

1. Prices in capitalist economies are
 - (A) Unfair.
 - (B) Determined by supply and demand.
 - (C) Determined, in most cases, by the federal government.
 - (D) A reflection of our basic values.
 - (E) A means to achieve equality.

2. If people expect the price of a particular product to increase in the near future,
 - (A) This will not affect the demand for the product right now.
 - (B) This will decrease the demand for the product.
 - (C) This will not affect the demand for the product now or later.
 - (D) This will cause firms to expect the same thing.
 - (E) This will increase the demand for the product.

3. A decrease in the price of a particular product will result in
 - (A) An increase in demand.
 - (B) A decrease in demand.
 - (C) An increase in the quantity demanded.
 - (D) A decrease in the quantity demanded.
 - (E) A change in the expected future price.

4. If firms that make a particular product expect its price will be lower in the future,
 - (A) This will cause the supply of the product to increase right now.
 - (B) This will cause the supply of the product to decrease right now.
 - (C) This will have no effect on the amount of the product supplied right now.
 - (D) This will have no effect on the supply of the product now or later.
 - (E) This will cause consumers to expect the price to be higher in the near future also.

5. What will happen to the equilibrium price and the equilibrium quantity of good Z when the price of good X, which is a close substitute for Z, rises?
 - (A) The equilibrium price will rise and the equilibrium quantity will fall.
 - (B) The equilibrium price will fall and the equilibrium quantity will rise.
 - (C) The equilibrium price and the equilibrium quantity will both rise.
 - (D) The equilibrium price and the equilibrium quantity will both fall.
 - (E) There is not enough information to answer definitely.

6. What will happen to the equilibrium price and the equilibrium quantity of corn when the prices of corn seed and fertilizer fall?
 - (A) The equilibrium price will rise and the equilibrium quantity will fall.
 - (B) The equilibrium price will fall and the equilibrium quantity will rise.
 - (C) The equilibrium price and the equilibrium quantity will rise.
 - (D) The equilibrium price and the equilibrium quantity will fall.
 - (E) There is not enough information to answer definitely.

7. Suppose the demand for a particular product falls while the supply simultaneously increases. What will happen to the equilibrium price and the equilibrium quantity?
 - (A) The equilibrium price will rise while the equilibrium quantity is indeterminate.
 - (B) The equilibrium price will fall while the equilibrium quantity is indeterminate.
 - (C) The equilibrium price is indeterminate while the equilibrium quantity will rise.
 - (D) The equilibrium price is indeterminate while the equilibrium quantity will fall.
 - (E) There is not enough information to answer definitely.

8. Suppose consumers expect the price of corn to be lower in the near future while the price of seed corn and fertilizer fall. What will happen to the equilibrium price and the equilibrium quantity?
 - (A) The equilibrium price will rise while the equilibrium quantity is indeterminate.
 - (B) The equilibrium price will fall while the equilibrium quantity is indeterminate.
 - (C) The equilibrium price is indeterminate while the equilibrium quantity will rise.
 - (D) The equilibrium price is indeterminate while the equilibrium quantity will fall.
 - (E) There is not enough information to answer definitely.

9. Allocative efficiency
(A) means that no inferior products will be produced.
(B) implies that the economy's output is distributed evenly.
(C) means that those who work hardest will get more.
(D) implies that resources are used to produce the goods and services society desires in just the right amounts.
(E) can only occur in command economies.
10. The Law of Demand states that
(A) the quantity demanded of a product will fall when the price of the product falls.
(B) the quantity demanded of a product will fall when the price of the product rises.
(C) when the demand for a product falls, so will its price.
(D) when the demand for a product falls, its price will rise.
(E) a product's price and the quantity demanded of that product are positively related.
11. A price ceiling is characterized by
(A) A price set below the current (or equilibrium) market price of the good.
(B) A price set above the current (or equilibrium) market price of the good.
(C) A shift of the demand curve (function).
(D) A shift of the supply curve.
12. For which of the following statements are both the price change and quantity change determinable (for a particular good)?
(A) Both the supply of and the demand for the good decrease.
(B) Both the supply of and the demand for the good increase.
(C) The supply increases and the demand for the good decreases.
(D) The supply decreases and the demand increases.
(E) None of the above.
13. If the government subsidizes the production of halogen headlights,
(A) The demand curve will shift to the left.
(B) The demand curve will shift to the right.
(C) The supply curve will shift to the left.
(D) The supply curve will shift to the right.
(E) The amounts demanded will increase along the demand curve.
14. If consumers are advised that multi-grained bread will substantially lessen the risk of cancer, which of the following will happen in the market for multi-grained bread?
(A) The demand curve will shift to the left, decreasing the price of multi-grained bread.
(B) The supply curve will shift to the left, increasing the price of multi-grained bread.
(C) The demand curve will shift to the right, increasing the price of multi-grained bread.
(D) The supply curve will shift to the right, decreasing the price of multi-grained bread.
(E) None of the above.
15. When the price elasticity of demand is greater than 1, demand is
(A) perfectly inelastic
(B) elastic
(C) inelastic
(D) unit elastic
(E) not measurable
16. Price times quantity measures
(A) the international trade gap.
(B) The budget deficit.
(C) Total revenue
(D) Price elasticity of demand
(E) Price elasticity of supply
17. The price elasticity of demand for a product is greater if
(A) the proportion of the good of the consumer's budget is high
(B) the period of time to respond to a price change is short
(C) the number of substitute product is limited
(D) the product is a necessity
(E) imports decrease
18. A tax imposed on a supplier will more likely be passed on to the consumer in the form of price increase if
(A) price elasticity of demand is highly elastic
(B) price elasticity of demand is highly inelastic
(C) price elasticity of demand is unit elastic
(D) wage elasticity of demand is highly elastic
(E) wage elasticity of demand is highly inelastic

19. If the price of a product decreases with the price of a substitute product remaining constant such that the consumer buys more of this product, this is called the
- (A) income effect.
 - (B) Substitution effect.
 - (C) Marginal effect
 - (D) Supply effect
 - (E) CPI effect
20. If the price of a product decreases so that the consumer can buy more of it and other products, this is called the
- (A) income effect
 - (B) substitution effect
 - (C) marginal effect
 - (D) supply effect
 - (E) CPI effect
21. Consumer surplus is
- (A) the price of a good divided by its marginal utility
 - (B) the marginal utility of the good divided by its price
 - (C) the total utility of the good
 - (D) the difference between the consumer's value and the market price
 - (E) consumers' annual savings
22. The utility maximizing rule is to choose the basket of goods that
- (A) has the highest marginal utility of each good in the basket
 - (B) has the lowest prices for the goods
 - (C) has the highest value of marginal utility to price for each good
 - (D) the marginal utility to price ratio equal for all goods in the basket
23. According to the principle of diminishing marginal utility,
- (A) marginal utility stays the same
 - (B) total utility stays the same
 - (C) marginal utility decreases with each additional unit of a good that is consumed
 - (D) marginal utility and total utility both decrease
 - (E) total utility declines
24. You notice that the price of wheat falls and the quantity of wheat increases. This set of observations can be the result of the
- (A) demand for wheat curve shifting rightward.
 - (B) demand for wheat curve shifting leftward.
 - (C) supply of wheat curve shifting rightward.
 - (D) supply of wheat curve shifting leftward.
25. The director buys only warm soda and cold pizza and is buying the amounts that maximize his utility. The marginal utility from a soda is 40 and the price of the soda is \$1. The marginal utility from a slice of pizza is 80. The price of a slice of pizza must be
- (A) \$20.
 - (B) \$2.
 - (C) \$1.
 - (D) some amount that cannot be calculated without more information
26. For consumers, pizza and hamburgers are substitutes. A rise in the price of a pizza causes ____ in the price of a hamburger and ____ in the quantity of hamburgers.
- (A) a rise; an increase
 - (B) a rise; a decrease
 - (C) a fall; an increase
 - (D) a fall; a decrease
27. If the price elasticity of demand equals -0.5, then as the price falls the
- (A) quantity demanded decreases.
 - (B) total revenue falls.
 - (C) quantity demanded does not change.
 - (D) total revenue does not change.
28. If there is a surplus of a good, the quantity demanded ____ the quantity supplied and the price will ____.
- (A) is less than; rise
 - (B) is less than; fall
 - (C) is greater than; rise
 - (D) is greater than; fall
- For the next three questions, suppose that the price of cotton used in shirts rise and simultaneously peoples' incomes rise. Shirts are a normal good.***
29. The rise in the price of cotton shifts the
- (A) demand curve for shirts rightward.
 - (B) demand curve for shirts leftward.
 - (C) supply curve for shirts rightward.
 - (D) supply curve for shirts leftward

30. The equilibrium quantity of shirts
 (A) definitely increases.
 (B) definitely does not change.
 (C) definitely decreases.
 (D) might increase, not change, or decrease
31. The equilibrium price of a shirt
 (A) definitely rises.
 (B) definitely does not change.
 (C) definitely falls.
 (D) might rise, not change, or fall
32. The quantity of new cars increases by 10 percent. If the price elasticity of demand for new cars is 2.0, the price of a new car will
 (A) fall by 2 percent.
 (B) fall by 5 percent.
 (C) fall by 10 percent.
 (D) fall by 20 percent.
33. Levying a sales tax on a product shifts its supply curve ____ by the amount of the tax.
 (A) rightward
 (B) leftward
 (C) upward
 (D) downward
34. The price of corn feed to hogs rises. As a result, the equilibrium relative price of hogs ____ and the equilibrium quantity ____.
 (A) rises; increases
 (B) rises; decreases
 (C) falls; decreases
 (D) falls; increases
35. A perfectly elastic demand curve is
 (A) a line with a 45 degree slope
 (B) a rectangular hyperbola
 (C) a vertical line
 (D) a horizontal line
 (E) none of the above
36. If sanctions are imposed on demanders but not on suppliers of a prohibited good, the
 (A) price falls and the quantity decreases.
 (B) price rises and the quantity increases.
 (C) price rises and the quantity decreases.
 (D) price falls and the quantity increases
37. Consumer surplus
 (A) equals the total quantity of a product consumed multiplied by its price.
 (B) equals the difference between the value of a good and its price.
 (C) is undefined for products that are essential for life, such as water.
 (D) is always less than the price of the product.
- ~~38. The principle of diminishing marginal utility means that the consumer surplus from the second slice of pizza is
 (A) greater than that from the first.
 (B) equal to that from the first.
 (C) less than that from the first.
 (D) not comparable to that from the first~~
39. Which is likely to be more elastic: The elasticity of demand for pizza or the elasticity of demand for Domino's pizza?
 (A) The demand for pizza is more elastic.
 (B) The demand for Domino's pizza is more elastic.
 (C) The demands have the same elasticity.
40. Which of the following influences does NOT shift the supply curve?
 (A) A rise in the wages paid workers.
 (B) Development of new technology.
 (C) People deciding that they want to buy more of the product.
 (D) A decrease in the number of suppliers
- ~~41. Suppose that the supply curve for wood chips is perfectly elastic. Then, an increase in the demand for wood chips will ____ the equilibrium price of wood chips and ____ the equilibrium quantity of wood chips.
 (A) raise; increase
 (B) raise; not change
 (C) not change; raise
 (D) raise; decrease
 (E) None of the above.~~
42. Which is likely to be *less* elastic: The elasticity of demand for pencils or the elasticity of demand for renters' insurance?
 (A) The demand for pencils is more inelastic.
 (B) The demand for renters' insurance is more inelastic.

43. Suppose that workers in the cement manufacturing industry negotiate higher wages. As a result, the equilibrium price of cement _____ and the equilibrium quantity _____.
- (A) rises; increases
 (B) rises; decreases
 (C) falls; decreases
 (D) falls; increases

Use the following table for the next two questions. A mug of soda costs \$4; a slice of pizza costs \$2. The consumer has \$10 to spend on soda and pizza.

Slices of Pizza	MU of last slice of pizza	Mugs of soda	MU of last mug of soda
1	100	1	400
2	80	2	200
3	60	3	80
4	40	4	30
5	20	5	20

44. Do the marginal utility schedules presented in the Table obey the law of diminishing marginal utility?
- (A) Yes, both the marginal utility schedule for pizza and the marginal utility schedule for soda obey the law of diminishing marginal utility.
 (B) The marginal utility schedule for pizza obeys the law of diminishing marginal utility, but the marginal utility schedule for soda violates the law of diminishing marginal utility.
 (C) The marginal utility schedule for soda obeys the law of diminishing marginal utility, but the marginal utility schedule for pizza violates the law of diminishing marginal utility.
 (D) No, neither the marginal utility schedule for soda nor for pizza obeys the law of diminishing marginal utility.
45. To maximize his or her utility, the consumer whose preferences are given in the Table will consume _____ mug(s) of soda and _____ slice(s) of pizza.
- (A) 0; 5
 (B) 1; 3
 (C) 2; 1
 (D) 3; 2
 (E) None of the above

46. Suppose that the income elasticity of the demand for bowling balls is positive. Then,
- (A) the demand for bowling balls is elastic.
 (B) the demand for bowling balls is inelastic.
 (C) bowling balls are an inferior good.
 (D) bowling balls are a normal good.
 (E) None of the above
47. If sanctions are imposed on suppliers but not on users of a prohibited good, the
- (A) price falls and the quantity decreases.
 (B) price rises and the quantity increases.
 (C) price rises and the quantity decreases.
 (D) price falls and the quantity increases
48. A tax on rutabagas is imposed that the suppliers of rutabagas must collect and send to the government. When do demanders of rutabagas pay the largest share of this tax?
- (A) When the demand for rutabagas is elastic.
 (B) When the demand for rutabagas is unit elastic.
 (C) When the demand for rutabagas is inelastic.
 (D) The premise of the question is wrong because if the tax is collected by suppliers then demanders do not pay any of the tax.

For the next three questions, suppose that the price of jet fuel falls and simultaneously people's incomes rise. Travel by plane is a normal good.

49. The equilibrium relative price of airline trips _____.
- (A) rises
 (B) does not change
 (C) falls
 (D) probably changes but in an ambiguous direction
50. The equilibrium quantity of airline trips _____.
- (A) increases
 (B) does not change
 (C) decreases
 (D) probably changes but in an ambiguous direction.

51. Suppose the effect from the change in income is larger than the effect from the change in the price of jet fuel. Then the equilibrium relative price of airline trips _____ and the equilibrium quantity _____.

- (A) rises; increases
- (B) rises; decreases
- (C) falls; decreases
- (D) falls; increases
- (E) None of the above.

52. The price of fertilizer used on corn rises. As a result, the equilibrium relative price of corn _____ and the equilibrium quantity _____.

- (A) rises; increases
- (B) rises; decreases
- (C) falls; decreases
- (D) falls; increases

53. A consumer is in equilibrium and consumes both water and diamonds. The price of diamonds exceeds that of water. Which of the following statements *necessarily* must be correct?

- (A) The *MU* from water exceeds the *MU* from diamonds.
- (B) The *MU* from diamonds exceeds the *MU* from water.
- (C) The total utility from diamonds exceeds the total utility from water.
- (D) The total utility from water exceeds the total utility from diamonds.

54. Which of the following influences shifts the demand curve?

- (A) A rise in the people's incomes.
- (B) Development of new technology.
- (C) A change in the cost of an input.
- (D) Two of the influences given above shift the demand curve.
- (E) All three of the influences given above shift the demand curve.

55. Which of the following combinations would yield the greatest price fluctuation?

- (A) Large supply shifts and inelastic demand.
- (B) Large supply shifts and elastic demand.
- (C) Large supply shifts and perfectly elastic demand.
- (D) Small supply shifts and elastic demand.

56. Which of the following is true in the elastic range of a firm's demand curve?

- (A) The firm should expand output to increase economic profits.
- (B) An increase in price will also lead to an increase in total costs.
- (C) A decrease in price will likely lead to an increase in total revenue.
- (D) Marginal revenue is negative.
- (E) The firm is maximizing total revenue.

The following chart shows the total utility that Sarah receives from buying various amounts of shirts in a month. Use it to answer the next two questions.

<u>No. of Shirts</u>	<u>Total Utility</u>
0	\$0
1	\$80
2	\$140
3	\$190
4	\$225
5	\$245

57. Assuming Sarah wishes to maximize her utility, how many shirts should she buy if the price of shirts equals \$35 each?

- (A) 1
- (B) 2
- (C) 3
- (D) 4
- (E) 5

58. What would be Sarah's consumer surplus if she were to buy the utility-maximizing number of shirts at \$35 each?

- (A) \$225
- (B) \$145
- (C) \$85
- (D) \$35
- (E) \$4

Answers for Practice Quiz:

1. B
2. E
3. C
4. B
5. C
6. B
7. B
8. B
9. D
10. B
11. A
12. E
13. D
14. C
15. B
16. C
17. B
18. B
19. B
20. A
21. D
22. D
23. C
24. C
25. B
26. A
27. B
28. B
29. D
30. D
31. A
32. B
33. B
34. B
35. D
36. A
37. B

38. C
39. B
40. C
41. C
42. B
43. B
44. A
45. C
46. D
47. C
48. C
49. D
50. A
51. A
52. B
53. B
54. A
55. A
56. C
57. D
58. C