Chapter 2  The Basics of Supply and Demand

1) Which of the following is NOT an application of supply and demand analysis?
   A) Understanding changing world economic conditions and their effects on prices
   B) Evaluating the effects of government price controls on the agricultural industry
   C) Determining how taxes affect aggregate consumption spending patterns
   D) all of the above
   E) none of the above

Answer: E  
Diff: 1  
Section: 2.1

2) A supply curve reveals:
   A) the quantity of output consumers are willing to purchase at each possible market price.
   B) the difference between quantity demanded and quantity supplied at each price.
   C) the maximum level of output an industry can produce, regardless of price.
   D) the quantity of output that producers are willing to produce and sell at each possible market price.

Answer: D  
Diff: 1  
Section: 2.1

3) Plastic and steel are substitutes in the production of body panels for certain automobiles. If the price of plastic increases, with other things remaining the same, we would expect:
   A) the price of steel to fall.
   B) the demand curve for steel to shift to the right.
   C) the demand curve for plastic to shift to the left.
   D) nothing to happen to steel because it is only a substitute for plastic.
   E) the demand curve for steel to shift to the left.

Answer: B  
Diff: 1  
Section: 2.1

4) Coffee and cream:
   A) are both luxury goods.
   B) are complements.
   C) are both more inelastic in demand in the long run than in the short run.
   D) have a positive cross price elasticity of demand.

Answer: B  
Diff: 1  
Section: 2.1
5) Which of the following would shift the demand curve for new textbooks to the right?
   A) A fall in the price of paper used in publishing texts
   B) A fall in the price of equivalent used textbooks
   C) An increase in the number of students attending college
   D) A fall in the price of new textbooks.

   Answer: C
   Diff: 1
   Section: 2.1

6) When an industry's raw material costs increase, other things remaining the same,
   A) the supply curve shifts to the left.
   B) the supply curve shifts to the right.
   C) output increases regardless of the market price and the supply curve shifts upward.
   D) output decreases and the market price also decreases.

   Answer: A
   Diff: 1
   Section: 2.1

7) Sugar can be refined from sugar beets. When the price of those beets falls,
   A) the demand curve for sugar would shift right.
   B) the demand curve for sugar would shift left.
   C) the supply curve for sugar would shift right.
   D) the supply curve for sugar would shift left.

   Answer: C
   Diff: 1
   Section: 2.1

8) Assume that steak and potatoes are complements. When the price of steak goes up, the
   demand curve for potatoes:
   A) shifts to the left.
   B) shifts to the right.
   C) remains constant.
   D) shifts to the right initially and then returns to its original position.

   Answer: A
   Diff: 1
   Section: 2.1

9) Which of the following events will cause a leftward shift in the supply curve of gasoline?
   A) A decrease in the price of gasoline
   B) An increase in the wage rate of refinery workers
   C) Decrease in the price of crude oil
   D) An improvement in oil refining technology
   E) all of the above

   Answer: B
   Diff: 1
   Section: 2.1
Chapter 3 Consumer Behavior

1) Gary Franklin is a movie critic. He invented the Franklin Scale with which he rates movies from 1 to 10 (10 being best). When asked about his scale, Mr. Franklin explained "that it is a subjective measure of movie quality. A movie with a ranking of 10 is not necessarily 10 times better than a movie with a ranking of 1, but it is better. A movie with a ranking of 5 is better than a movie with a ranking of 1, but is not as good a movie with a ranking of 10. That's all it really tells you." Based on Mr. Franklin's description, his scale is:
   A) ordinal but not cardinal.  B) cardinal but not ordinal.
   C) an objective standard to judge movies.  D) neither cardinal nor ordinal.

Answer: A
Diff: 1
Section: 3.1

2) Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?
   A) Preferences are complete.
   B) Preferences are transitive.
   C) Consumers prefer more of a good to less.
   D) All of the above are basic assumptions about consumer preferences.

Answer: D
Diff: 1
Section: 3.1

3) The theory of consumer behavior is based on certain assumptions. The set of four basic assumptions includes:
   A) completeness.
   B) transitivity.
   C) intransitivity.
   D) Both A and B are correct.
   E) Both A and C are correct.

Answer: D
Diff: 1
Section: 3.1

4) The assumption of transitive preferences implies that indifference curves must:
   A) not cross one another.
   B) have a positive slope.
   C) be L-shaped.
   D) be convex to the origin.
   E) all of the above

Answer: A
Diff: 1
Section: 3.1
Chapter 4  Individual and Market Demand

1) As we move downward along a demand curve for apples,
   A) consumer well-being decreases.
   B) the marginal utility of apples decreases.
   C) the marginal utility of apples increases.
   D) Both A and B are true.
   E) Both A and C are true.

   Answer: B
   Diff: 1
   Section: 4.1

2) The change in the price of one good has no effect on the quantity demanded of another good.
   These goods are:
   A) complements.
   B) substitutes.
   C) both inferior.
   D) both Giffen goods.
   E) none of the above

   Answer: E
   Diff: 1
   Section: 4.1

3) The price of good A goes up. As a result the demand for good B shifts to the left. From this
   we can infer that:
   A) good A is a normal good.
   B) good B is an inferior good.
   C) goods A and B are substitutes.
   D) goods A and B are complements.
   E) none of the above

   Answer: D
   Diff: 1
   Section: 4.1

4) An individual demand curve can be derived from the _______ curve.
   A) price-consumption
   B) price-income
   C) income-substitution
   D) income-consumption
   E) Engel

   Answer: A
   Diff: 1
   Section: 4.1
5) Which of the following claims is true at each point along a price-consumption curve?
   A) Utility is maximized but income is not all spent.
   B) All income is spent, but utility is not maximized.
   C) Utility is maximized, and all income is spent.
   D) The level of utility is constant.

   Answer: C
   Diff: 1
   Section: 4.1

6) Which of the following is true regarding income along a price-consumption curve?
   A) Income is increasing.
   B) Income is decreasing.
   C) Income is constant.
   D) The level of income depends on the level of utility.

   Answer: C
   Diff: 2
   Section: 4.1

7) Which of the following is true regarding utility along a price-consumption curve?
   A) It is constant.
   B) It changes from point to point.
   C) It changes only if income changes.
   D) It changes only for normal goods.

   Answer: B
   Diff: 2
   Section: 4.1

8) The income-consumption curve
   A) illustrates the combinations of incomes needed with various levels of consumption of a good.
   B) is another name for income-demand curve.
   C) illustrates the utility-maximizing combinations of goods associated with every income level.
   D) shows the utility-maximizing quantity of some good (on the horizontal axis) as a function of income (on the vertical axis).

   Answer: C
   Diff: 1
   Section: 4.1

9) Which of the following pairs of goods are NOT complements?
   A) Hockey sticks and hockey pucks
   B) Computer CPUs and computer monitors
   C) On-campus student housing and off-campus rental apartments
   D) all of the above
   E) none of the above

   Answer: C
   Diff: 1
   Section: 4.1