibrium quantity falls.
- C. Equilibrium price falls, equilibrium quantity falls.
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FrankParker - Chapter 02 #19

20. The price of peanut butter rises due to blight, and peanut butter and jelly are complements.

(p. 42) What happens to the equilibrium price and quantity of jelly?

- A. Equilibrium price falls, equilibrium quantity rises.
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- C. Equilibrium price falls, equilibrium quantity falls.
- D. Equilibrium price rises, equilibrium quantity rises.

FrankParker - Chapter 02 #20

21. If the number of suppliers in the microcomputer industry increases, other things unchanged,

(p. 41) what would we *not* expect to happen?

- A. The number of microcomputers sold will rise.
- B. The price of microcomputers will fall.
- C. The supply curve will shift to the right.
- D. The demand curve will shift to the right.

FrankParker - Chapter 02 #21

22. A new discovery makes ink-jet computer printers less expensive to produce. At the same time
(p. 44) laser printers also become less expensive. What would you expect to happen to the equilibrium price and quantity of ink-jet printers?

- A. Equilibrium price will fall, and equilibrium quantity will fall.
- B. Equilibrium price will rise, and equilibrium quantity will fall.
- C. Equilibrium price will fall, and equilibrium quantity will move indeterminately.
- D. Equilibrium price will rise, and equilibrium quantity will move indeterminately.
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FrankParker - Chapter 02 #22

23. Two changes simultaneously affect the market for domestically produced automobiles: (1) an
(p. 44) increase in relatively inexpensive Korean imports; and (2) an increase in the cost of materials. What can we *definitely* say about the new market equilibrium that results?

- A. Equilibrium price will fall.
- B. Equilibrium price will rise.
- C. Equilibrium quantity will fall.
- D. Equilibrium quantity will rise.
- E. We can say *nothing* definite based on the information provided.

FrankParker - Chapter 02 #23

24. Price has fallen in the kumquat market, and so has the quantity. This could happen because

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- A. kumquat-harvesting technology is rapidly advancing.
- B. input prices are falling.
- C. either A or B is true.
- D. of reasons other than A or B, because neither by itself would cause this result.

FrankParker - Chapter 02 #24

25. A long hot summer increases the demand for beer; and at the same time a tax is placed on all alcoholic beverages. What can we say about the equilibrium price and quantity?

(p. 44)

- A. Equilibrium price rises; equilibrium quantity falls.
- B. Equilibrium price is indeterminate; equilibrium quantity rises.
- C. Equilibrium price rises; equilibrium quantity is indeterminate.
- D. Equilibrium price is indeterminate; equilibrium quantity falls.

FrankParker - Chapter 02 #25

26. Pizza and beer are complements. The price of beer increases. What happens in the market for pizza?

(p. 44)

- A. Equilibrium price rises; equilibrium quantity falls.
- B. Equilibrium price falls; equilibrium quantity falls.
- C. Equilibrium price rises; equilibrium quantity rises.
- D. Equilibrium price falls; equilibrium quantity rises.

FrankParker - Chapter 02 #26

27. In the spinach market, demand is given by $P = 100 - Q$ and supply is given by $P = 10 + 2Q$,
(p. 45) where P is in \$/tonne and Q is in tonnes. What is the equilibrium price, in \$/tonne?

- A. 10
- B. 30
- C. 70**
- D. 90
- E. 100

FrankParker - Chapter 02 #27

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- A. 10
- B. 30**
- C. 70
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FrankParker - Chapter 02 #28

29. If a good is inferior over the relevant range, then an increase in income will *necessarily* cause
(p. 40) the demand curve for the good to

- A. shift left.
- B. shift right.
- C. stay the same.
- D. become vertical.

FrankParker - Chapter 02 #29

30. If price and quantity are not at their equilibrium positions, then all of the following could happen
(p. 33) *except*

- A. costless reallocation of resources can make some people better off without harming others.
- B. a move to another position could hurt someone.
- C. a move to another position could help someone.
- D. a move to another position could help everyone.

FrankParker - Chapter 02 #30

31. In a market economy, price or price changes serve to do all of the following except
(p. 34)

- A. make goods more available.
- B. ration goods.
- C. bring about equality of quantity supplied and quantity demanded.
- D. allocate goods.

FrankParker - Chapter 02 #31

32. A crisis in the Middle East would likely cause what to happen in the gold market?

(p. 40)

- A. The demand curve for gold would shift right.
- B. The demand curve for gold would shift left.
- C. The demand curve for gold would become vertical.
- D. The demand curve for gold would become horizontal.

FrankParker - Chapter 02 #32

33. A price support system that raises price above the normal equilibrium level will in the short run cause

(p. 38)

- A. a decrease in the quantity demanded.
- B. a shift right in supply.
- C. a shift left in demand.
- D. an increase in the quantity supplied.
- E. both A and D.

FrankParker - Chapter 02 #33

34. Demand is given by $P = 20 - 3Q$ and supply by $P = 5 + 2Q$. Equilibrium quantity will be

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- A. 3 units.
- B. 5 units.
- C. $6 \frac{2}{3}$ units.
- D. 15 units.

FrankParker - Chapter 02 #34

35. Which of the following reflects a change in the quantity demanded?

(p. 40)

- A. People buy more computers as prices fall.
- B. People buy more computers because of a surge in the economy.
- C. People buy more computers because of a change in tastes.
- D. People buy more computers because their incomes have increased.

FrankParker - Chapter 02 #35

36. Which statement is true?

(p. 32)

- A. You can have a shortage without scarcity.
- B. You can have scarcity without a shortage.
- C. The terms "shortage" and "scarcity" are identical concepts in economics.
- D. No scarcity will exist at a market equilibrium price.

FrankParker - Chapter 02 #36

37. In the market for left-handed skyhooks, the equilibrium price increases, and the equilibrium quantity exchanged is unchanged. It is definitely true that:

(p. 44)

- A. demand has increased and supply has increased.
- B. demand has increased and supply has decreased.
- C. demand has increased and supply has remained unchanged.
- D. demand has decreased and supply has increased.
- E. demand has decreased and supply has decreased.

FrankParker - Chapter 02 #37

38. In the market for chocolate-covered strawberries, the equilibrium price has decreased, and the equilibrium quantity exchanged has increased. Which of the following could **not** have occurred?
(p. 44)

- A. Demand has increased and supply has increased.
- B. Demand has decreased and supply has increased.
- C. Demand has remained constant and supply has increased.
- D. Demand has increased and supply has remained constant.
- E. Neither C nor D could have occurred.

FrankParker - Chapter 02 #38

39. If videogames are a normal good, then which of the following events (other factors remaining unchanged) would **not** cause an increase in the demand for videogames?
(p. 40)

- A. an increase in population.
- B. an increase in per capita income.
- C. a decrease in the cost of videogame computer chips.
- D. a decrease in the price of a complement.
- E. an increase in the price of a substitute.

FrankParker - Chapter 02 #39

40. Sketch ("sketch" means that specific numbers are not required) supply (S) and demand (D) curves and a starting equilibrium point for a drug that extends the life of AIDS patients.

(p. 44)

Then:

- a. Draw in a new curve (labelled W) to show what would happen if the ingredient of the drug were found to exist in sand, in addition to the rare tree from which the drug is now made. Assume that extraction costs, from sand or from the tree, are the same, although the raw material costs differ.
- b. Describe in a sentence or two what happens to the price and quantity of the drug in the marketplace. Answer the quantity part by referring to what happens to both the demand and supply side of the market. Be sure to use the correct vocabulary.
- c. Draw a new graph with the same starting point, only now instead of (a) above, assume that it is found that AIDS cannot be acquired if people take 1 gram of vitamin C each day.
- d. Describe in a sentence or two what happens to the price and quantity of the drug in the marketplace. Articulate the answer using the vocabulary requested in (b) above.
- e. Sketch the change that occurs in the market for vitamin C if the discovery in (c) above occurs.
- f. Again, describe in proper vocabulary the changes in price and quantity that occur in the market for vitamin C.

- a. From the initial equilibrium the supply curve shifts right.
- b. The supply increases, which decreases the price, increasing quantity demanded.
- c. The demand for the drug shifts left as people start avoiding AIDS with the use of vitamin C. (This assumes that vitamin C has a lower cost than the drug.)
- d. The demand decreases, price falls and the quantity supplied decreases.
- e. The demand for vitamin C shifts right.
- f. The demand increases, the price rises, and the quantity supplied increases.

41. If we have a market demand curve is given by $P = 14 - Q$ and a market supply curve given by $P = 2 + 2Q$, how much excess supply results if a price support level of \$12/unit is imposed in the market?

The equilibrium price of \$10/unit is now replaced by a price to buyers of \$12/unit. At \$12/unit, the quantity demanded will be 2 units and the quantity supplied will be 5 units, resulting in an excess supply or *surplus* of 3 units.

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42. If the demand and supply functions are the same as in question 41 above but a price ceiling of \$6/unit is imposed, how much excess demand will result?

Quantity demanded will be 8 units and quantity supplied will be 2 units, so the excess demand or *shortage* is 6 units.

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43. If the demand and supply functions are the same as in question 41 above but a price ceiling of \$11/unit is imposed, what will be the effect on the market equilibrium position?

The price ceiling will have *no effect* on the equilibrium position. The equilibrium price is \$10/unit, and since the price ceiling is *above* the equilibrium price level, it is not a binding constraint.

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2 Summary

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