

Extensions of Demand and Supply Analysis

Copyright © 2012 Pearson Education, Inc.

5) In a market system, the costs associated with exchanging goods are known as

- A) voluntary costs.
- B) signaling costs.
- C) wholesale costs.
- D) transaction costs.

Answer: D

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

6) In a market system, intermediaries in the exchange process are known as

- A) producers.
- B) consumers.
- C) middlemen.
- D) free agents.

Answer: C

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

7) Which of these would NOT be considered a middleman?

- A) A produce wholesaler
- B) An apple farmer
- C) A shopbot company
- D) A fruit distributor

Answer: B

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

8) In a price system, changes in prices

- A) make it difficult for the system to function well.
- B) imply that people have made mistakes in the past.
- C) signal to everyone in the system what goods are relatively more or less scarce.
- D) signal to policy makers what goods should and should not be taxed more.

Answer: C

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

9) The way we know what commodities are relatively scarce or abundant is through

- A) transaction costs.
- B) prices.
- C) price ceilings.
- D) price floors.

Answer: B

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

10) The price system

- A) is the voluntary exchange system used in the United States.
- B) is old fashioned and is no longer used.
- C) is used only in countries that are developing.
- D) is used to set resource prices only.

Answer: A

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

11) The price system has

- A) prices fixed by the government.
- B) prices fixed by the seller.
- C) voluntary exchange.
- D) prices fixed by the producer.

Answer: C

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

12) In the price system,

- A) prices are set by government action.
- B) producers alone set the price.
- C) the president sets all prices.
- D) price is set by the interaction of supply and demand.

Answer: D

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

13) The price of milk increases. Which of the following is NOT part of the likely chain of events that follows from this price change?

- A) Some milk consumers reduce their consumption of milk.
- B) Milk producers increase their production of milk.
- C) The producers of feed for dairy cows increase production.
- D) The manufacturers of milking machines lay off some workers.

Answer: D

Diff: 3

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The signaling aspect of the market system refer to
- A) legal requirements for contracts and exchanges.
 - B) the price of the good to the consumer and producer.
 - C) the voluntary character of the exchange.
 - D) transaction costs of carrying out exchanges.

Answer: B

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

- 15) The signals in markets are determined
- A) by supply and demand.
 - B) for all goods by the government through the use of price controls.
 - C) in an unfair manner that ends up hurting the poor.
 - D) by nonprice rationing devices.

Answer: A

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

- 16) The price system features
- A) exchanges made in currency only.
 - B) voluntary exchange that makes both the consumer and producer better off.
 - C) exchanges made only on a barter basis.
 - D) an exchange in which consumer is made better off and the producer is made worse off.

Answer: B

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Voluntary exchange
- A) will eliminate scarcity.
 - B) is a nonprice rationing device.
 - C) is trading so that the consumer and producers are better off.
 - D) never involves transactions costs.

Answer: C

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following is NOT an example of a transaction cost?
- A) The enjoyment of owning the good.
 - B) The opportunity cost of time spent looking for stores that sold the good desired.
 - C) The cost of returning a defective product.
 - D) Time spent bargaining over the price of a good.

Answer: A

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Specialists who try to lower transaction costs are
- A) consumers.
 - B) producers.
 - C) bureaucrats.
 - D) middlemen.

Answer: D

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Which of the following is NOT a device to reduce transaction costs?
- A) Shopping centers
 - B) Auto dealers located close together
 - C) Government prohibitions on advertising
 - D) Banks that direct funds from savers to borrowers

Answer: C

Diff: 3

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

- 21) Which of the following statements is NOT true about exchanges in the market system?
- A) In voluntary exchange both parties are better off because of the exchange.
 - B) Exchanges occur only in situations of barter where the market price is irrelevant.
 - C) Prices indicate what is relatively abundant and what is relatively scarce.
 - D) Transaction costs in exchanges include the cost of enforcing a contract as well as the costs of information.

Answer: B

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

- 22) Market clearing prices in a market system act as
- A) a signaling device.
 - B) a direct measure of resource costs.
 - C) a way for producers to advertise.
 - D) a legally determined rationing device.

Answer: A

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 23) The rationing function of prices means that
- A) government is responsible for setting the prices of basic foods.
 - B) all goods and services are produced by large firms.
 - C) businesses determine what goods consumers should purchase.
 - D) buyers and sellers synchronize their decisions through the price system.

Answer: D

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Buyers and sellers receive signals from markets
- A) by listening to the TV news programs.
 - B) through the price system.
 - C) from the gossip columns in the newspapers.
 - D) from their friends and acquaintances.

Answer: B

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 25) The market system is also called the price system because
- A) rising prices are the signal to producers to offer more of a particular good.
 - B) people pay money in markets.
 - C) everything has a price tag.
 - D) inflation is a significant problem.

Answer: A

Diff: 3

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Which of the following is a main characteristic of exchanges in the market system?
- A) Decisions to trade are based on individuals' self interest.
 - B) Exchanges are highly regulated by the government.
 - C) Sellers hire economists to determine the market clearing price.
 - D) Exchanges are part of the legislative imperative.

Answer: A

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

27) In a market system, how are the price signals established?

- A) Consumer advocacy groups establish fair prices for items, and most firms follow these pricing guidelines because they don't want to anger their consumers.
- B) Industry associations establish an acceptable price range for each commodity sold within the industry, and member firms are obligated to abide by association guidelines.
- C) The forces underlying supply and demand interact to determine a market clearing price.
- D) Federal legislation establishes maximum prices for most goods, and state governments regulate the prices of any remaining items.

Answer: C

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

28) Intermediaries, known as middlemen, specialize in

- A) reducing transaction costs.
- B) negotiating high prices for sellers.
- C) negotiating low prices for buyers.
- D) encouraging consumers to buy goods on credit, rather than with cash.

Answer: A

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

29) Which of the following is NOT a voluntary exchange?

- A) Tom's car is stolen from in front of his house.
- B) Marie buys groceries.
- C) Scott pays \$10,000 for tuition and fees this semester.
- D) Emily buys a \$1,000 plane ticket to fly from New York to Dallas on short notice.

Answer: A

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

30) The publication *Consumer Reports* reduces transaction costs on many purchases by

- A) providing coupons.
- B) providing reliable information on product quality.
- C) advertising sales at discount stores.
- D) paying its employees low wages.

Answer: B

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Revised

31) Markets tend to

- A) exist primarily in towns or cities.
- B) increase transaction costs.
- C) reduce transaction costs.
- D) make exchange more difficult.

Answer: C

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

32) Transaction costs are

- A) production costs.
- B) taxes on production.
- C) regulations on production.
- D) costs associated with exchange.

Answer: D

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

33) When a market clearing price is determined,

- A) the exchange between buyers and sellers is voluntary.
- B) the exchange between buyers and sellers is directed by outside factors such as the government.
- C) the exchange between buyers and sellers benefits only the buyers.
- D) the exchange between buyers and sellers benefits only the sellers.

Answer: A

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

34) Your local grocery store reduces transaction costs to the consumer

- A) by reducing the consumer's need to travel from food producer to food producer (or manufacturer to manufacturer) to purchase the food staples that the consumer desires.
- B) by providing a system that directs funds from lenders to borrowers.
- C) by providing a system of justice to enforce contracts.
- D) All of the above are correct.

Answer: A

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

35) Another term for intermediaries who specialize in reducing transaction costs is

- A) service providers.
- B) consultants.
- C) middlemen.
- D) revenue agents.

Answer: C

Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

36) All of the following reduce the transaction costs for consumers EXCEPT

- A) eBay.
- B) a shopping mall.
- C) the Supreme Court decisions regarding the Second Amendment.
- D) a grocery store.

Answer: C

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

37) What are transaction costs? What are some ways in which society reduces transaction costs?

Answer: Transaction costs are costs associated with exchanging goods and services. They include information costs associated with finding out price, quality, and other characteristics of the good and the other party in the exchange, and costs of contracting and enforcing the contract. Organized markets, retail stores and shopping malls, advertising, and middlemen are several institutions that have developed to reduce transaction costs.

Diff: 2

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

38) What are the terms of exchange and how are these terms related to the price?

Answer: The terms of exchange are the terms under which trading takes place. Usually, the terms of exchange specify the price at which the good is traded, which is determined by the interaction of supply and demand.

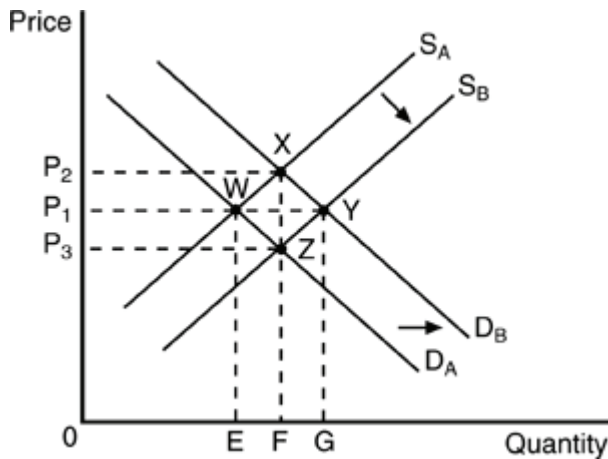
Diff: 1

Topic: 4.1 The Price System and Markets

AACSB: Analytic skills

Question Status: Previous Edition

4.2 Changes in Demand and Supply



- 1) Assume that the initial demand and supply curves in the above figure are D_A and S_A , respectively. The initial equilibrium price and quantity are
- A) P_1 and E. B) P_3 and F. C) P_1 and G. D) P_2 and F.

Answer: A

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Refer to the above figure. Suppose the demand curve shifts from D_A to D_B , while the supply curve remains at S_A . Which of the following statements is FALSE?
- A) There has been an increase in demand.
 B) Supply has increased.
 C) More consumers in the market might have caused the demand curve to shift.
 D) The new equilibrium price is P_2 , and the new equilibrium quantity is F.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 3) Refer to the above figure. Suppose that the supply curve shifts from S_A to S_B while the demand curve shifts from D_A to D_B . Which of the following is true about the results of the shifts in the supply and demand curves?

- A) The equilibrium price increases while the equilibrium quantity remains unchanged.
- B) Both the equilibrium price and equilibrium quantity increase.
- C) The equilibrium price remains unchanged while the equilibrium quantity increases.
- D) Both the equilibrium price and equilibrium quantity remain unchanged.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: New

- 4) Refer to the above figure. Suppose that the supply curve shifts from S_A to S_B while the demand curve remains at D_A . Which of the following is true?

- A) Only quantity supplied has increased.
- B) Only quantity demanded has decreased.
- C) Supply has increased.
- D) Supply has decreased.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 5) Other things being equal, suppose that the demand for wheat in constant quality units increases. The increase in demand will cause

- A) a surplus of wheat.
- B) a higher equilibrium price and higher equilibrium quantity of wheat.
- C) fall in the market clearing price of corn, a substitute for wheat.
- D) a higher equilibrium quantity, but a lower equilibrium price of wheat.

Answer: B

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose that consumer income decreases and that hamburger is an inferior good. Which of the following will occur in the market for hamburger?

- A) Market clearing price will rise, and equilibrium quantity will rise.
- B) Market clearing price will fall, and equilibrium quantity will fall.
- C) Market clearing price will rise, and equilibrium quantity will fall.
- D) Market clearing price will fall, and equilibrium quantity will rise.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Suppose that there is an improvement in technology in the market for iPods. Which of the following is true?

A) Supply will increase and the market clearing price will fall.
B) Supply will increase and the market clearing price will rise.
C) Demand will increase and the market clearing price will rise.
D) Demand will increase and the market clearing price will fall.

Answer: A

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Suppose that demand for soybeans increases, and simultaneously, the supply of soybeans increases. Which of the following would you conclude definitely will occur in the market for soybeans?

A) The market clearing price will rise. B) The market clearing price will fall.
C) The equilibrium quantity will rise. D) The equilibrium quantity will fall.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Suppose there is a simultaneous increase in the demand for diamonds and increase in the supply of diamonds. Which of the following will occur as a result of these simultaneous events?

A) Both the market clearing price and equilibrium quantity will rise.
B) The market clearing price will fall, but the equilibrium quantity will rise.
C) The market clearing price may rise, fall, or stay the same, but the equilibrium quantity will fall.
D) The market clearing price will fall, but the equilibrium quantity may rise, fall, or stay the same.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Suppose you are told that the equilibrium price of gasoline has increased, while the equilibrium quantity of gasoline has fallen. You are also told that either the demand changed or supply changed, but not both. Which of the following must have occurred?

A) Demand increased. B) Demand decreased.
C) Supply increased. D) Supply decreased.

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

11) Which of the following will cause, other things being equal, a movement along the supply curve for HD televisions?

- A) An improvement in technology.
- B) An increase resource costs.
- C) A reduction in the price of HD televisions.
- D) An expectation that the price of HD televisions will be lower in the future.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

12) Suppose we observe the following two simultaneous events in the market for cigarettes. First, there is a decrease in the demand for cigarettes due to changes in consumer tastes. And second, there is a reduction in supply due to tobacco farmers selling their land to real estate developers. We know with certainty that these two simultaneous events will cause which of the following?

- A) no change in the equilibrium quantity and a reduction in the equilibrium price
- B) an increase in the equilibrium quantity and in the equilibrium price
- C) a decrease in the equilibrium quantity and an indeterminate change in the equilibrium price
- D) a decrease in the equilibrium quantity and an increase in the equilibrium price

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

13) Suppose Matt Damon and Cameron Diaz wear matching platinum jewelry in their new movie. After the movie is released, suppose that consumers increase their demand for the jewelry and at the same time manufacturers increase the supply of the jewelry. As a result,

- A) the equilibrium quantity will increase, and there is an indeterminate change in the equilibrium price.
- B) the equilibrium quantity and price are both indeterminate.
- C) the equilibrium quantity will decrease, and the equilibrium price will increase.
- D) the equilibrium price and quantity will both decrease.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 14) As demand for computer games increases, other things being equal, we can expect
- A) a decrease in both the relative price and quantity of computer games.
 - B) a decrease in the supply of computer games.
 - C) more computer games to be produced.
 - D) an excess number of computer games in the market.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 15) If both the demand for and the supply of computers are increasing, which of the following statements is true?
- A) The consumer should buy a computer now since the price will be higher in the future.
 - B) The consumer should wait and buy a computer later since the price will be lower in the future.
 - C) The price of a computer will be the same in the future as it is now.
 - D) It is impossible to know, given only this information, whether the prices of computers will go up or down in the future.

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 16) If demand increases while supply decreases, then the equilibrium price
- A) always increases.
 - B) always decreases.
 - C) may increase, decrease, or stay the same.
 - D) never changes.

Answer: A

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 17) If demand increases while supply simultaneously decreases, then the equilibrium quantity
- A) always increases.
 - B) always decreases.
 - C) can never change.
 - D) none of the above

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 18) If other factors remain unchanged, technological progress in producing good X definitely will lead to
- A) an increase in the market clearing price of good X and a decrease in the equilibrium quantity of good X.
 - B) an increase in both the market clearing price and the equilibrium quantity of good X.
 - C) a decrease in the market clearing price of good X and an increase in the equilibrium quantity of good X.
 - D) a decrease in both the market clearing price and the equilibrium quantity of good X.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 19) With respect to the market clearing price and the equilibrium quantity of good X, increases in the demand for and the supply of good X will definitely
- A) increase the market clearing price of good X but have an uncertain impact on the equilibrium quantity of X.
 - B) reduce the market clearing price and the equilibrium quantity of good X.
 - C) increase the market clearing price and the equilibrium quantity of good X.
 - D) increase the equilibrium quantity of good X but have an uncertain impact on the market clearing price of X.

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 20) With respect to the market clearing price and the equilibrium quantity for good X, an increase in the demand for and a decrease in supply of the good definitely will
- A) increase the market clearing price and the equilibrium quantity of good X.
 - B) decrease the market clearing price and the equilibrium quantity of good X.
 - C) increase the market clearing price of good X but lower the equilibrium quantity of X.
 - D) increase the market clearing price of good X but have an uncertain impact on the equilibrium quantity of X.

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 21) If equilibrium price falls and the equilibrium quantity of the good purchased decreases, what has happened to either the supply curve or to the demand curve?
- A) Supply increased.
 - B) Demand decreased.
 - C) Demand increased.
 - D) Supply decreased.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

22) A change in an equilibrium price can result from

I. A change in demand

II. A change in supply

A) I only

B) II only

C) Both I and II

D) Neither I nor II

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

23) An increase in supply, other things being equal, will cause which of the following to occur?

A) quantity supplied to decrease.

B) quantity demanded to increase.

C) a rightward shift in the demand curve as the price falls.

D) a leftward shift in the demand curves as the price increases.

Answer: B

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

24) Suppose the price of cheese rises. In the market for pizza, one would expect that

A) the supply of pizza would increase, and the price would fall.

B) the demand for pizza would increase, and the price would increase.

C) the demand for pizza would decrease, and price would fall.

D) the supply of pizza would decrease, and price would rise.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

25) The prices of certain goods, such as ice and lumber, often increase after a disaster such as a hurricane. The economic explanation for this observation is that

A) people panic in disaster situations.

B) disasters bring out the worst in people.

C) the disaster temporarily reduces the supply of the goods and increases the demand for the goods.

D) the disaster temporarily reduces the supply of the goods and reduces the demand for the goods.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 26) People often complain about price gouging after a disaster such as a hurricane. Suppose the government successfully prevented price increases due to the disaster. We would expect
- A) reconstruction to take longer because the quantity supplied of new materials would increase more slowly.
 - B) reconstruction to take less time because the demand for materials would increase faster.
 - C) reconstruction never to occur.
 - D) reconstruction to take less time because the government could rebuild more quickly when people are not in the way.

Answer: A

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 27) In the labor market, adjustments to changes in supply and demand
- A) usually occur instantly.
 - B) usually take time to occur.
 - C) do not apply, since the labor market does not respond to supply and demand forces.
 - D) do not apply, since wages in the labor market always go up.

Answer: B

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Hospitals announce that there are not enough nurses available to keep them fully staffed. Economically speaking, what does this announcement mean?
- A) The market wage for trained nurses is currently above the equilibrium wage.
 - B) There is currently a surplus of nurses in this market.
 - C) The market wage for nurses will eventually rise to the market clearing wage.
 - D) The market will adjust very rapidly to correct this imbalance because anyone can be a nurse without any training.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Holding supply constant, a reduction in demand leads to
- A) lower prices and higher quantity supplied.
 - B) lower prices and lower quantity supplied.
 - C) higher prices and higher quantity supplied.
 - D) higher prices and lower quantity supplied.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Some oil refineries were damaged by Hurricane Katrina of 2005, leading to
- A) a decrease in supply of gasoline.
 - B) a decrease in quantity supplied of gasoline.
 - C) a decrease in demand for gasoline.
 - D) a decrease in quantity demanded for gasoline.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 31) In recent years, the price of smartphones has fallen, while the quantity exchanged of smartphones has risen. We can conclude that this is most likely a result of
- A) a decrease in supply while demand remained constant.
 - B) an increase in demand while supply remained constant.
 - C) an increase in demand that exceeded an increase in supply.
 - D) an increase in supply that exceeded an increase in demand.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 32) Holding supply constant, an increase in demand leads to
- A) lower prices and higher quantity supplied.
 - B) lower prices and lower quantity supplied.
 - C) higher prices and higher quantity supplied.
 - D) higher prices and lower quantity supplied.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 33) The increase in the price of gasoline to a national average of over \$3.50 during the summer of 2010 was most likely a result of
- A) a decrease in demand due to reduced summer driving.
 - B) an increase in supply resulting from higher refinery output.
 - C) an increase in demand due to increase in summer driving along with a decrease in supply resulting from reduced refinery output.
 - D) an increase in supply resulting from higher refinery output along with a decrease in demand in summer driving.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 34) Holding demand constant, a reduction in supply leads to
- A) lower prices and higher quantity demanded.
 - B) lower prices and lower quantity demanded.
 - C) higher prices and higher quantity demanded.
 - D) higher prices and lower quantity demanded.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Holding demand constant, an increase in supply leads to
- A) lower prices and higher quantity demanded.
 - B) lower prices and lower quantity demanded.
 - C) higher prices and higher quantity demanded.
 - D) higher prices and lower quantity demanded.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 36) If price increases and the quantity purchased increases, we know that
- A) supply increased.
 - B) supply decreased.
 - C) demand increased.
 - D) demand decreased.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 37) The price of a good always changes when
- A) either a shortage or a surplus occurs.
 - B) quantity demanded and quantity supplied are constant.
 - C) there is an increase in demand and an increase in supply.
 - D) there is a decrease in demand and a decrease in supply.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

38) The price of labor in the agricultural industry has just increased. For agricultural products, this will lead to

- A) an increase in price and a decrease in quantity.
- B) an increase in price and an increase in quantity.
- C) a decrease in price and a decrease in quantity.
- D) a decrease in price and an increase in quantity.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

Price Per TV	Quantity Demanded Per Month	Quantity Supplied Per Month
\$800	2,000	12,000
750	3,000	11,000
700	4,000	10,000
650	5,000	9,000
600	6,000	8,000
550	7,000	7,000
500	8,000	6,000
450	9,000	5,000
400	10,000	4,000

39) Refer to the above table. Suppose there are technological advances in the production of televisions. The new equilibrium price will be

- A) \$550.
- B) \$750.
- C) less than \$550.
- D) between \$550 and \$750.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

40) Refer to the above table. Suppose the demand for televisions drops because more people watch TV shows on computers instead. The new equilibrium price will be

- A) \$550.
- B) \$750.
- C) less than \$550.
- D) \$800.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: New

- 41) An increase in the equilibrium quantity of good X can be caused by
- A) an increase the price of inputs utilized in producing good X.
 - B) an increase in the price of good X.
 - C) a technological improvement in the process of producing good X.
 - D) a reduction in the number of producers of good X.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 42) An increase in the price of labor used to produce good Y will lead to
- A) an increase in the market clearing price of good Y.
 - B) an increase in the supply of good Y.
 - C) a decrease in the demand for good Y.
 - D) an increase in the demand for good Y.

Answer: A

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The market clearing price of corn has just increased. Which of the following could have caused this change?
- | | |
|-------------------------------------|-------------------------------------|
| A) a reduction in demand | B) a reduction in supply |
| C) an increase in quantity demanded | D) an increase in quantity supplied |

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Suppose the equilibrium quantity of ethanol has decreased. Which of the following could have caused this change?
- | | |
|-------------------------------------|-------------------------------------|
| A) a decrease in demand | B) an increase in supply |
| C) an increase in quantity demanded | D) an increase in quantity supplied |

Answer: A

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 45) The market clearing price of computer modems has just decreased. Which of the following could have caused this change?

- A) a decrease in supply at the same time that demand increases
- B) an increase in supply at the same time that demand decreases
- C) a decrease in supply with demand unchanged
- D) an increase in demand with supply unchanged

Answer: B

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Firms that produce 80 percent of all computer chips have shut down their facilities for maintenance. In the computer chip market this will lead to

- A) an increase in price and a decrease in quantity.
- B) an increase in price and an increase in quantity.
- C) a decrease in price and a decrease in quantity.
- D) a decrease in price and an increase in quantity.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 47) A technological advancement has just occurred in the computer chip industry. In the computer chip market this will lead to

- A) an increase in price and a decrease in quantity.
- B) an increase in price and an increase in quantity.
- C) a decrease in price and a decrease in quantity.
- D) a decrease in price and an increase in quantity.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 48) The economy is undergoing a recession that has reduced consumers' incomes. In the computer chip market, this will lead to

- A) an increase in price and a decrease in quantity.
- B) an increase in price and an increase in quantity.
- C) a decrease in price and a decrease in quantity.
- D) a decrease in price and an increase in quantity.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Chocolate has just been found to increase your expected life span by 5 years if you eat it every day. In the market for chocolate, this information will lead to
- A) an increase in price and a decrease in quantity.
 - B) an increase in price and an increase in quantity.
 - C) a decrease in price and a decrease in quantity.
 - D) a decrease in price and an increase in quantity.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 50) Goods X and Y are complementary goods. An increase in the price of good X has occurred. In the market for good Y this will lead to
- A) an increase in price and a decrease in quantity.
 - B) an increase in price and an increase in quantity.
 - C) a decrease in price and a decrease in quantity.
 - D) a decrease in price and an increase in quantity.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 51) Goods X and Y are complementary goods. A decrease in price of good X has occurred. In the market for good Y, this will lead to
- A) an increase in price and a decrease in quantity.
 - B) an increase in price and an increase in quantity.
 - C) a decrease in price and a decrease in quantity.
 - D) a decrease in price and an increase in quantity.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 52) An increase in supply causes
- A) quantity supplied to decrease.
 - B) supply and price to increase.
 - C) price to decrease.
 - D) price to increase.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 53) A severe drought has devastated cocoa plants, causing an increase in the price of chocolate. In the market for chocolate chip cookies,
- A) a surplus will arise.
 - B) supply has decreased and price has increased.
 - C) quantity has decreased and price has decreased.
 - D) quantity demanded has increased.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 54) More farmers have recently entered the corn industry. In addition there has been a technological advancement in the fertilizer industry providing corn farmers with a cheaper and a more effective fertilizer. In the market for corn, the effects these changes will have on the equilibrium price and quantity are:
- A) price will increase, and quantity will decrease.
 - B) price will increase, and the effect on quantity is indeterminate.
 - C) price will decrease, and quantity will increase.
 - D) price will decrease, and the effect on quantity is indeterminate.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 55) In the automobile industry, workers have just negotiated a new contract giving workers a large raise. There has also been an increase in the number of licensed drivers who are in the market for a new car. In the market for new automobiles, the effects that these changes will have on the equilibrium price and quantity are:
- A) price will increase, and quantity will decrease.
 - B) price will increase, and the effect on quantity is indeterminate.
 - C) price will decrease, and quantity will increase.
 - D) price will decrease, and the effect on quantity is indeterminate.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 56) There has recently been an increase in the price of dairy products used in the production of ice cream. High temperatures have also induced people to consume more ice cream. In the market for ice cream, the effects these changes will have on equilibrium price and quantity are:

- A) price will increase, and quantity will decrease.
- B) price will increase, and the effect on quantity is indeterminate.
- C) price will decrease, and quantity will increase.
- D) price will decrease, and the effect on quantity is indeterminate.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 57) Following adjustments to a new equilibrium in a market, the equilibrium quantity remains unchanged, but the market clearing price is now lower. Which of the following could definitely have caused this outcome?

- A) Demand and supply both increased.
- B) Demand and supply both decreased.
- C) Demand increased, and supply decreased.
- D) Demand decreased, and supply increased.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 58) An increase in demand and a decrease in supply will lead to an

- A) unambiguous increases in both price and quantity.
- B) unambiguous decreases in both price and quantity.
- C) an unambiguous increase in quantity, but the effect on price is indeterminate.
- D) an unambiguous increase in price, but the effect on quantity is indeterminate.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 59) An increase in demand and an increase in supply will lead to

- A) unambiguous increases in both price and quantity.
- B) unambiguous decreases in both price and quantity.
- C) an unambiguous increase in quantity, but the effect on price is indeterminate.
- D) an unambiguous increase in price, but the effect on quantity is indeterminate.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 60) A decrease in demand and a decrease in supply will lead to
- A) unambiguous increases in both price and quantity.
 - B) unambiguous decreases in both price and quantity.
 - C) an unambiguous decrease in price, but the effect on quantity is indeterminate.
 - D) an unambiguous decrease in quantity, but the effect on price is indeterminate.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 61) A decrease in demand and an increase in supply will lead to
- A) unambiguous increases in both price and quantity.
 - B) unambiguous decreases in both price and quantity.
 - C) an unambiguous decrease in price, but the effect on quantity is indeterminate.
 - D) an unambiguous decrease in quantity, but the effect on price is indeterminate.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Following adjustments to a new equilibrium in a market, the market clearing price remains unchanged, but the equilibrium quantity is now lower. Which of the following could definitely have caused this outcome?
- A) Demand and supply both increased.
 - B) Demand and supply both decreased.
 - C) Demand increased, and supply decreased.
 - D) Demand decreased, and supply increased.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 63) The income of consumers increases. and the wage rate in the DVD industry increases. As a result,
- A) the price of DVDs stays the same and the quantity sold can either increase or decrease, depending on whether the change in demand is greater than the change in supply.
 - B) the price of DVDs increases and the quantity sold can either increase, decrease or stay the same depending on whether the change in demand was greater than the change in supply.
 - C) the equilibrium quantity sold increases and price can either increase or decrease, depending on whether the change in demand is greater than the change in supply.
 - D) the equilibrium quantity sold can either increase or decrease and the price can either increase or decrease, depending on whether the change in demand was greater than the change in supply.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 64) The supply of eggs comes from chickens. The price of eggs will decrease if
- A) the supply of chickens decreases.
 - B) the supply of eggs decreases.
 - C) the price of chickens increases.
 - D) the demand for eggs decreases.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 65) The more flexible prices are, the
- A) greater demand shifts have to be to bring about a new equilibrium.
 - B) larger the shifts in supply will be after a change in demand.
 - C) greater the reliance by sellers to change the nominal price.
 - D) more quickly a shock to the economy can be absorbed.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 66) Suppose a hurricane causes a great deal of destruction in Florida. After the hurricane, it takes much longer than usual for the reconstruction to take place. A possible explanation for this is
- A) greed by suppliers of construction materials increased.
 - B) government prevented price gouging during the reconstruction period.
 - C) prices of construction materials fell in the Midwest.
 - D) environmental restrictions on lumbering in the Pacific Northwest were relaxed.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 67) For which situation would we expect the adjustment speed to be the fastest?
- A) The demand for surgeons increases.
 - B) A large increase in birth rates leads to an increase in elementary school teachers.
 - C) The demand for movie videos increases.
 - D) The demand for office space in downtown Chicago increases.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 68) What will happen when there is a rightward shift in the demand curve?
- A) The product price will instantaneously adjust downward.
 - B) Product prices do not change in this situation.
 - C) Producers will decrease the product price.
 - D) A new, higher price is not instantaneously achieved, but the price will rise over time.

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 69) During the Winter Olympics in Vancouver, some residents rented rooms to visitors. This behavior
- A) helped reduce the shortage of hotel rooms caused by the high demand during the Olympics.
 - B) reduced the demand for tickets to the Olympics since many local residents left town while they rented out space in their homes.
 - C) hurt the hotel market in Vancouver in the long run because new hotels that should have been built were not built for the Olympics.
 - D) raised the demand for hotel rooms in Vancouver and should have been prevented by the city of Vancouver.

Answer: A

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 70) List prices on new cars do not change very often, so
- A) the real price of cars is very inflexible.
 - B) the prices of new cars can only be flexible if there are changes in the cost of materials.
 - C) price flexibility is not an important feature in the auto market.
 - D) price flexibility shows up primarily through the negotiations between buyers and sellers.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 71) After an increase in the demand for construction workers, the market will attain its new long-run equilibrium faster if
- A) wages are flexible.
 - B) wages are inflexible, forcing new people to enter the market.
 - C) unions restrict the number of new construction workers.
 - D) people ignore the shortage in the short run.

Answer: A

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 72) To enhance their prestige, some country clubs like to point to the fact that they have a waiting list for new members. Even at clubs with high initiation fees, it is common that prospective members have to wait three or more years before there is room for them on the membership rolls. How do these country clubs set the price of membership to ensure that they have a waiting list?
- A) Set the membership price above the market clearing price.
 - B) Set the membership price below the market clearing price.
 - C) Set the price so that the quantity supplied of memberships exceeds the quantity demanded.
 - D) Set the price at a level that will generate a surplus of memberships.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 73) Suppose new research shows that soy milk and other products derived from soybeans provide more health benefits than previously thought. At the same time, drought conditions result in extensive damage to the soybean crop. What will be the combined impact of these two factors on the equilibrium price and quantity of soybeans?
- A) Price will decrease, but the effect on quantity is indeterminate.
 - B) Price will increase, but the effect on quantity is indeterminate.
 - C) Quantity will decrease, but the effect on price is indeterminate.
 - D) Quantity will increase, but the effect on price is indeterminate.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 74) Suppose that an early frost damages the Florida orange crop. As a result, the price of California oranges increases. *Ceteris paribus*, which one of the following statements best explains this situation?
- A) The supply of Florida oranges decreased, causing the supply of California oranges to increase, which resulted in a higher price.
 - B) The supply of Florida oranges decreased, causing the supply of California oranges to decrease, which resulted in a higher price.
 - C) The supply of Florida oranges decreased, causing their price to increase, and thus causing the demand for California oranges to increase.
 - D) The demand for Florida oranges fell because of the freeze, and this led to a higher demand for California oranges.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 75) A newspaper headline asserts: "Rising Demand Pushes Up Housing Prices." This headline
- A) incorrectly implies that the demand for housing can change, whereas in fact only the quantity of housing demanded can change.
 - B) incorrectly implies that the price of housing will rise when demand increases.
 - C) incorrectly implies that more housing will be demanded at higher prices.
 - D) correctly implies that an increase in demand will increase the market clearing price.

Answer: D

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 76) Suppose you observe that the price of a good increases and that the quantity of this good sold also increases. If only the demand curve or the supply curve shifts this suggests that
- A) supply increased over time while demand remained the same.
 - B) supply decreased over time while demand remained the same.
 - C) demand increased over time while supply remained the same.
 - D) demand decreased over time while supply remained the same.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 77) People consume more fresh fruit in the summer than during the rest of the year, yet the prices of fresh fruit are lower in the summer than in other seasons. What accounts for this?
- A) Fresh fruit is not subject to the law of supply.
 - B) The supply of fresh fruit increases in the summer.
 - C) Fresh fruit is an inferior good.
 - D) Fresh fruit is not subject to the law of demand.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 78) Suppose you observe that the price of movie admissions decline and that the number of people attending movies declines as well. If only the demand curve or the supply curve shifts, this suggests that
- A) movies are a normal good and incomes have increased.
 - B) high salaries for Hollywood actors have increased the cost of movie making.
 - C) movie theaters have experienced an increase in their operating costs due to increases in the minimum wage.
 - D) admission prices for other types of entertainment, such as live shows and sporting events, have also declined.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 79) Roses are more expensive on Valentine's Day than at other times of the year, yet sales of roses are highest on that day. How does economic theory account for this?
- A) An increase in demand pushes up the market clearing price of roses.
 - B) People buying the roses are irrational.
 - C) Roses are not subject to the law of demand.
 - D) Florists know that there are no substitutes for roses, so they take advantage of consumers on Valentine's Day.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 80) In which of the following situations will both market clearing price and the equilibrium quantity increase?
- A) an increase in demand with no change in supply
 - B) an increase in supply with no change in demand
 - C) a decrease in supply with no change in demand
 - D) a decrease in demand with no change in supply

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 81) In which of the following situations will both market clearing price and the equilibrium quantity decrease?
- A) an increase in demand and no change in supply
 - B) an increase in supply with no change in demand
 - C) a decrease in supply with no change in demand
 - D) a decrease in demand with no change in supply

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 82) In which of the following situations will market clearing price increase and the equilibrium quantity decrease?
- A) an increase in demand with no change in supply
 - B) an increase in supply with no change in demand
 - C) a decrease in supply with no change in demand
 - D) a decrease in demand with no change in supply

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

83) In which of the following situations will market clearing price decrease and the equilibrium quantity increase?

- A) an increase in demand with no change in supply
- B) an increase in supply with no change in demand
- C) a decrease in supply with no change in demand
- D) a decrease in demand with no change in supply

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

84) If demand and supply both increase,

- A) the equilibrium quantity definitely will increase and market clearing price definitely will decrease.
- B) the equilibrium quantity definitely will increase and market clearing price definitely will increase.
- C) the equilibrium quantity definitely will increase but the change in market clearing price cannot be determined without more information.
- D) market clearing price definitely will increase but the change in the equilibrium quantity cannot be determined without further information.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

85) If demand and supply both decrease,

- A) the equilibrium quantity definitely will decrease, and the market clearing price definitely will decrease.
- B) the equilibrium quantity definitely will decrease, and the market clearing price definitely will increase.
- C) the market clearing price definitely will decrease, but the change in the equilibrium quantity cannot be determined without more information.
- D) the equilibrium quantity definitely will decrease, but the change in market clearing price cannot be determined without more information.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 86) If demand increases and supply decreases,
- A) the market clearing price definitely will increase, and the equilibrium quantity definitely will increase.
 - B) the market clearing price definitely will increase, and the equilibrium quantity definitely will decrease.
 - C) the market clearing price definitely will increase, but the change in the equilibrium quantity cannot be determined without more information.
 - D) the equilibrium quantity definitely will decrease, but the change in the market clearing price cannot be determined without more information.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 87) If demand decreases and supply increases,
- A) the market clearing price will decrease, and the equilibrium quantity will increase.
 - B) the market clearing price will decrease, and equilibrium quantity will decrease.
 - C) the equilibrium quantity will decrease, but the change in the market clearing price cannot be determined without more information.
 - D) the equilibrium price will decrease, but the change in the equilibrium quantity cannot be determined without more information.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 88) Suppose that the supply curve remains unchanged. If the demand curve shifts to the right,
- A) the market clearing price definitely will decrease.
 - B) the market clearing price definitely will increase.
 - C) there will be no change in the market clearing price.
 - D) the market will collapse.

Answer: B

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 89) If supply increases and demand decreases,
- A) the market clearing price definitely rises, and the equilibrium quantity definitely falls.
 - B) the market clearing price definitely rises, and the effect on the equilibrium quantity is indeterminate.
 - C) the market clearing price definitely falls, and the effect on the equilibrium quantity is indeterminate.
 - D) the effect on the market clearing price is indeterminate, and the equilibrium quantity definitely falls.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 90) If both supply and demand simultaneously decrease,
- A) the market clearing price definitely rises, and the equilibrium quantity definitely falls.
 - B) the market clearing price definitely rises, and the effect on the equilibrium quantity is indeterminate.
 - C) the market clearing price definitely falls, and the effect on the equilibrium quantity is indeterminate.
 - D) the effect on the market clearing price is indeterminate, and the equilibrium quantity definitely falls.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 91) If supply and demand both simultaneously increase,
- A) the market clearing price definitely rises, and the equilibrium quantity definitely falls.
 - B) the market clearing price definitely rises, and the effect on the equilibrium quantity is indeterminate.
 - C) the market clearing price definitely falls, and the effect on the equilibrium quantity is indeterminate.
 - D) the effect on the market clearing price is indeterminate, and the equilibrium quantity definitely rises.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 92) We cannot predict the effect on the market clearing price, but know that the equilibrium quantity will increase when
- A) supply increases and demand decreases.
 - B) supply and demand for a product simultaneously decrease.
 - C) supply and demand for a product simultaneously increase.
 - D) supply decreases and demand increases.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 93) We cannot predict the effect on the market clearing price, but know that the equilibrium quantity will decrease when
- A) supply increases and demand decreases
 - B) supply decreases and demand increases.
 - C) supply and demand for a product simultaneously decrease.
 - D) supply and demand for a product simultaneously increase.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 94) We cannot predict the effect on the equilibrium quantity, but know that the market clearing price will decrease when
- A) supply increases and demand decreases.
 - B) supply decreases and demand increases.
 - C) supply decreases and at the same time demand increases.
 - D) supply increases and at the same time demand decreases.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 95) We cannot predict the effect on the equilibrium quantity, but know that the market clearing price will increase when
- A) supply decreases and at the same time demand increases.
 - B) supply increases and demand increases simultaneously.
 - C) supply and demand decreases simultaneously.
 - D) supply and demand increases simultaneously.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 96) If supply decreases and demand increases,
- A) the market clearing price definitely rises, and the equilibrium quantity falls.
 - B) the market clearing price definitely rises, and the equilibrium quantity is indeterminate.
 - C) the market clearing price definitely falls, and the effect on the equilibrium quantity is indeterminate.
 - D) the effect on the market clearing price is indeterminate, and the equilibrium quantity definitely falls.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 97) If both the demand curve and the supply curve shift to the right, we can unambiguously conclude that the
- A) market clearing price will increase.
 - B) market clearing price will decrease.
 - C) equilibrium quantity will increase.
 - D) equilibrium quantity will decrease.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 98) Which one of the following could account for an increase in the market clearing price of iPads?
- A) a decrease in demand for iPads
 - B) an increase in supply of iPads
 - C) an increase in supply along with a decrease in demand
 - D) an increase in demand along with a decrease in supply

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Revised

- 99) In September 2005, destruction to U.S. gasoline refineries was caused by back-to-back storms along the U.S. Gulf Coast—Hurricane Katrina and Hurricane Rita. In one week, the average price of a gallon of gasoline in the United States increased by about 40 cents. Which of the following best explains why these events pushed up the price of gasoline?
- A) The demand curve for gasoline shifted to the left along the supply curve for gasoline.
 - B) The supply curve for gasoline shifted to the left along the demand curve for gasoline.
 - C) The demand curve for gasoline shifted to the right along the supply curve for gasoline.
 - D) The supply curve for gasoline shifted to the right along the demand curve for gasoline.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 100) In 2010, a British Petroleum oil rig exploded in the Gulf of Mexico. The explosion resulted in a major oil spill and a decrease in the supply of oil. At the same time, the average price of gasoline decreased. Which of the following best explains the decrease in the price of gasoline?
- A) The quantity demanded of gasoline increased.
 - B) The demand for gasoline decreased, and the effect of the decrease in demand on the gasoline price was greater than the price effect of the decrease in supply.
 - C) The demand for gasoline increased, and the effect of the increase in demand on the gasoline price was less than the price effect of the decrease in supply.
 - D) The demand for gasoline remained unchanged.

Answer: B

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: New

- 101) The market for gasoline in May is in equilibrium, at a market clearing price of \$4.50 per gallon. After Memorial Day, the demand curve for gasoline increases, which causes
- A) the demand curve for gasoline to shift to the right, creating a shortage at \$4.50 per gallon which causes the market clearing price of gasoline to rise.
 - B) the demand curve for gasoline to shift to the right, creating a shortage at \$4.50 per gallon which causes the market clearing price of gasoline to fall.
 - C) the demand curve for gasoline to shift to the left, creating a shortage at \$4.50 per gallon which causes the market clearing price of gasoline to rise.
 - D) the demand curve for gasoline to shift to the left, creating a shortage at \$4.50 per gallon which causes the market clearing price of gasoline to fall.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 102) Suppose the price of crude oil used to produce gasoline rises significantly. At the same time, consumers purchase hybrid cars in great numbers. In the market for gasoline, demand shifts to the _____ and supply shifts to the _____.
A) left, left B) left, right C) right, left D) right, right

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 103) Suppose the price of crude oil used to produce gasoline rises significantly. At the same time, consumers purchase hybrid cars in great numbers. In the market for gasoline, the market clearing price _____ and the equilibrium quantity _____.

A) definitely falls, is indeterminate B) is indeterminate, definitely falls
C) definitely falls, definitely rises D) definitely rises, is indeterminate

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 104) Economists assume that when there is a change in supply and/or demand, the market clearing price returns to the equilibrium

A) quickly. B) slowly.
C) after a protracted negotiation process. D) after an adjustment period.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 105) When the supply and/or demand curve shift, the new market clearing price is

A) reached instantaneously.
B) reached only after the government intervenes in the market.
C) reached after some period of adjustment.
D) never reached.

Answer: C

Diff: 1

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 106) Suppose the price of lumber decreases. In the market for new homes, we would expect which of the following to occur?

A) the market clearing price will fall and the equilibrium quantity will rise.
B) the market clearing price will rise and the equilibrium quantity will fall.
C) both the market clearing price and the equilibrium quantity will fall.
D) both the market clearing price and the equilibrium quantity will rise.

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 107) If the demand for a product remains the same and the supply falls,
- A) the market clearing price will fall and the equilibrium quantity will rise.
 - B) the market clearing price will rise and the equilibrium quantity will fall.
 - C) both the market clearing price and the equilibrium quantity will fall.
 - D) both the market clearing price and the equilibrium quantity will rise.

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 108) If one day it was discovered that lime juice caused cancer, which of the following would likely result?
- A) The supply curve for lime juice would shift to the right.
 - B) The supply curve for lime juice would shift to the left.
 - C) The demand curve for lime juice would shift to the right.
 - D) The demand curve for lime juice would shift to the left.

Answer: D

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 109) If the demand for a product rises and the supply stays the same
- A) the market clearing price will fall and the equilibrium quantity will rise.
 - B) the market clearing price will rise and the equilibrium quantity will fall.
 - C) both the market clearing price and the equilibrium quantity will fall.
 - D) both the market clearing price and the equilibrium quantity will rise.

Answer: D

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 110) If the demand for a product falls and the supply stays the same,
- A) the market clearing price will fall and the equilibrium quantity will rise.
 - B) the market clearing price will rise and the equilibrium quantity will fall.
 - C) both the market clearing price and the equilibrium quantity will fall.
 - D) both the market clearing price and the equilibrium quantity will rise.

Answer: C

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

111) If both buyers and sellers expect the price of a commodity to rise in the future, it is likely that the market clearing price _____ and the equilibrium quantity _____.

- A) will fall, cannot be predicted
- B) will rise, cannot be predicted
- C) cannot be predicted, will fall
- D) cannot be predicted, will rise

Answer: B

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

112) If both buyers and sellers expect the price of a commodity to fall in the future, it is likely that the market clearing price _____ and the equilibrium quantity _____.

- A) will fall, cannot be predicted
- B) will rise, cannot be predicted
- C) cannot be predicted, will fall
- D) cannot be predicted, will rise

Answer: A

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

113) When supply and demand for a product increase simultaneously, we

- A) can predict that both the market clearing price and the equilibrium quantity will increase.
- B) can predict that both the market clearing price and the equilibrium quantity will decrease.
- C) cannot predict the market clearing price, but know that the equilibrium quantity will increase.
- D) cannot predict the change in either the equilibrium quantity or the market clearing price.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

114) When supply and demand for a product decrease simultaneously, we

- A) can predict that both equilibrium price and quantity will increase.
- B) can predict that both equilibrium price and quantity will decrease.
- C) cannot predict equilibrium price, but know that equilibrium quantity will decrease.
- D) cannot predict the change in either the equilibrium quantity or equilibrium price.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 115) When supply increases and at the same time demand decreases, we
- A) can predict that both equilibrium price and quantity will increase.
 - B) can predict that both equilibrium price and quantity will decrease.
 - C) cannot predict equilibrium quantity, but know that equilibrium price will decrease.
 - D) cannot predict the change in either the equilibrium quantity or equilibrium price.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 116) Suppose there is a simultaneous increase in demand and increase in supply. Given this information, we know with certainty that
- A) both the equilibrium price and the equilibrium quantity will increase.
 - B) the equilibrium price will increase, and the equilibrium quantity will increase.
 - C) the equilibrium quantity will increase.
 - D) the equilibrium price will increase.

Answer: C

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 117) If producers must receive a higher price to be induced to produce any quantity, we can conclude that
- A) supply decreased.
 - B) demand decreased.
 - C) both supply and demand increased.
 - D) demand increased.

Answer: A

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 118) In the market for domestic avocados, what would happen to the market clearing price and the equilibrium quantity if there was a drought in avocado growing areas?
- A) The market clearing price would rise, and the equilibrium quantity would rise.
 - B) The market clearing price would fall, and the equilibrium quantity would rise.
 - C) The market clearing price would rise, and the equilibrium quantity would fall.
 - D) The market clearing price would fall, and the equilibrium quantity would fall.

Answer: C

Diff: 2

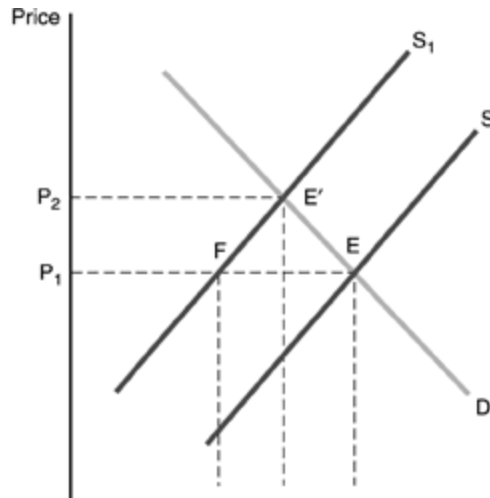
Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 119) Using a graph, show a market equilibrium. Suppose the costs of inputs increase. How is this shown on the graph? Explain what is happening in the market.

Answer:



In the graph, the original equilibrium is at E, where the demand curve and the supply curve intersect. Price is P_1 and quantity is Q_1 . The increase in costs of inputs causes the supply to decrease, shown by a shift of the supply curve to the left (S_1). At price P_1 , there is an excess quantity demanded equal to $Q_1 - Q_3$. Price rises to P_2 , causing quantity demanded to decrease until the new equilibrium at E is reached. The new price is P_2 and the new quantity is Q_2 .

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 120) Suppose that the market for coffee is in equilibrium at a price of \$1.50 per pound and a monthly quantity of 20 million pounds. News of a freeze in Brazil arrives so that people know that the supply of coffee months from now will be sharply reduced. What, if anything, will happen in the coffee market now? Explain.

Answer: The expectations of reduced supplies and higher prices in the future will cause current demand to increase and the market clearing price to rise.

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 121) Suppose that initially a market is in equilibrium at a price of \$10 and a quantity of 5000 units per day. Several months later, the market is in a new equilibrium at a price of \$5 and a quantity of 5000 units per day. What happened in the market?

Answer: For price to fall, either demand had to decrease or supply had to increase, or both. If demand decreased while supply remained constant, the quantity would have decreased too, and if supply increased while demand remained constant, the quantity sold would have increased. Therefore, both demand decreased and supply increased in such a way that the quantity did not change.

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 122) Describe the market process that should occur if the price of a product is below its equilibrium price; now describe what would occur if the price is above its equilibrium price, assuming no market interference.

Answer: If price is below its equilibrium price, quantity demanded will be greater than quantity supplied; as a consequence the market price will rise due to competition among buyers. If, however, the expected price increase occurs, quantity supplied will rise and quantity demanded will decrease. In either case, the adjustment will continue until both quantity supplied and demanded are equal at the equilibrium point.

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 123) Would it take longer for a labor market to move to a new equilibrium for house painters or architects? Why?

Answer: It would take longer for the market for architects to move to a new equilibrium, other things being equal. It takes more time in training to become an architect, and the knowledge one has is more specialized. Hence, it would take longer for the increase in quantity supplied to reach a new equilibrium after an increase in demand for architects than for house painters. For a decrease in demand, house painters can find similar jobs at similar pay more easily than can an architect.

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 124) Assume that CDs are a normal good and that the price of stereo equipment falls while the labor costs of producing CDs increase. What will happen in the market for CDs?

Answer: Since stereo equipment is a complementary good to CDs, a decrease in the price of stereo equipment causes the demand for CDs to increase. The increase in labor costs causes the supply of CDs to decrease. The price of CDs will increase, but the quantity sold in the market could increase, decrease, or remain the same. The quantity effect depends on how much demand increased relative to how much supply decreased.

Diff: 3

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

- 125) Suppose local educators argue that teachers' salaries are too low. At the same time it is said that the school district received 750 applications for 5 new openings. Are salaries too low? Explain.

Answer: It is difficult to claim salaries are too low when there are so many teachers who desire to work in the district. The number of applicants suggests that salaries are above the equilibrium wage rather than below the equilibrium wage.

Diff: 2

Topic: 4.2 Changes in Demand and Supply

AACSB: Analytic skills

Question Status: Previous Edition

4.3 The Rationing Function of Prices

- 1) In economic terms, the total price of a pound of meat for an individual who has waited in line is
- A) the money price paid to the butcher for the pound of meat.
 - B) the money price of meat relative to the price of bread or other necessity.
 - C) the money price of the meat plus the opportunity cost of time spent waiting in line.
 - D) the money price of an equal amount of meat substitute, such as beans and rice.

Answer: C

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 2) According to the text, during World War II rationing was conducted in the U.S. through the use of
- A) queuing.
 - B) lotteries.
 - C) coupons.
 - D) sharing.

Answer: C

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 3) In a market, the rationing function of prices results in
- A) long queues or waiting lines.
 - B) a price ceiling.
 - C) equilibrium.
 - D) a shortage or surplus.

Answer: C

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: New

- 4) Queuing is a way to ration goods
- A) on a first-come, first-serve basis.
 - B) through prices.
 - C) through the use of political power.
 - D) through markets.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

5) Which of the following statements about a price system is true?

I. Prices ration goods and services.

II. Prices indicate relative scarcity.

A) I only

B) II only

C) Both I and II

D) Neither I nor II

Answer: C

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

6) Ways to ration goods include

A) first-come, first-served.

B) political power.

C) prices.

D) all of the above.

Answer: D

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

7) A long line at the campus bookstore at the beginning of the term is an example of

A) price rationing.

B) an ineffective price ceiling.

C) a non-price rationing device.

D) an ineffective price floor.

Answer: C

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

8) Other things being equal, a higher price induces

A) buyers to reduce the amount they want to buy and sellers to increase the amount they are willing to sell.

B) buyers to increase the amount they want to buy and sellers to reduce the amount they are willing to sell.

C) buyers to reduce the amount they want to buy and sellers to reduce the amount they are willing to sell.

D) buyers to increase the amount they want to buy and sellers to increase the amount they are willing to sell.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Prices in a market economy perform a rationing function because they reflect
- A) the demand of all buyers in the market.
 - B) the extent to which the goods are necessities.
 - C) the strength of the supply curve.
 - D) the relative scarcity of the goods.

Answer: D

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 10) When a government imposes price controls, the result is that
- A) the rationing function of prices is not allowed to function freely.
 - B) the price system operates more efficiently.
 - C) all trades are as mutually beneficial to each party as possible.
 - D) scarcity usually disappears.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 11) In a world of scarcity, there has to be some way to ration the available resources. According to economists, the most efficient use of available resources occurs when rationing occurs via
- A) queuing.
 - B) lotteries.
 - C) political power.
 - D) the price system.

Answer: D

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Which of the following will tend to occur when a surplus exists in a market?
- A) supply will increase and demand will decrease until the surplus disappears.
 - B) supply will decrease and demand will increase until the surplus disappears.
 - C) the price will tend to rise over time.
 - D) the price will tend to decrease over time.

Answer: D

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Relative scarcities are indicated by
- A) supply and demand being out of equilibrium.
 - B) surpluses.
 - C) excess demand and excess supply.
 - D) relative prices.

Answer: D

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Revised

- 14) The rationing function of prices refers to
- A) the situation when government must intervene in a market when there is a large shortage or surplus.
 - B) the synchronization of decisions by buyers and sellers that leads to an equilibrium.
 - C) the synchronization of decisions by buyers and sellers through the direction of government agencies.
 - D) the situation when only the rich get the goods they want.

Answer: B

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 15) All other factors being constant, a reduction in price tends to cause which of the following?
- A) an increase in supply and an increase in demand.
 - B) a reduction in supply and an increase in demand.
 - C) an increase in quantity supplied and a reduction in quantity demanded.
 - D) a reduction in quantity supplied and an increase in quantity demanded.

Answer: D

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Prices provide the rationing function best when
- A) prices are flexible.
 - B) prices are inflexible.
 - C) they are used in conjunction with queuing.
 - D) price controls are in place and ration coupons are used too.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 17) When prices are used as a rationing device, goods that are relatively more scarce than they used to be will have
- A) greater demand.
 - B) lower excess demands.
 - C) higher prices.
 - D) long queues.

Answer: C

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following statements is NOT true about the rationing of goods?
- A) Goods can only be rationed by price.
 - B) Goods can be rationed on a first come first serve basis.
 - C) Goods can be rationed by random.
 - D) Goods can be rationed by the use of coupons.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Prices ration goods to
- A) the people who most deserve it.
 - B) the people with the lowest opportunity cost of time.
 - C) the people willing and able to pay the highest price.
 - D) the richest people.

Answer: C

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

- 20) In a freely operating market system, queuing is most likely to occur when
- A) selling necessities.
 - B) the market clearing price increases.
 - C) demand fluctuates unpredictably and quickly.
 - D) demand increases gradually over time.

Answer: C

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

21) In situations in which prices cannot be used to signal relative scarcities of goods, which of the following can serve as a rationing mechanism?

- A) queuing
- B) political power
- C) random assignment
- D) all of the above

Answer: D

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

22) Rationing through the price system

- A) leads to an inefficient use of available resources.
- B) leads to high prices.
- C) works only with government interference.
- D) leads to an efficient use of available resources.

Answer: D

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

23) Rationing of resources, goods, and services

- A) is not required under the price system.
- B) is required because of scarcity.
- C) must be done by the government.
- D) happens only when the price is zero.

Answer: B

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

24) Rationing occurs for goods

- A) that have a positive price.
- B) that have a zero price.
- C) that have a negative price.
- D) that are not manufactured.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Revised

25) Rationing goods on the basis of price is a direct result of

- A) scarcity.
- B) queuing.
- C) government intervention.
- D) the profit motive.

Answer: A

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

26) What would happen in the market for bread if its demand increased but the price was NOT allowed to change?

- A) There would be a surplus of bread.
- B) There would be a shortage of bread.
- C) The supply of bread would increase.
- D) The supply of bread would decrease.

Answer: B

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Revised

27) Why does a sports car cost more than a mountain bike?

- A) because sports car manufacturers are greedier than mountain bike manufacturers
- B) because sports cars are priced higher in order to make them attractive as status symbols
- C) because more scarce resources are required to produce a sports car than to produce a mountain bike
- D) because mountain bike manufacturers know that their customers have relatively low incomes

Answer: C

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

28) Why does an economy need a rationing mechanism?

- A) because of scarcity
- B) because it preserves the power of the wealthy
- C) because it eliminates poverty
- D) All of the above are correct.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

29) Prices play a role in a market

- A) because they distribute scarce goods to those consumers who value them most highly.
- B) because when prices are in equilibrium, product shortages or surpluses can occur.
- C) because they help eliminate poverty.
- D) because they eliminate scarcity.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

30) Which of the following statement is false?

- A) Only the price system can be used to ration goods.
- B) Random assignment can be a method of rationing.
- C) Coupons can be used to ration goods.
- D) Queuing can be used for rationing.

Answer: A

Diff: 1

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

31) Which one of the following statements is true?

- A) An effective price ceiling results in a surplus of the good.
- B) An effective price floor results in a shortage of the good.
- C) When the market clearing price of a good is the equilibrium, then everyone can afford it.
- D) The market clearing price of a good reflects its relative scarcity.

Answer: D

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

32) All of the following are methods of rationing goods EXCEPT

- A) political power.
- B) the profit motive.
- C) first come, first served.
- D) prices.

Answer: B

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

33) Because of scarcity, rationing is

- A) unimportant because people get what they want.
- B) necessary because people cannot get everything they want.
- C) unimportant because prices clear markets.
- D) not a problem because governments can determine what everybody wants.

Answer: B

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

34) Which of the following are ways to ration goods and services?

- A) price
- B) physical force
- C) political power
- D) All of the above are correct.

Answer: D

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

35) The price rationing mechanism of a freely functioning market leads to the most efficient use of resources because

- A) all gains from mutually beneficial trade are captured.
- B) the Federal Trade Commission regulates the market.
- C) of the rise of the legislative apparatus that supports trade.
- D) the Justice Department monitors market activities.

Answer: A

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Revised

36) Which rationing system leads to the most efficient use of available resources?

- A) free market
- B) physical force
- C) first come, first served
- D) random assignment

Answer: A

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: New

37) "Scarcity implies that some way of rationing goods must be found." Explain what this statement means. How is this rationing done?

Answer: Scarcity means that there are not enough goods and services to satisfy unlimited human wants. When more people want something than can have it, some way must be found to determine who gets the available units. This process is rationing. Rationing can be done by using prices to ration a good to those most willing and able to pay the highest price. First-come-first-served rations by queues, lotteries ration on the basis of chance, discrimination rations on the basis of racial, ethnic, or gender preferences, and so on.

Diff: 2

Topic: 4.3 The Rationing Function of Prices

AACSB: Analytic skills

Question Status: Previous Edition

4.4 The Policy of Government-Imposed Price Controls

1) Price floors are designed to

- A) establish a minimum allowable price.
- B) allow free market prices to be achieved.
- C) create shortages where none existed before.
- D) none of the above.

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 2) In order to be effective, a price floor
- A) must be set below equilibrium price.
 - B) must be set above equilibrium price.
 - C) must be set at equilibrium price.
 - D) must be a zero price.

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Revised

- 3) If the government sets a minimum price at which a good or service can be sold, it thereby creates
- A) a price ceiling.
 - B) a black market price.
 - C) a price floor.
 - D) an illegal price control.

Answer: C

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Price ceilings are adopted in most cases because
- A) the government views the current equilibrium price as too high for consumers.
 - B) the government wants to create surpluses.
 - C) the government favors a non-intervention policy.
 - D) producers need incentives to produce more of the good or service.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Which of the following statements is FALSE?
- A) The rationing function of prices is not allowed to freely operate when the government imposes price controls.
 - B) Price controls may take the form of price ceilings or price floors.
 - C) Price ceilings below the equilibrium price can cause black markets to develop.
 - D) Rent controls are examples of price floors.

Answer: D

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Price ceilings set below the equilibrium price cause
- A) shortages.
 - B) surpluses.
 - C) a new market equilibrium.
 - D) a greater number of exchanges.

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

7) Price floors

- A) provide free market incentives for producers.
- B) create surpluses by setting the price above equilibrium.
- C) create shortages by setting the price above equilibrium.
- D) are used by advocates of the free market.

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

8) A price floor set above a market equilibrium price causes

- A) a surplus.
- B) a shortage.
- C) producers to receive lower prices.
- D) consumers to pay lower prices.

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Revised

9) Governments may intervene in private markets through

- A) rationing by political power.
- B) price floors.
- C) price ceilings.
- D) all of the above.

Answer: D

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

10) Price controls may be thought of as

- A) a restraint on the rationing function of prices.
- B) useful tools that promote production.
- C) necessary in market economies.
- D) the freeing-up of free market forces.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Revised

11) If a price floor is set below the current market clearing price, then

- A) a surplus must immediately occur.
- B) a shortage must immediately occur.
- C) there will be incentives for black markets to develop.
- D) quantity demanded will remain equal to quantity supplied at the current market clearing price.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Excess quantity demanded may result from
- A) a government-imposed minimum price above market equilibrium.
 - B) a government-imposed maximum price below market equilibrium.
 - C) an oversupply of output.
 - D) technological progress.

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 13) If a price ceiling is set above the current market clearing price, then
- A) a surplus must immediately occur.
 - B) a shortage must immediately occur.
 - C) there will be incentives for black markets to develop.
 - D) quantity demanded will remain equal to quantity supplied at the current market clearing price.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 14) A price floor above the market clearing price typically results in
- I. an excess quantity supplied
 - II. a shortage
 - III. an excess quantity demand
- A) I only B) II only C) III only D) II and III only

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Which of the following is most likely to generate a surplus?
- A) A price floor B) A price ceiling
 - C) An illegal market D) All of these

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 16) A price ceiling is
- A) the lowest price a seller can charge for a good without losing all her customers.
 - B) a legal minimum price that can be charged for a particular good or service.
 - C) a legal maximum price that can be charged for a particular good or service.
 - D) the lowest price a buyer can pay for a good without having to report the purchase to the government.

Answer: C

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Assume that the market clearing price for a shirt is \$20, but that the maximum price that can be charged is \$15. This is an example of
- A) a price control that will lead to a surplus of shirts on the market.
 - B) a price floor that will lead to a shortage of shirts on the market.
 - C) markets failing to ration a fixed quantity of a good.
 - D) a price ceiling that will likely lead to a shortage of shirts on the market.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 18) A price floor that is set above market equilibrium will cause
- A) an excess quantity demanded.
 - B) a shortage.
 - C) a surplus.
 - D) queuing on the part of consumers.

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 19) A maximum legal price that may be charged for a particular good or service is known as a
- A) price floor.
 - B) price ceiling.
 - C) black market.
 - D) price support.

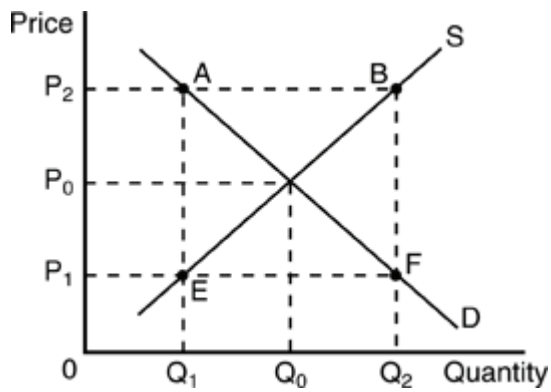
Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



20) Refer to the above figure. Other things being equal, when the government imposes a price floor at P_2 , then we would expect

- A) the quantity demanded is Q_2 .
- B) a surplus will occur.
- C) price to decline until an equilibrium is achieved at P_0 .
- D) consumers to bid against each other for goods and force the price even higher.

Answer: B

Diff: 1

Topic: 3.7 Putting Demand and Supply Together

AACSB: Analytic skills

Question Status: New

- Question Status: Revised

- 24) Refer to the above figure. If the government set a price floor of \$3.50 per gallon, there would be
- A) an excess quantity demanded equal to 100,000 gallons.
 - B) an excess quantity supplied equal to the distance BD.
 - C) an excess quantity supplied equal to the distance BF.
 - D) an excess quantity supplied equal to 100,000 gallons.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Government policies such as price controls, rent controls, and quantity restrictions have the effect of
- A) promoting the attainment of an unhindered market equilibrium.
 - B) allowing quantity demanded to adjust to equality with aggregate supply.
 - C) creating excess quantities demanded or excess quantities supplied.
 - D) pushing prices to market clearing levels more rapidly than private market forces.

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 26) In a situation in which rationing is by queues, the total price of the rationed good is
- A) equal to the funds paid for the good.
 - B) less than the funds paid for the good.
 - C) equal to the funds paid for the good plus the opportunity cost of the time spent waiting.
 - D) equal to the funds paid for the good less the opportunity cost of the time spent waiting.

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 27) When the government sets a maximum price that can be charged for a good or service, it creates
- A) a price support.
 - B) a price floor.
 - C) a white market.
 - D) a price ceiling.

Answer: D

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 28) A black market is a market in which
- A) goods are traded at prices above their legal maximum prices.
 - B) sales taxes are effectively doubled.
 - C) goods are sold at outlet prices.
 - D) sales take place exclusively at outlet prices.

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 29) If a price ceiling were established above the equilibrium price,
- A) it would have no effect on the quantity demanded.
 - B) it would create a shortage.
 - C) it would create a surplus.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A price ceiling below the market clearing price results in
- I. excess quantity demand
 - II. excess quantity supplied
 - III. entry of new producers
- A) I only B) II only C) III only D) Both I and III

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Which of the following is NOT a predictable result of a price ceiling set below the market clearing price?
- A) An illegal market in the good
 - B) Excess quantity supplied
 - C) Excess quantity demanded
 - D) Lines to purchase the product

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Price ceilings often generate
- A) market clearing prices.
 - B) rapid increases in supply to meet the excess demand.
 - C) equilibriums that utilize rationing by price.
 - D) black markets.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 33) An example of a black market is
- A) a retail market.
 - B) a discount market.
 - C) scalping.
 - D) barter.

Answer: C

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 34) An effective price ceiling usually generates
- A) fire sales as firms try to unload their excess inventories.
 - B) higher nominal prices.
 - C) the use of nonprice rationing devices.
 - D) happy sellers and dissatisfied buyers.

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 35) A market in which a price-controlled good is sold at an illegally high price is known as
- A) a flooring market.
 - B) a ceiling market.
 - C) a black market.
 - D) a supermarket.

Answer: C

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Which of the following statements is most accurate regarding who benefits and loses from establishment of a minimum wage above the market clearing wage?
- A) Individuals who obtain jobs benefit because they earn a higher wage, but some individuals lose because employers will not hire them at the minimum wage.
 - B) All workers benefit equally from the establishment of the minimum wage because just as many workers as before remain employed, and all earn the higher minimum wage.
 - C) All employers benefit equally from the establishment of the minimum wage because they are able to hire fewer workers at a lower wage.
 - D) All employers lose because they must pay the higher minimum wage to the same number of employees as they did before the minimum wage was established.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 37) A price floor set below the equilibrium price will cause which of the following?
- A) an increase in demand
 - B) a shortage
 - C) a surplus
 - D) none of the above

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 38) If the government imposed a price ceiling on gasoline above this good's current market clearing price, there would be
- A) a shortage of gasoline. at the ceiling price.
 - B) a surplus of gasoline at the ceiling price.
 - C) an increase in the price of gasoline.
 - D) no change in the price of gasoline.

Answer: D

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 39) A price ceiling set below the market clearing price will tend to cause which of the following?
- A) a surplus
 - B) a shortage
 - C) an increase in demand
 - D) a reduction in supply

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 40) A price ceiling set above the equilibrium price will cause which of the following?
- A) an increase in supply
 - B) a surplus
 - C) a shortage
 - D) no effect on either the price or quantity

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 41) A price ceiling is
- A) the lowest price a seller can charge without losing all of its customers.
 - B) a legal minimum price below which a good or service cannot be sold.
 - C) a legal price above which a good or service cannot be sold.
 - D) a nonprice rationing device.

Answer: C

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 42) Price controls
- A) exist when firms decide that they want to charge a higher price for their product.
 - B) exist when consumers boycott a product.
 - C) are government-mandated minimum or maximum prices that may be charged for goods.
 - D) are the benefit of discount stores like Sam's Club.

Answer: C

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 43) Nonprice rationing devices are required
- A) because the price system does not allocate resources efficiently.
 - B) when there are price floors but not when there are price ceilings.
 - C) so that prices will go back to equilibrium.
 - D) to allocate goods when there is a price ceiling.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 44) All of the following are examples of nonprice rationing devices EXCEPT
- A) price controls.
 - B) queues.
 - C) black markets.
 - D) waiting lists.

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 45) In the 1970s, the government placed price ceilings on gasoline prices. A shortage of gasoline occurred, and long lines formed at the pumps. Some gas stations required that in addition to paying the price on the pump you had to buy a blank will. The action of having to purchase the will in order to purchase gas is known as

A) a surplus. B) a price support.
C) the price system. D) a black market.

Answer: D

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Price controls often generate
- A) more efficient markets.
B) black markets.
C) rapid adjustment to market-clearing prices.
D) greater price flexibility.

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 47) An example of a black market is
- A) the market for high fashions. B) the hiring of undocumented workers.
C) a farmer's market. D) a discount market.

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 48) Suppose the market clearing price for gasoline is \$4.75 per gallon. Now suppose that policy makers pass a law requiring that the maximum price that can be charged is \$3.75 per gallon. Such a situation is an example of

A) a price control that will lead to a surplus of gasoline on the market.
B) a price floor that will lead to a shortage of gasoline on the market.
C) a price ceiling that will lead to a shortage of gasoline on the market.
D) a price floor that will lead to a surplus of gasoline on the market.

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Suppose the market clearing price is \$1.25 and the price ceiling is \$1.50. The price that prevails in the market will be

A) \$1.50. B) \$1.25.
C) less than \$1.25. D) more than \$1.50.

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 50) A price ceiling established below the market clearing price will usually cause

A) nonprice rationing. B) an excess supply.
C) no change in the market clearing price. D) a decrease in the market clearing price.

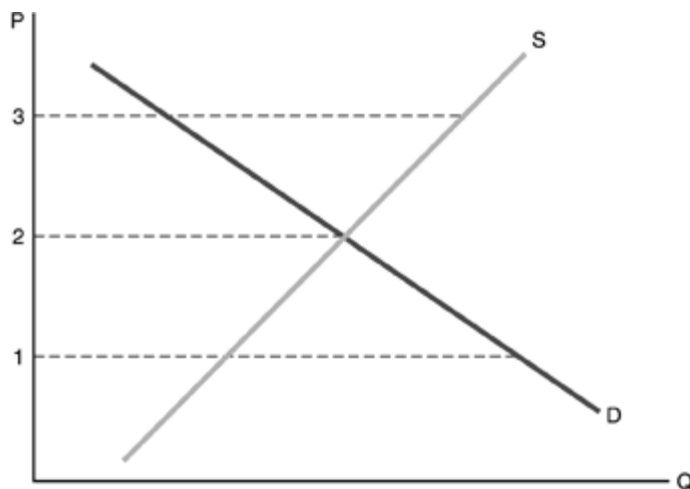
Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



- 51) In the above figure, a shortage could be caused by a government price ceiling set at

A) \$1.00. B) \$2.00. C) \$2.50. D) \$3.00.

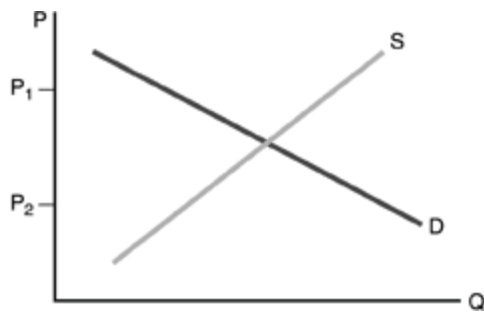
Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



- 52) Refer to the above figure. A price control has been set which has led to a shortage. This means that a
- | | |
|--|--|
| A) price ceiling has been set at P_1 . | B) price floor has been set at P_1 . |
| C) price ceiling has been set at P_2 . | D) price floor has been set at P_2 . |

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Refer to the above figure. A price control has been set which has led to a surplus. This means that a
- | | |
|--|--|
| A) price ceiling has been set at P_1 . | B) price floor has been set at P_1 . |
| C) price ceiling has been set at P_2 . | D) price floor has been set at P_2 . |

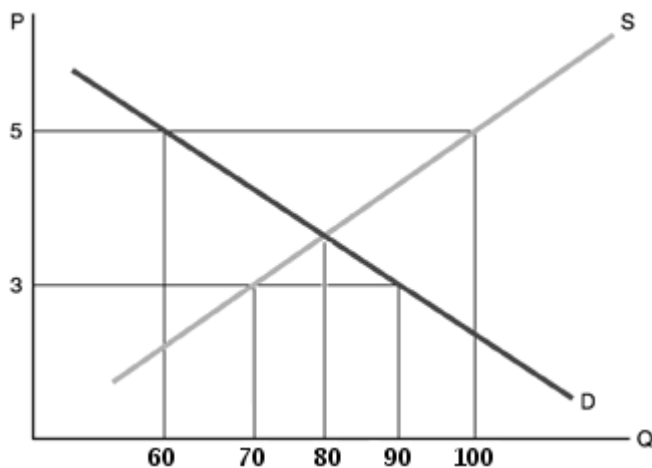
Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



- 54) Refer to the above figure. If a price ceiling of \$3 was set,
- A) the quantity sold would be 80 units.
 - B) there would be a surplus of 40 units.
 - C) there would be a shortage of 40 units.
 - D) there would be a shortage of 20 units.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Refer to the above figure. If a price floor of \$5 was set,
- A) the quantity sold would be 80 units.
 - B) the quantity sold would be 60 units.
 - C) the quantity demanded would be 100 units.
 - D) there would be a shortage of 20 units.

Answer: B

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 56) Refer to the above figure. If a price floor of \$5 was set,
- A) the quantity sold would be 80 units.
 - B) there would be a surplus of 40 units.
 - C) there would be a shortage of 40 units.
 - D) there would be a shortage of 20 units.

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

57) Refer to the above figure. If a price floor of \$3 was set,

- A) the quantity sold would be 80 units. B) there would be a surplus of 40 units.
C) there would be a shortage of 40 units. D) there would be a shortage of 20 units.

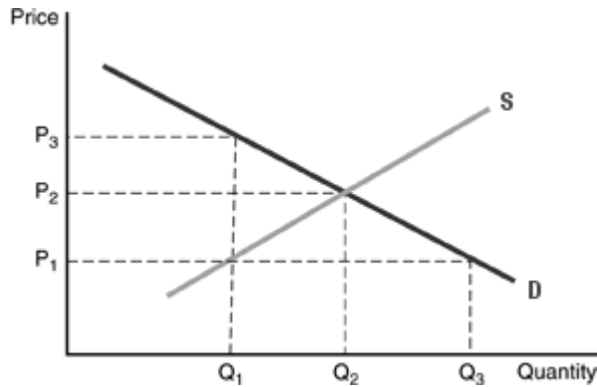
Answer: A

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



58) Refer to the above figure. A price ceiling has been set at P_1 , and a black market has opened. The equilibrium black market price will be

- A) below P_1 B) between P_1 and P_3
C) above P_3 D) P_2

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

59) Refer to the above figure. A price ceiling has been set at P_1 , and a black market has opened. The equilibrium black market quantity will be

- A) below Q_1 B) above Q_3
C) between Q_1 and Q_3 D) Q_2

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 60) When are black markets likely to arise?
- A) when the government removes a price floor
 - B) when the government enforces a price ceiling
 - C) when there is a surplus of a good
 - D) when the quantity supplied of a good exceeds the quantity demanded

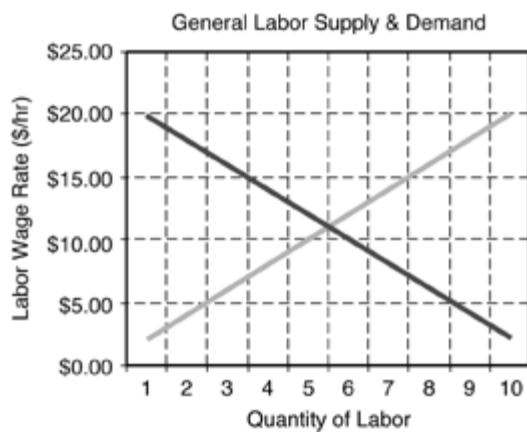
Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



- 61) Refer to the above figure. Suppose the government imposes a minimum wage rate of \$20.00 per hour. This will likely result in
- A) a surplus of labor.
 - B) a shortage of labor.
 - C) an equilibrium in the labor market.
 - D) an increase in the demand for labor.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Revised

- 62) Which of the following is a price floor?
- A) rent controls
 - B) minimum wage rates
 - C) a freeze on upward-moving gasoline prices
 - D) college tuition caps

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Government imposed price controls often lead to
- A) illegal trades of the good.
 - B) the most efficient use of resources.
 - C) the equilibrium solution in terms of price and quantity.
 - D) maximization of profits.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 64) A price ceiling represents
- A) a maximum price that can be legally charged for a product or service.
 - B) a minimum price that can be legally charged for a good or service.
 - C) a lottery imposed upon producers by the government.
 - D) a first come, first served mechanism for controlling prices.

Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 65) A price floor represents
- A) a maximum price that can be legally charged for a product or service.
 - B) a minimum price that can be legally charged for a good or service.
 - C) a lottery imposed upon producers by the government.
 - D) a first come, first served mechanism for controlling prices.

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 66) An effective government imposed price ceiling will result
- A) in a surplus on the market.
 - B) in a shortage on the market.
 - C) in additional revenue for the government.
 - D) in prices for the product falling in the future.

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 67) Suppose a price ceiling is set above the equilibrium price. Now suppose that policy makers decide to raise the price ceiling. This increase in the price ceiling will cause which of the following to occur?

- A) The surplus in the market will increase.
- B) The surplus in the market will decrease.
- C) The shortage in the market will increase.
- D) None of the above.

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 68) Suppose a price ceiling is currently set below the equilibrium price. Now suppose that policy makers decide to lower the price ceiling. This reduction in the price ceiling will cause which of the following to occur?

- A) The shortage in the market will decrease.
- B) The shortage in the market will increase.
- C) The surplus in the market will decrease.
- D) The surplus in the market will increase.

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 69) When a government increases an effective price ceiling for a product

- A) the shortage in the market will be reduced.
- B) the shortage in the market will be increased.
- C) the surplus in the market will be reduced.
- D) the surplus in the market will increase.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 70) When the government sets a price floor which is above the equilibrium price,

- A) a surplus will develop.
- B) a shortage will develop.
- C) the equilibrium price will be maintained.
- D) a price ceiling will follow.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

71) A black market

- A) can arise when government imposes a price ceiling below the market clearing price.
- B) can arise when government imposes a price floor below the market clearing price.
- C) was created when after hours trading was permitted on some stock exchanges.
- D) is a market where products with outdated expiration dates are sold.

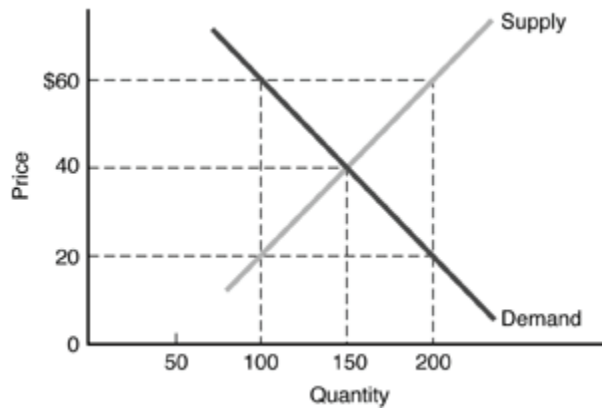
Answer: A

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition



72) Refer to the above figure. If the government imposes a price floor of \$60,

- A) the quantity of goods that will be traded is 100.
- B) the quantity of goods that will be traded is 200.
- C) the quantity of goods that will be traded is 150.
- D) the quantity of goods that will be traded is 0.

Answer: A

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Revised

73) Refer to the above figure. If the government imposes a price ceiling of \$20,

- A) the quantity of goods that will be traded is 100.
- B) the quantity of goods that will be traded is 200.
- C) the quantity of goods that will be traded is 150.
- D) the quantity of goods that will be traded is 0.

Answer: A

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 74) Refer to the above figure. A surplus occurs if the government imposes
- | | |
|-----------------------------|-----------------------------|
| A) a price floor at \$60. | B) a price floor at \$20. |
| C) a price ceiling at \$60. | D) a price ceiling at \$20. |

Answer: A

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: New

- 75) Refer to the above figure. A shortage occurs if the government imposes
- | | |
|-----------------------------|-----------------------------|
| A) a price floor at \$60. | B) a price floor at \$20. |
| C) a price ceiling at \$60. | D) a price ceiling at \$20. |

Answer: D

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: New

- 76) Refer to the above figure. If the government imposes a price ceiling of \$60,
- | |
|---|
| A) the quantity traded will be 150, and the price will be \$40. |
| B) the quantity traded will be 100, and the price will be \$60. |
| C) the quantity traded will be 200, and the price will be \$60. |
| D) the quantity traded will be 150, and the price will be \$60. |

Answer: A

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 77) Refer to the above figure. If the government imposes a price floor of \$20,
- | |
|---|
| A) the quantity traded will be 150, and the price will be \$20. |
| B) the quantity traded will be 100, and the price will be \$20. |
| C) the quantity traded will be 200, and the price will be \$20. |
| D) none of the above. |

Answer: D

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 78) Refer to the above figure. A price floor of \$60 results in
- | | |
|-----------------------------|-----------------------------|
| A) a shortage of 100 units. | B) a shortage of 200 units. |
| C) a surplus of 100 units. | D) a surplus of 200 units. |

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: New

79) Refer to the above figure. A price ceiling of \$20 results in

- A) a shortage of 100 units.
- B) a shortage of 200 units.
- C) a surplus of 100 units.
- D) a surplus of 200 units.

Answer: A

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: New

80) Price controls

- A) do not include black markets.
- B) are another name for the price system.
- C) do not include rent controls.
- D) interfere with the rationing function of prices.

Answer: D

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

81) Suppose that 20,000 tickets were sold at \$120 for an NBA game at Madison Square Garden in New York. The game was sold out and some fans could not get tickets. This suggests that

- A) selling price was below equilibrium price.
- B) selling price was above equilibrium price.
- C) selling price was at equilibrium.
- D) the game was advertised too heavily.

Answer: A

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Revised

82) Scalping at major sporting events is an example of

- A) a surplus caused by the existence of price ceilings.
- B) the operation of rationing by the market.
- C) a black market caused by a price ceiling.
- D) a black market caused by a price floor.

Answer: C

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

83) A black market may occur when

- A) the government imposes a price floor below the market clearing price.
- B) the government imposes a price ceiling below the market clearing price.
- C) the government imposes a price ceiling above the market clearing price.
- D) the government does not impose either a price ceiling or a price floor.

Answer: B

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

84) An effective price ceiling occurs when

- A) the government sets a maximum price for a good above the equilibrium price.
- B) the government sets a minimum price for a good above the equilibrium price.
- C) the government sets a minimum price for a good below the equilibrium price.
- D) the government sets a maximum price for a good below the equilibrium price.

Answer: D

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

85) Suppose that the current equilibrium price of gasoline is \$5.50 per gallon and that the government passes a law that requires the price to be no more than \$5 per gallon. What will be the effects?

Answer: The fall in price from \$5.50 to \$5.00 causes quantity demanded to increase and quantity supplied to decrease, which implies a shortage. Some way must be found to ration the gasoline that is supplied. The government may provide people with coupons that are necessary to use to buy gasoline. Alternate ways to ration the gasoline are for gas station attendants to receive illegal payments or gifts, queuing, favoritism, or any number of other ways.

Diff: 2

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

86) In some developing countries and in some former Communist countries ,people exchange their domestic currencies for foreign currencies such as the dollar in black markets. Why would this practice go on?

Answer: The country must have some restrictions on currency exchange. Some countries have made it illegal to exchange the domestic currency for dollars beyond some minimum amount while others set official exchange rates. If the official exchange rate differs from the "market" exchange rate, it is likely black markets will form.

Diff: 3

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

4.5 The Policy of Controlling Rents

- 1) Instituting a rent control program will most likely lead to
- A) a shortage of rental units.
 - B) overly elaborate and expensive construction.
 - C) an efficient allocation of existing units among consumers.
 - D) an excess quantity supplied of rental units.

Answer: A

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Which of the following must occur as a result of ceilings on apartment rents that are set below market clearing rental rates?
- A) Property owners respond to the ceilings by increasing maintenance and repairs.
 - B) Property owners respond to the ceilings by constructing new apartment buildings.
 - C) There is a decrease in the quantity of apartments that prospective tenants wish to rent.
 - D) There is a decrease in the quantity of apartments that property owners offer for rent.

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 3) The objective of rent controls is to
- A) ensure an adequate supply of rental housing for the poor.
 - B) keep rents below levels that would be observed in a freely competitive market.
 - C) encourage the construction of new rental units.
 - D) raise revenue for the local government.

Answer: B

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Rent controls often have adverse effects, including
- A) too much housing in a community.
 - B) deterioration in the quality of existing rental units.
 - C) too much construction of new rental units in the community.
 - D) income transfers from the poor to landlords.

Answer: B

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 5) In New York City, apartment rent can be adjusted only when a tenant leaves. This lead
- A) people to change apartments often.
 - B) landlords to encourage tenants to stay in their apartments.
 - C) tenants to stay in apartments longer than they would otherwise.
 - D) businesses to build new rental units.

Answer: C

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Revised

- 6) In the housing market, rents serve the purpose of
- A) making landlords rich.
 - B) rationing the availability of existing housing.
 - C) providing an entry by the government into the housing market.
 - D) increasing tax collections by the community.

Answer: B

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The textbook points out that rent controls have
- A) benefited upper-income or existing tenants.
 - B) had no effect on the market for housing.
 - C) greatly benefited the homeless.
 - D) attracted increases in low-income housing.

Answer: A

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Revised

- 8) Who bears the costs of a program to control rents at a maximum level?
- A) Landlords or owners of housing units
 - B) Consumers who face difficulty moving to a more suitable apartment
 - C) Homeless who cannot find rental units
 - D) All of these

Answer: D

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The textbook suggests that rent controls
- A) actually contribute to the housing boom in an area where they are applied.
 - B) actually contribute to the housing shortage in the area where they are applied.
 - C) are used in a government kickback scheme.
 - D) have no effect on the local housing market.

Answer: B

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Of the following groups, who gains from rent controls?
- A) Landlords
 - B) Construction workers and their union leaders
 - C) Poor people who have a hard time earning enough income to pay high rents
 - D) High-income people who live in rent-controlled apartments

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Under rent controls,
- A) apartments tend to be nicer than they would be under freely competitive markets.
 - B) landlord-tenant relationships are more harmonious than under freely competitive markets.
 - C) the quantity demanded of rental units is less than it would be under freely competitive markets.
 - D) the number of rental units available for rent is lower than under freely competitive markets.

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The City Council of Happy Village is thinking about imposing rent controls. If they put rent controls in place, which constituency are they trying to please?
- A) Landlords
 - B) All taxpayers
 - C) Existing tenants
 - D) All voters

Answer: C

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

13) Rent controls are

- A) when rents are set above the market clearing level to aid landlords.
- B) used to provide incentives to contractors to build new apartments.
- C) used to generate revenue for the local government.
- D) when rents are set below the market clearing level.

Answer: D

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

14) When rent controls establish a legal maximum rental rate below the equilibrium rental rate,

- A) quantity demanded exceeds quantity supplied.
- B) quantity supplied exceeds quantity demanded.
- C) demand exceeds supply.
- D) supply exceeds demand.

Answer: A

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

15) Who is most likely to benefit from rent controls?

- A) Consumers who are able to obtain apartments at the controlled rents
- B) Consumers who are unable to obtain apartments at the controlled rents
- C) Landowners who can lease the apartments at the controlled rents
- D) The government that controls the rents

Answer: A

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

16) Rent controls are an example of a

- A) price floor.
- B) price ceiling.
- C) price floor for the consumer and a price ceiling for the producer.
- D) nonprice rationing device.

Answer: B

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

17) An effective rent control will

- A) lead to a surplus of housing units.
- B) keep rents below the competitive market level.
- C) keep rents above the competitive market level.
- D) be set at the price where quantity supplied equals quantity demanded.

Answer: B

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

18) Which of the following is one of the functions of rental prices?

- A) To redistribute income from landlords to renters
- B) To redistribute income from renters to landlords
- C) To signal to the local government when taxes on rental units should be increased
- D) To ration the use of existing housing for current consumers

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following is an example of a price ceiling?

- A) The minimum wage
- B) Agricultural price supports
- C) Rent controls
- D) None of the above is correct

Answer: C

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

20) Which of the following is NOT a function of rental prices?

- A) To stimulate the construction of new housing
- B) To ration the existing housing stock
- C) To provide housing to individuals below market value
- D) To allocate existing scarce housing among different people

Answer: C

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 21) The adverse effects of rent controls include
- A) keeping rental rates too high in a normal market.
 - B) excessive construction of new rental housing.
 - C) reduced incentive to construct new rental housing.
 - D) increased incentives for people to purchase their own homes.

Answer: C

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Who benefits primarily from rent controls?
- A) Construction workers
 - B) Poor people looking for low-income housing
 - C) All who want to rent
 - D) Only renters who are able to get units at below-market rates

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Which of the following is a possible outcome of setting a legal maximum rental rate below the market clearing rental rate?
- A) an increase in the quantity of rental housing supplied
 - B) a decrease in the quantity of rental housing demanded
 - C) a black market in rental housing
 - D) a surplus of rental housing

Answer: C

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Which of the following is NOT an attempt to evade rent controls?
- A) Make life unpleasant for tenants
 - B) Require tenants to get furniture from the landlord
 - C) Subletting
 - D) Using the courts to challenge the sublease of a tenant

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Under rent controls,
- A) there is a shortage of rental units.
 - B) the quantity supplied of rental units is greater than it would be under freely competitive markets.
 - C) there is less government involvement in rental markets overall because there is a better supply of low-income housing.
 - D) all renters are better off than under freely competitive markets.

Answer: A

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Rent controls primarily benefit

- A) property owners.
- B) people looking for rental units.
- C) builders.
- D) people who already occupy rental units.

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 27) The long-run effect of rent control on an area includes

- A) rampant building of new low-income housing.
- B) many new luxury apartments new luxury apartments will be built.
- C) new investors into the real estate market in the area.
- D) less investment into the real estate market in the area.

Answer: D

Diff: 3

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Rent control is an example of

- A) a price floor.
- B) a price ceiling.
- C) the rationing function of prices not working.
- D) the government increasing the demand for certain products.

Answer: B

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

29) What would happen in the market for rental housing in your community if the local government legally mandated rents that were below the market clearing price?

- A) There would be a surplus of rental housing.
- B) There would be a shortage of rental housing.
- C) The demand for rental housing would increase.
- D) The supply of rental housing would decrease.

Answer: B

Diff: 3

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

30) Which group of individuals most likely benefits from rent controls?

- A) the unemployed who fail to obtain rental housing
- B) low-income wage earners who fail to obtain rental housing
- C) single parent families without savings or other financial assets who fail to obtain rental housing
- D) upper-income professionals who rent apartments at the price ceiling rate

Answer: D

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

31) Which of the following would likely result as a consequence of rent controls?

- A) a reduction in the rate of construction of rental housing units
- B) unimproved buildings and apartment complexes
- C) limits on tenant mobility
- D) All of the above are correct.

Answer: D

Diff: 1

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

32) In a city that has rent control for apartments, there is

- A) less turnover of apartments.
- B) a surplus of apartments available to rent.
- C) a shortage of renters in the city.
- D) neither a surplus nor a shortage of apartments.

Answer: A

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Revised

- 33) Finding an apartment in New York City is difficult. People even scan the obituaries in the hopes of finding an apartment. Provide an economic explanation for this.

Answer: Rental rates in New York City are controlled and set below market clearing rates. Under the rent controls, people don't want to give up their apartments since rents can be adjusted when a tenant leaves and a new tenant enters. This means that apartment vacancies are rare, and people who want an apartment must consider all possibilities, including death, that would generate a vacancy.

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 34) Who gains and who loses from rent controls?

Answer: Those who gain are people who live in an apartment at a rent below market level. The benefits are less if they live in their apartment because of the lower rents and would really prefer to live in an apartment with different amenities. Landlords lose income. People who want to rent an apartment but cannot find one or who live in an apartment very different from what they really want lose also.

Diff: 2

Topic: 4.5 The Policy of Controlling Rents

AACSB: Analytic skills

Question Status: Previous Edition

4.6 Price Floors in Agriculture

- 1) In which decade did the U.S. federal government first establish a system of agricultural price supports?

A) 1990s

B) 1970s

C) 1950s

D) 1930s

Answer: D

Diff: 1

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 2) In the United States, government-imposed price supports are most often associated with

A) agricultural products.

B) industrial products.

C) consumer electronics.

D) commercial building products.

Answer: A

Diff: 1

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 3) What is the result of an agricultural support price established above the equilibrium price?
- A) The market gravitates toward and remains in equilibrium.
 - B) There will be excess quantity supplied of the product involved.
 - C) There will be excess quantity demanded the product in this market.
 - D) Since the support price is set above the equilibrium price, it will have no impact on the market price.

Answer: B

Diff: 1

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Agriculture price supports that establish a price floor at which agricultural products may be purchased that exceeds the market clearing price
- A) create a shortage of agricultural products.
 - B) result in the quantity of these products supplied exceeding the quantity demanded at the floor price.
 - C) benefit taxpayers, who receive subsidies from producers that the price support program forces to sell to the government at an artificially established price.
 - D) benefit consumers, who are willing and able to purchase more agricultural products at the floor price.

Answer: B

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 5) One result of the agriculture price supports cited in the text is that
- A) sometimes surplus food is given away.
 - B) food shortages result in most cases.
 - C) small farms receive most of the benefits.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Of the following groups, which benefits most from a government price support program that establishes a floor price for an agricultural product that is higher than the product's market clearing price?
- A) Consumers, who purchase more units of the product than they did before the price support program was implemented
 - B) Taxpayers, who no longer must provide funds to purchase surplus units of the product once the price support program is in place
 - C) Producers, who earn a higher price on the sale of each unit and also sell more units, thereby unambiguously earning higher revenues
 - D) The government, which receives subsidy payments from producers that are required to sell more of the product at a higher price under the government's program

Answer: C

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Government intervention in agriculture usually involves
- A) price ceilings in order to keep food prices low.
 - B) price ceilings in order to subsidize U.S. exports.
 - C) price supports in order to keep farm incomes high.
 - D) price supports in order to keep agricultural imports low.

Answer: C

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Who ultimately benefits from price supports in agriculture?
- A) consumers
 - B) grocery store owners
 - C) farmers
 - D) exporters

Answer: C

Diff: 1

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 9) When the government sets a price floor which is below the equilibrium price
- A) a surplus will develop.
 - B) a shortage will develop.
 - C) the equilibrium price will be maintained.
 - D) a price ceiling will follow.

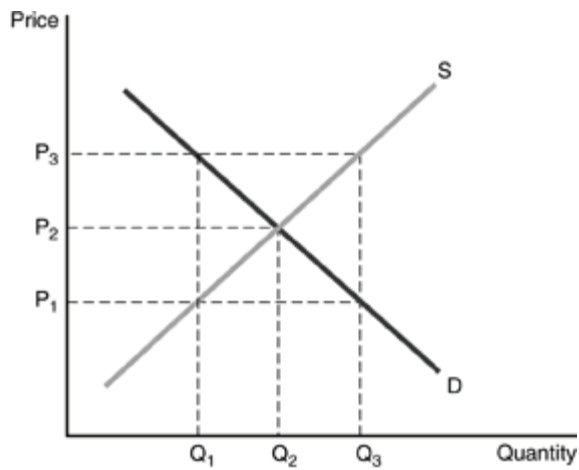
Answer: C

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition



- 10) Refer to the above figure for the corn market. The government wants to set an effective price support in the corn market. To be effective the price should be set
- A) below P_1 . B) at P_1 . C) at P_2 . D) at P_3 .

Answer: D

Diff: 3

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Revised

- 11) Refer to the above figure. A price support set at P_3 will
- A) lead to a surplus of Q_3 minus Q_1 . B) lead to a shortage of Q_3 minus Q_1 .
 C) lead to an equilibrium quantity of Q_2 . D) be ineffective.

Answer: A

Diff: 3

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

Garbanzo Beans		
Price	Q_d	Q_s
\$2	5,000	1,000
\$4	4,000	2,000
\$6	3,000	3,000
\$8	2,000	4,000
\$10	1,000	5,000

- 12) Consider the above table. Assuming the government imposes a price floor on garbanzo beans of \$8, what would be the likely result?
- A) a surplus of 2000 garbanzo beans
 - B) a shortage of 2000 garbanzo beans
 - C) no change, equilibrium would prevail
 - D) The quantity demanded of garbanzo beans would fall to zero.

Answer: A

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Consider the above table. Assuming the government imposes a price ceiling on garbanzo beans of \$4, what would be the likely result?
- A) a surplus of 2,000 garbanzo beans
 - B) a shortage of 2,000 garbanzo beans
 - C) no change, equilibrium would prevail
 - D) The quantity demanded of garbanzo beans would fall to zero.

Answer: B

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Consider the above table. If the government imposes a price ceiling on garbanzo beans of \$8, what would be the likely result?
- A) a surplus of 2,000 garbanzo beans on the market
 - B) a shortage of 2,000 garbanzo beans on the market
 - C) Market equilibrium will be reached.
 - D) The quantity demanded of garbanzo beans would fall to zero.

Answer: C

Diff: 3

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

15) Which of the following will likely occur when price floors in agriculture are implemented?

- A) Quantity supplied will exceed quantity demanded.
- B) Quantity demanded will exceed quantity supplied.
- C) Farmland will be underutilized.
- D) Supply will decrease.

Answer: A

Diff: 1

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Revised

16) If the federal government sets a minimum price for wheat at \$5.00 per bushel when the equilibrium price is \$4.50, then

- A) a surplus will be created causing the price to fall to the equilibrium price of \$4.50.
- B) a permanent surplus will develop because the government established the minimum price at \$5.00.
- C) a shortage will be created causing the price to rise to the equilibrium price of \$4.50.
- D) a permanent shortage will develop because the government established the minimum price at \$5.00.

Answer: B

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

17) When the government establishes a minimum price for an agricultural product above the equilibrium price, the government is creating a(n)

- A) price ceiling.
- B) elevated price.
- C) price floor.
- D) surplus price.

Answer: C

Diff: 1

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

18) If the government created a surplus of an agricultural product due to price supports, how might they dispose of this surplus?

- A) give it away to a foreign country
- B) purchase it and store it away
- C) have the farmer destroy the crop
- D) Any of these answers might be a successful tool in disposing of agricultural surpluses.

Answer: D

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following is most likely to benefit from government established price floors in agriculture?

- A) large farm owners and corporate farms
- B) small farmers
- C) cattle ranchers
- D) low income farmers

Answer: A

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

20) Federally provided agricultural subsidies in the United States have _____ with the passage of the 2002 Farm Security Act and the 2007 Food, Security, and Bioenergy Act.

- A) been abolished
- B) been maintained
- C) increased to the level of EU price supports
- D) been made a function of tax revenues

Answer: B

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

21) What has been the market outcome of government-enforced price floors for agricultural products?

- A) Not enough food has been produced.
- B) Farmers have been made worse off.
- C) A shortage of agricultural products has resulted.
- D) A surplus of agricultural products has resulted.

Answer: D

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

22) Price floors in agriculture lead to

- A) efficient farming techniques being employed.
- B) surpluses of supported farm products.
- C) more competition in farming.
- D) the most efficient market solution.

Answer: B

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 23) All of the following result from price floors in agriculture EXCEPT
- A) surpluses of agricultural products that have price floors.
 - B) higher prices to consumers for agricultural products that have price floors.
 - C) lower prices to consumers for agricultural products that have price floors.
 - D) governmental bureaucracy.

Answer: C

Diff: 3

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Explain how agricultural price supports work and what the effects of the supports are.

Answer: Under agricultural price supports, the government sets the price of an agricultural product above the equilibrium price. Consequently, there is an excess quantity of the product supplied. To keep the price at the floor level, the government must buy the surplus. Hence, consumers pay higher prices for the product, and taxpayers pay higher taxes to fund the government's purchases of the product..

Diff: 2

Topic: 4.6 Price Floors in Agriculture

AACSB: Analytic skills

Question Status: Previous Edition

4.7 Price Floors in the Labor Market

- 1) One effect of a minimum wage in the market for low-skilled labor is
- A) a shortage of low-skilled labor.
 - B) a surplus of low-skilled labor.
 - C) no effect in the market for low-skilled labor.
 - D) an increase in demand for low-skilled labor.

Answer: B

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

- 2) A minimum wage is an example of a
- A) price ceiling.
 - B) price floor.
 - C) black market.
 - D) market clearing price.

Answer: B

Diff: 1

Topic: 4.4 The Policy of Government-Imposed Price Controls

AACSB: Analytic skills

Question Status: Previous Edition

- 3) In the United States, the minimum wage is defined as
- A) the wage that the youngest job entrant into the job market makes.
 - B) the lowest wage that a corporation should pay a worker if the corporation wants to ensure that its employees are well trained.
 - C) the lowest hourly wage rate a firm may legally pay its workers, as legislated by the U.S. government.
 - D) the wage ceiling above which a firm no longer must pay its employees additional benefits.

Answer: C

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

- 4) In the United States, the wage floor legislated by government below which it is generally illegal to pay workers is known as
- A) the minimum wage.
 - B) the wage ceiling.
 - C) the employment gap.
 - D) the going wage.

Answer: A

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Which of the following is an effect of a minimum wage law that establishes a ceiling wage below the current market clearing wage?
- A) Surplus labor, or unemployment
 - B) A decrease in the market clearing wage
 - C) A decrease in the quantity of labor supplied
 - D) An increase in the quantity of labor supplied

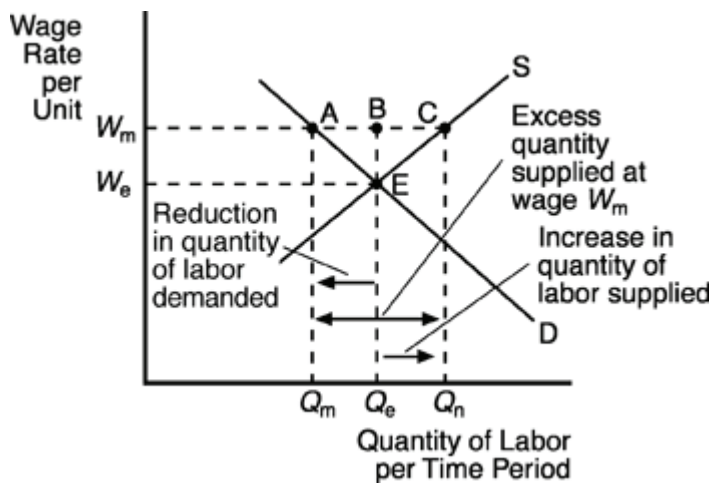
Answer: A

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition



- 6) According to the above figure, the market clearing wage rate is
 A) W_e . B) W_m . C) $W_e - W_m$. D) $W_m + W_e$.

Answer: A

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

- 7) According to the above figure, if the government imposes a minimum wage equal to W_m , the effect will be
 A) a reduction in employment from Q_e to Q_m .
 B) an increase in employment from Q_e to Q_m .
 C) a decrease in labor supplied, from C to E.
 D) an increase in labor supplied, from A to E.

Answer: A

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

- 8) If an excess quantity of labor demanded exists in a free market, there is a tendency for
 A) quantity supplied to rise. B) the wage rate to fall.
 C) quantity demanded to fall. D) the wage rate to rise.

Answer: D

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Revised

- 9) The effect of legislation establishing a minimum wage above the market clearing wage is
- A) unemployment.
 - B) a shortage of labor.
 - C) higher wages for all workers.
 - D) a shift of the demand for labor curve.

Answer: A

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

- 10) As a result of establishing a legal minimum wage above the market clearing wage,
- A) there will be a shortage of workers.
 - B) firms will hire fewer workers.
 - C) firms will hire more workers.
 - D) fewer workers will want to work.

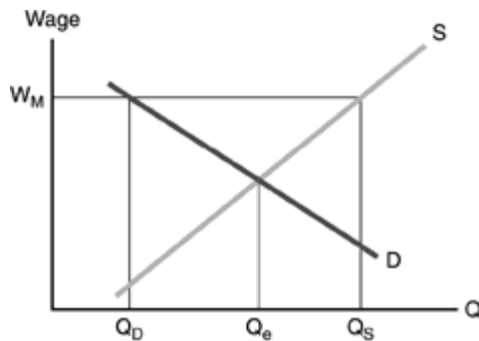
Answer: B

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition



- 11) Refer to the above figure. A minimum wage has been set at W_M . The amount of unemployment is
- A) zero.
 - B) at Q_e .
 - C) Q_S minus Q_D .
 - D) not computable from the information given.

Answer: C

Diff: 3

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

12) A reduction in the minimum wage will tend to cause which of the following?

- A) a reduction in poverty
- B) an increase in the number of workers employed
- C) an increase in the quantity supplied of labor
- D) a reduction in the quantity demanded of labor

Answer: B

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Revised

13) An increase in the minimum wage will tend to cause which of the following to occur?

- A) an increase in the size of the surplus of labor
- B) a leftward shift in the demand for labor
- C) a rightward shift in the supply of labor
- D) a reduction in the unemployment rate

Answer: A

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

14) Since the minimum wage rate began it has typically stayed at about what percentage of the average manufacturing wage?

- A) 10–20 %
- B) 20–30 %
- C) 40–50 %
- D) 75–80 %

Answer: C

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

15) Many economists estimate that for every 10 % increase in relative minimum wage rates, there is a corresponding decrease in employment of those affected equal to

- A) 5–10 %.
- B) 1–2 %.
- C) 10–20 %.
- D) 30–40 %.

Answer: B

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

16) The minimum wage laws seek to

- A) penalize employers that are not complying with labor laws.
- B) assure a minimum standard of payment for work.
- C) assure that all workers are paid the same wage rate.
- D) help teenagers find work.

Answer: B

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

17) The effect of a legal minimum wage set above the equilibrium wage rate is

- A) an excess quantity of labor demanded.
- B) an excess quantity of labor supplied.
- C) an increase in the quantity of labor demanded.
- D) a decrease in quantity of labor supplied.

Answer: B

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

18) Minimum wages are examples of

- A) a price floor.
- B) a price ceiling.
- C) the rationing function of prices not working.
- D) government increasing the demand for certain products.

Answer: A

Diff: 1

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Revised

19) What are the effects of an increase in the minimum wage? Who would be most affected?

Answer: An increase in the minimum wage induces the quantity supplied of labor to increase and the quantity demanded of labor to fall, generating a surplus or an increase in unemployment. Since minimum wage legislation tends to affect lower skilled workers the most, the lowest skilled workers are most likely to be unemployed. These are often minority teenagers.

Diff: 2

Topic: 4.7 Price Floors in the Labor Market

AACSB: Analytic skills

Question Status: Previous Edition

4.8 Quantity Restrictions

1) An import quota is an example of

- A) a price ceiling.
- B) a price floor.
- C) a queuing device.
- D) a quantity restriction.

Answer: D

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 2) An import quota for sugar results in an increase in
- A) the domestic market price of sugar.
 - B) the domestic demand for sugar.
 - C) the domestic market supply of sugar.
 - D) sugar imports.

Answer: A

Diff: 2

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: New

- 3) Government-imposed quantity restrictions
- A) generate a higher price for the good than would prevail under freely competitive markets.
 - B) generate a lower price for the good than would prevail under freely competitive markets.
 - C) does not affect the price of the good because quantity restrictions always ban sale of the good completely.
 - D) can cause prices to either be higher or lower, but always cause excess quantities supplied to develop.

Answer: A

Diff: 2

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 4) An example of a quantity restriction is
- A) the minimum wage.
 - B) an import quota.
 - C) rent controls.
 - D) price supports in agriculture.

Answer: B

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 5) An import quota will
- A) lead to a shift of the demand curve.
 - B) leave the equilibrium price unchanged and increase the quantity sold.
 - C) limit the amount of a foreign good that can be brought into the United States.
 - D) limit the amount of a good local producers can make.

Answer: C

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 6) A supply restriction that restricts the amount of a good that can be imported is a(n)
- A) price floor.
 - B) price ceiling.
 - C) black market.
 - D) import quota.

Answer: D

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 7) An import quota is
- A) a quantity restriction.
 - B) a price ceiling.
 - C) a price floor.
 - D) something imposed on agricultural goods grown by American farmers.

Answer: A

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 8) When the government restricts the quantity of a good to zero
- A) an underground market develops.
 - B) there is none of the good available anywhere.
 - C) people's demand for the product evaporates.
 - D) producers stop all production.

Answer: A

Diff: 2

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 9) If the government should decide to legalize marijuana, all other things remaining the same, we should expect to see
- A) a decrease in the price of marijuana.
 - B) an increase in the price of marijuana.
 - C) a decrease in the demand for marijuana.
 - D) an increase in the use of imported versus domestic marijuana.

Answer: A

Diff: 2

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 10) A supply restriction on imported goods, such as the government's restriction of imported oil for many years, is referred to as
- A) an export quota.
 - B) an import quota.
 - C) a price floor.
 - D) a price ceiling.

Answer: B

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 11) An import quota is a limit on the
- A) number of foreign workers allowed to work in a country.
 - B) number of container ships allowed to enter the territorial waters of the United States.
 - C) value of low-priced foreign goods that are allowed to be imported into the United States.
 - D) amount of a product that may be imported.

Answer: D

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 12) A limit on the amount of strawberries that can be imported into the United States is an example of
- A) the rationing function of prices protecting domestic strawberry farmers.
 - B) a price floor set by the government.
 - C) a price ceiling set by government.
 - D) an import quota.

Answer: D

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 13) When import quotas are imposed by a government,
- A) the domestic producers always lower the prices of their products to ensure that their products are sold.
 - B) the government is trying to discourage consumers from buying foreign-made goods.
 - C) the supply of the product on the domestic market increases.
 - D) the price ceiling for the product has to be lowered.

Answer: B

Diff: 2

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

- 14) An unexpected import restriction imposed on mangoes by the USDA
- A) will reduce the price of mangoes in the United States.
 - B) will increase the price of mangoes in the United States.
 - C) will discourage American producers of mangoes.
 - D) will reduce the price of mango juice in the United States.

Answer: B

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

15) An import quota

- A) is a price ceiling imposed on an imported good.
- B) is a price floor imposed on an imported good.
- C) is a supply restriction limiting the quantity of a good that can be imported.
- D) is a legislative requirement stating that firms which import some of their merchandise must hire a certain number of immigrant workers.

Answer: C

Diff: 1

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

16) The difference between quantity restrictions and price ceilings as to their effect on the market is that

- A) only price ceilings make the market inefficient.
- B) only quantity restrictions make the market inefficient.
- C) while some consumers gain from price ceilings, no consumers gain from quantity restrictions.
- D) while price ceilings are efficient, quantity restrictions are not.

Answer: C

Diff: 2

Topic: 4.8 Quantity Restrictions

AACSB: Analytic skills

Question Status: Previous Edition

17) The U.S. government imposes import quotas on many agricultural products, especially products that receive price supports. Offer an economic explanation for this.

Answer: If the price supports generate a price in the United States for a product that is above the price in other countries, producers in other countries would increase production with the intention of selling the units in the United States. But, with price supports, the government must purchase all extra units to maintain the price. With imports from abroad, this would get very expensive. Hence, imports are limited through quotas.

Diff: 3

Topic: 4.8 Quantity Restrictions

AACSB: Reflective thinking skills

Question Status: Previous Edition

4.9 Appendix B: Consumer Surplus

- 1) Consumer surplus is
- A) the total difference between the total amount that consumers actually pay for an item and the total amount that they would have been willing to pay.
 - B) the total difference between the total costs firms incur in producing an item and the utility consumers derive from purchasing the item.
 - C) the total difference between the total amount that consumers would have been willing to pay for an item and the total amount that they actually pay.
 - D) the total difference between the utility consumers derive from purchasing an item and the total costs firms incur in producing the item.

Answer: C

Diff: 1

Topic: 4.9 Appendix B: Consumer Surplus

AACSB: Analytic skills

Question Status: Previous Edition

- 2) When consumers would have been willing to pay higher prices at various quantities consumed than the market clearing price, the differences are called
- A) consumer surplus.
 - B) monopoly profits.
 - C) opportunity cost.
 - D) deadweight loss.

Answer: A

Diff: 1

Topic: 4.9 Appendix B: Consumer Surplus

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Total consumer surplus in a market is measured as the
- A) area bounded above the market clearing price and beneath the market demand curve.
 - B) area bounded below the market clearing price and above the market supply curve.
 - C) vertical distance from the horizontal (quantity) axis to the market clearing price.
 - D) horizontal distance from the vertical (price) axis to the equilibrium quantity.

Answer: A

Diff: 2

Topic: 4.9 Appendix B: Consumer Surplus

AACSB: Analytic skills

Question Status: Previous Edition

- 4) For a given market demand curve, if the market clearing price decreases, then the amount of consumer surplus will
- A) decrease.
 - B) increase.
 - C) become negative.
 - D) none of the above due to insufficient information

Answer: B

Diff: 2

Topic: 4.9 Appendix B: Consumer Surplus

AACSB: Analytic skills

Question Status: Previous Edition

- Question Status: Previous Edition

4.10 Appendix B: Producer Surplus

- Question Status: New

- 3) Total producer surplus in a market is measured as the
- A) area bounded above the market clearing price and beneath the market demand curve.
 - B) area bounded below the market clearing price and above the market supply curve.
 - C) vertical distance from the horizontal (quantity) axis to the market clearing price.
 - D) horizontal distance from the vertical (price) axis to the equilibrium quantity.

Answer: B

Diff: 2

Topic: 4.10 Appendix B: Producer Surplus

AACSB: Analytic skills

Question Status: New

- 4) For a given market demand curve, if the market clearing price increases, then the amount of producer surplus will
- A) decrease.
 - B) increase.
 - C) become negative.
 - D) none of the above due to insufficient information

Answer: B

Diff: 2

Topic: 4.10 Appendix B: Producer Surplus

AACSB: Analytic skills

Question Status: New

- 5) The difference between the total amount that producers would have been willing to accept for the total quantity produced in a market and what they actually received at the market clearing price is called
- A) production excess.
 - B) excess demand.
 - C) market surplus.
 - D) producer surplus.

Answer: D

Diff: 1

Topic: 4.10 Appendix B: Producer Surplus

AACSB: Analytic skills

Question Status: New

- 6) If a producer is willing to receive at least \$5 for a pen that she manufactures but she actually receives \$7 for it. The producer surplus of the pen for that producer is
- A) \$5.
 - B) \$2.
 - C) \$7.
 - D) -\$5.

Answer: B

Diff: 1

Topic: 4.10 Appendix B: Producer Surplus

AACSB: Analytic skills

Question Status: New

4.11 Appendix B: Gains from Trade Within a Price System

- 1) The gains from trade within a price system is
- A) the sum of consumer surplus and producer surplus.
 - B) consumer surplus less producer surplus.
 - C) consumer surplus divided by producer surplus.
 - D) consumer surplus multiplied by producer surplus.

Answer: A

Diff: 1

Topic: 4.11 Appendix B: Gains from Trade Within a Price System

AACSB: Analytic skills

Question Status: New

- 2) The gains from consumer surplus and producer surplus occur when
- A) both consumers and producers engage in voluntary exchange.
 - B) consumers are willing to buy a good but producers are not willing to provide it.
 - C) producers are willing to provide a good but consumers are not willing to pay for it.
 - D) the government supplies the good instead of firms.

Answer: A

Diff: 1

Topic: 4.11 Appendix B: Gains from Trade Within a Price System

AACSB: Analytic skills

Question Status: New

- 3) The total gains from trade within a price system is
- A) the area beneath the market demand curve and above the market clearing price plus the area above the market supply curve and beneath the market clearing price.
 - B) the area beneath the market supply curve and above the market clearing price plus the area above the market demand curve and beneath the market clearing price.
 - C) the area beneath the market demand curve and above the market clearing price minus the area beneath the market supply curve and beneath the market clearing price.
 - D) always equal to zero.

Answer: A

Diff: 1

Topic: 4.11 Appendix B: Gains from Trade Within a Price System

AACSB: Analytic skills

Question Status: New

4.12 Appendix B: Price Controls and Gains from Trade

- 1) If the government imposes a price ceiling that is lower than the market clearing price, then
- A) consumer surplus will increase while producer surplus will decrease.
 - B) consumer surplus will decrease while producer surplus will increase.
 - C) both consumer surplus and producer surplus will decrease.
 - D) both consumer surplus and producer surplus will increase.

Answer: C

Diff: 2

Topic: 4.12 Appendix B: Price Controls and Gains from Trade

AACSB: Analytic skills

Question Status: New

- 2) If the government imposes a price floor that is higher than the market clearing price, then
- A) consumer surplus will increase while producer surplus will decrease.
 - B) consumer surplus will decrease while producer surplus will increase.
 - C) both consumer surplus and producer surplus will decrease.
 - D) both consumer surplus and producer surplus will increase.

Answer: C

Diff: 2

Topic: 4.12 Appendix B: Price Controls and Gains from Trade

AACSB: Analytic skills

Question Status: New

- 3) The total amount of consumer surplus and producer surplus is at its maximum when
- A) consumers and producers are allowed to trade at the market clearing price.
 - B) the government imposes a price floor that is higher than the market clearing price.
 - C) the government imposes a price ceiling that is lower than the market clearing price.
 - D) free market exchanges do not exist.

Answer: A

Diff: 2

Topic: 4.12 Appendix B: Price Controls and Gains from Trade

AACSB: Analytic skills

Question Status: New

- 4) As compared to the market clearing price, the total amount of consumer surplus and producer surplus is
- A) greater for a government-imposed price floor that is higher than that market clearing price.
 - B) greater for a government-imposed price ceiling that is lower than that market clearing price.
 - C) the same as a government-imposed price floor that is higher than that market clearing price.
 - D) smaller for a government-imposed price ceiling that is lower than that market clearing price.

Answer: D

Diff: 2

Topic: 4.12 Appendix B: Price Controls and Gains from Trade

AACSB: Analytic skills

Question Status: New