

1. The market demand curve shows

- ☐ a. the effect on market supply of a change in the demand for a good or service.
- ☒ **b. the quantity of a good that consumers would like to purchase at different prices.**
- ☐ c. the marginal cost of producing and selling different quantities of a good.
- ☐ d. the effect of advertising expenditures on the market price of a good.

2. At a price of \$4.95, a pulp fiction novel is expected to sell 9,000 copies. If the novel is offered for sale at a price of \$3.95, then the publisher can expect to sell

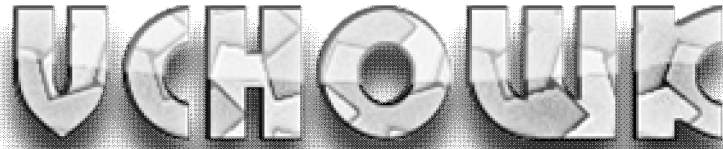
- ☐ a. less than 9,000 copies.
- ☐ b. 9,000 copies.
- ☒ **c. more than 9,000 copies.**
- ☐ d. It is impossible to predict the effect of a lower price on sales.

3. During a recession, economies experience increased unemployment and a reduced level of activity. How would a recession be likely to affect the market demand for new cars?

- ☐ a. Demand will shift to the right.
- ☒ **b. Demand will shift to the left.**
- ☐ c. Demand will not shift, but the quantity of cars sold per month will decrease.
- ☐ d. Demand will not shift, but the quantity of cars sold per month will increase.

4. The market supply curve shows

- ☐ a. the effect on market demand of a change in the supply of a good or service.
- ☒ **b. the quantity of a good that firms would offer for sale at different**



prices.

- ☐ c. the quantity of a good that consumers would be willing to buy at different prices.
 - ☐ d. All of the above are correct.
5. At a price of \$299.95, the manufacturer of a portable gas-powered generator is willing to produce 19,000 units per quarter. At a price of \$349.95, it is likely that the manufacturer will be willing to produce
- ☒ a. more than 19,000 units per quarter.
 - ☐ b. 19,000 units per quarter.
 - ☐ c. less than 19,000 units per quarter.
 - ☐ d. It is impossible to predict the effect of a higher price on the number of units of a product that a firm will be willing to produce.
6. Unionized workers may be able to negotiate with management for higher wages during periods of economic prosperity. Suppose that workers at automobile assembly plants successfully negotiate a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of new cars?
- ☐ a. Supply will shift to the right.
 - ☒ b. Supply will shift to the left.
 - ☐ c. Supply will not shift, but the quantity of cars produced per month will decrease.
 - ☐ d. Supply will not shift, but the quantity of cars produced per month will increase.
7. If automobile manufacturers are producing cars faster than people want to buy them,
- ☒ a. there is an excess supply and price can be expected to decrease.
 - ☐ b. there is an excess supply and price can be expected to increase.

- ☐ c. there is an excess demand and price can be expected to decrease.
- ☐ d. there is an excess demand and price can be expected to increase.
8. If a computer software company introduces a new program and finds that orders from wholesalers far exceed the number of units that are being produced,
- ☐ a. there is an excess supply and price can be expected to decrease.
- ☐ b. there is an excess supply and price can be expected to increase.
- ☐ c. there is an excess demand and price can be expected to decrease.
- ☐ **d. there is an excess demand and price can be expected to increase.**

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9. Market equilibrium refers to a situation in which market price
- ☐ a. is high enough to allow firms to earn a fair profit.
- ☐ b. is low enough for consumers to buy all that they want.
- ☐ **c. is at a level where there is neither a shortage nor a surplus.**
- ☐ d. is just above the intersection of the market supply and demand curves.
10. If the price of a good increases while the quantity of the good exchanged on markets increases, then the most likely explanation is that there has been
- ☐ **a. an increase in demand.**
- ☐ b. a decrease in demand.
- ☐ c. an increase in supply.
- ☐ d. a decrease in supply.
11. If the price of a good decreases while the quantity of the good exchanged on markets increases, then the most likely explanation is that there has been
- ☐ a. an increase in demand.
- ☐ b. a decrease in demand.

- ☒ c. an increase in supply.
- ☐ d. a decrease in supply.

12. If the price of a good increases while the quantity of the good exchanged on markets decreases, then the most likely explanation is that there has been

- ☐ a. an increase in demand.
- ☐ b. a decrease in demand.
- ☐ c. an increase in supply.
- ☒ d. a decrease in supply.

13. If the price of a good decreases while the quantity of the good exchanged on markets decreases, then the most likely explanation is that there has been

- ☐ a. an increase in demand.
- ☒ b. a decrease in demand.
- ☐ c. an increase in supply.
- ☐ d. a decrease in supply.

14. An increase in the demand for a good will cause

- ☒ a. an increase in equilibrium price and quantity.
- ☐ b. a decrease in equilibrium price and quantity.
- ☐ c. an increase in equilibrium price and a decrease in equilibrium quantity.
- ☐ d. a decrease in equilibrium price and an increase in equilibrium quantity.

15. An increase in the supply of a good will cause

- ☐ a. an increase in equilibrium price and quantity.
- ☐ b. a decrease in equilibrium price and quantity.

- ☐ c. an increase in equilibrium price and a decrease in equilibrium quantity.
- ☒ **d. a decrease in equilibrium price and an increase in equilibrium quantity.**

16. Assume that firms in an industry observe a 10% increase in the productivity of labor, but to get there they had to increase the cost of labor by 5%. What should be expected to happen in the output market as a result of this development?

- ☒ **a. The supply should increase**
- ☐ b. The supply should decrease
- ☐ c. The supply should remain unchanged
- ☐ d. The demand should increase

17. During 2002 – 2005 we saw significant increases in the construction of new housing stock in the US. During the same time period we also observed significant rises in the demand for homes. We know that during that time period both price and the level of homes traded increased. Based on that information what most likely happened in the market?

- ☐ a. The rise in supply outpaced the rise in demand.
- ☒ **b. The rise in demand outpaced the rise in supply.**
- ☐ c. The rise in demand was perfectly matched by rise in the supply.
- ☐ d. None of the above

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18. If a rise in supply exceeds a rise in demand, then we should expect

- ☐ a. the equilibrium price and quantity levels will rise.
- ☐ b. the equilibrium price will rise while the equilibrium quantity will decline.
- ☒ **c. The equilibrium price will fall while the equilibrium quantity will rise.**
- ☐ d. the equilibrium price and quantity levels will decline.

19. In which instance will both the equilibrium price and quantity rise?

- ☐ **a. When demand and supply increase, but the rise in demand exceeds the rise in supply.**
- ☐ b. When demand and supply increase, but the rise in supply exceeds the rise in demand.
- ☐ c. When demand and supply decline, but decline in the demand exceeds the decline in supply.
- ☐ d. When demand and supply decline, but the decline in supply exceeds decline in the demand.

20. In which instance can we observe a rise in the equilibrium price accompanied by a decline in the equilibrium quantity?

- ☐ a. If both demand and supply decline, but the decline in demand exceeds the decline in supply.
- ☐ **b. If supply declines while demand increases, and the decline in supply exceeds the increase in demand.**
- ☐ c. If both demand and supply increase.
- ☐ d. None of the above.

21. To be an importer of a product the country must have its domestic price of the product be _____ the foreign price

- ☐ **a. higher than**
- ☐ b. lower than
- ☐ c. equal to

22. To be an exporter of a product the country must have its domestic price of the product be _____ the foreign price

- ☐ a. higher than
- ☐ **b. lower than**
- ☐ c. equal to

23. Which of the following will help a country become an exporter of a product (assume that the product is a normal good given the median consumer income)?

- ☐ a. An increase in incomes of domestic consumers
- ☐ b. A recession abroad
- ☒ **c. An increased productivity of domestic labor**
- ☐ d. An increased cost of domestic labor

24. In 2010 Russia was affected by a significant draught. Russia is a major producer and exporter of several agricultural commodities. As a result of the draught, Russia reduced some of its agricultural exports. In the context of the world supply/demand model for the affected agricultural commodities we should observe:

- ☐ a. Reduced demand and reduced supply
- ☒ **b. Reduced supply and unchanged demand**
- ☐ c. Reduced supply and increased demand
- ☐ d. Increased supply and unchanged demand

25. In November of 2010 the US Central Bank, the Federal Reserve, embarked on a policy of quantitative easing. Since this policy essentially represents an increase in the supply of money, it may create inflationary expectations. Let's assume (and this is a strong assumption), that as a result of this policy, US households start to expect inflation (price increases) in the housing market. The effect on the housing market will be:

- ☒ **a. A rise in the demand, causing prices to increase**
- ☐ b. A rise in the supply, causing prices to decrease
- ☐ c. A decline in the demand, causing prices to decrease
- ☐ d. None of the above