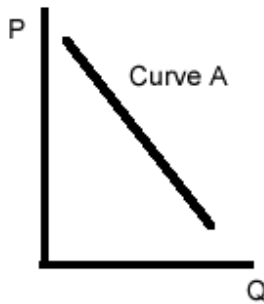


Supply and demand test

Authors: Dick Brunelle and Steve Reff

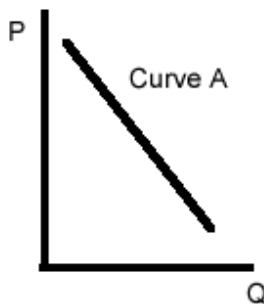
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1. Refer to the graph of curve A. The vertical axis represents Price and the horizontal axis represents quantity. Which of the following statements is not true about curve A?



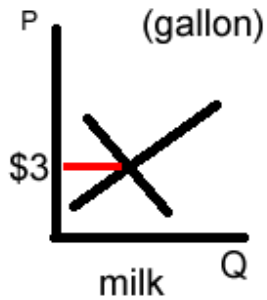
- (A) Curve A can represent a demand curve.
- (B) Curve A illustrates an increase in quantity as price decreases.
- (C) Curve A has a positive slope.
- (D) Curve A illustrates a decrease in quantity as price increases.
- (E) Curve A illustrates a relationship between various quantities demanded and various prices.

2. Refer to the graph of curve A. P = Price and Q = Quantity. Which of the following explains the shape of this demand curve?

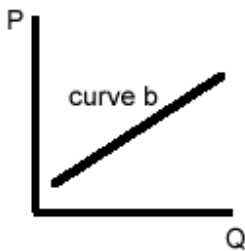


- (A) The income effect and the substitution effect.
- (B) The costs of inputs.
- (C) The slope of the supply curve.
- (D) The positive relationship between price and quantity demanded.
- (E) The positive relationship between price and quantity supplied.

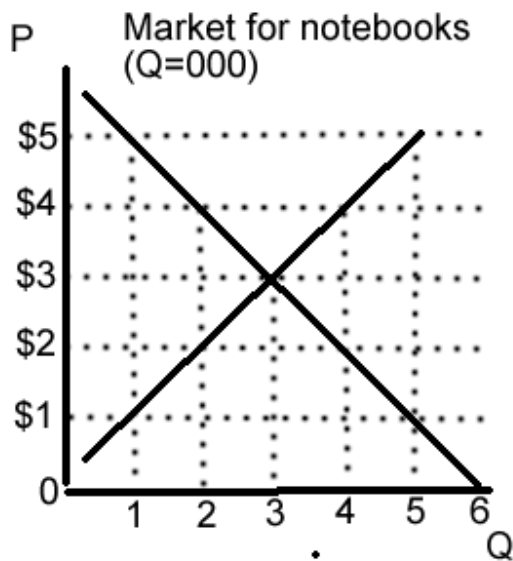
3. Refer to the supply and demand graph for milk sold by the gallon. This graph describes the current equilibrium. If the government establishes a price floor of \$2 a gallon, what will be the result?



- (A) The price will drop to \$2 a gallon and there will be a surplus of milk.
 - (B) The price will drop to \$2 a gallon and there will be a shortage of milk.
 - (C) The price will drop to \$2 a gallon and demand will decrease.
 - (D) The price will drop to \$2 a gallon and supply will increase.
 - (E) The price will remain at \$3 and the current equilibrium will not change
4. Refer to the graph of curve b. P = Price and Q = Quantity.
Which one of the following statements is true?



- (A) Curve b illustrates an increase in quantity supplied as price decreases.
- (B) Curve b has a negative slope.
- (C) Curve b is perfectly elastic.
- (D) Curve b illustrates an increase in quantity supplied as price increases.
- (E) Curve b does not illustrate a relationship between price and quantity.



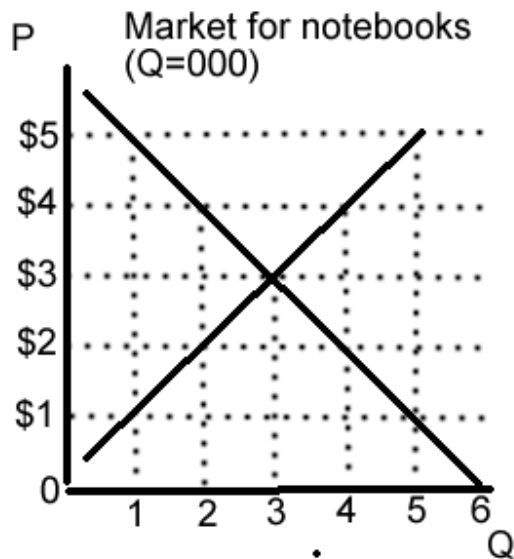
5. Refer to the graph of the market for notebooks. The price of \$3 is not the
- (A) average price.
 - (B) market clearing price.
 - (C) price where quantity demanded is equal to quantity supplied.
 - (D) equilibrium price.
 - (E) most economically efficient price.

6. Refer to the graph of the market for notebooks. The equilibrium price and the equilibrium quantity will be

- (A) P = \$5 and Q = 5,000
- (B) P = \$4 and Q = 4,000
- (C) P = \$3 and Q = 3,000
- (D) P = \$2 and Q = 2,000
- (E) P = \$1 and Q = 1,000

7. Refer to the graph of the market for notebooks. At a market price of \$3, the number of consumers who have a consumer surplus of \$2 is:

- (A) 5,000
- (B) 4,000
- (C) 3,000
- (D) 2,000
- (E) 1,000



8. Refer to the graph of the market for notebooks. A producer that is willing to sell her output for at least \$2 will have a producer surplus of:

- (A) \$ 2
- (B) \$ 2 per unit
- (C) \$2,000
- (D) \$1
- (E) \$1 per unit

9. Refer to the graph of the market for notebooks. If producers set a price for notebooks at \$4, what would happen?

- (A) They would sell 4,000 units.
- (B) They would have a surplus of 2,000 units.
- (C) They would have a surplus of 4,000 units.
- (D) They would have a shortage of 2,000 units
- (E) They would sell 0 units.

Qty Supplied		Qty Demanded	
P		P	
\$5	10,000	\$1	14,000
\$4	8,000	\$2	12,000
\$3	6,000	\$3	9,000
\$2	4,000	\$4	8,000
\$1	2,000	\$5	4,000
\$0	0	\$0	N/A

Table A: Market for Zagrubs

10. Refer to Table A: Market for Zagrubs. Given the information in this table, the total revenue for producers of Zagrubs in this market will be:

- ___ (A) \$50,000
- ___ (B) \$42,000
- ___ (C) \$32,000
- ___ (D) \$18,000
- ___ (E) \$8,000

11. Refer to Table A: Market for Zagrubs. Given the information in this table the market clearing price will be:

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

Qty Supplied		Qty Demanded	
P		P	
\$5	10,000	\$1	14,000
\$4	8,000	\$2	12,000
\$3	6,000	\$3	9,000
\$2	4,000	\$4	8,000
\$1	2,000	\$5	4,000
\$0	0	\$0	N/A

Table A: Market for Zagrubs

12. Refer to Table A: Market for Zagrubs. Given the information in this table and assuming that each consumer buys only one zagrub, how many consumers who are willing to pay at least \$1 but not willing to pay the market price will be eliminated from purchasing a zagrub?

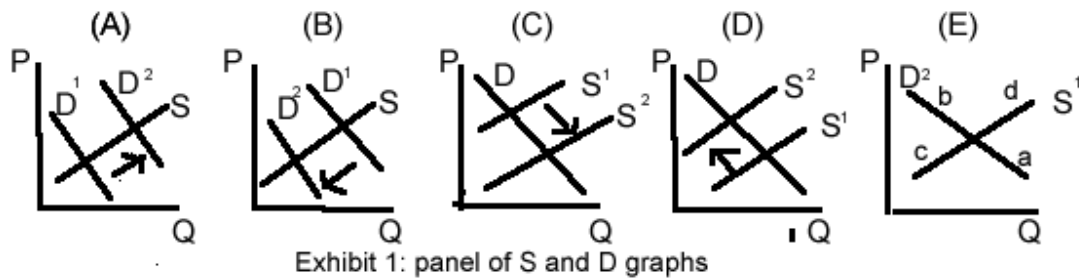
- ___ (A) 35,000
- ___ (B) 14,000
- ___ (C) 12,000
- ___ (D) 9,000
- ___ (E) 6,000

13. Refer to Table A: Market for Zagrubs. Given the information in this table, a consumer willing to pay \$5 will

- ___ (A) have \$1 of consumer surplus for each zagrub at the market clearing price.
- ___ (B) have \$2 of consumer surplus for each zagrub at the market clearing price.
- ___ (C) have \$3 of consumer surplus for each zagrub at the market clearing price.
- ___ (D) have \$4 of consumer surplus for each zagrub at the market clearing price.
- ___ (E) have \$5 of consumer surplus for each zagrub at the market clearing price.

14. Assume that pasta is an inferior good. Which of the following would explain an increase in the price of pasta?

- ___ (A) The cost of wheat decreases. Wheat is a product used in producing pasta.
- ___ (B) Consumer incomes decrease.
- ___ (C) Consumer incomes increase.
- ___ (D) Rice is a substitute for pasta. The price of rice decreases.
- ___ (E) The surgeon general warns that eating pasta can lead to heart disease.



15. Refer to exhibit 1. Assume that the graphs represent the orange industry. Which graph best illustrates the affects of:

A new fertilizer used by orange groves that increases the productivity of each orange tree by 20%.

- (A) graph A
- (B) graph B
- (C) graph C
- (D) graph D
- (E) graph E

16. Refer to exhibit 1. Assume that all graphs represent the market for coffee. Assume that coffee and donuts are complementary goods. Which graph best illustrates the affect of a medical report that connects the eating of donuts with heart disease.

- (A) Graph A
- (B) Graph B
- (C) Graph C
- (D) Graph D
- (E) Graph E

17. Refer to exhibit 1. Assume that all graphs represent the domestic retail market for tomatoes. Which graph best illustrates the affect of an increase in the export of domestic tomatoes to foreign tomato sauce producers.

- (A) graph A
- (B) graph B
- (C) graph C
- (D) graph D
- (E) graph E

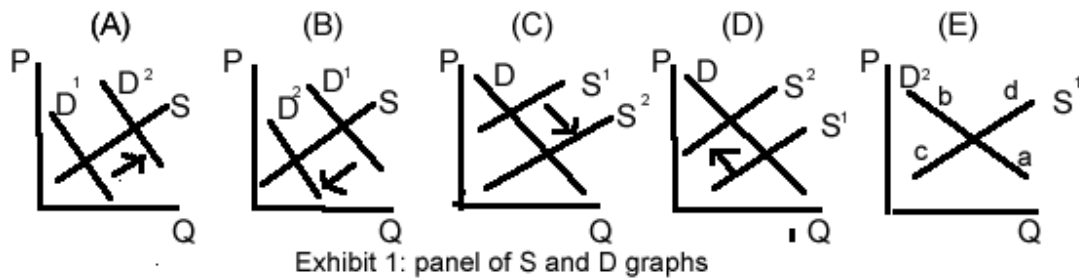


Exhibit 1: panel of S and D graphs

18. Refer to exhibit 1. Assume that all graphs represent the market for cream. Assume that coffee and cream are complementary goods. Which graph best illustrates the affect that a tax per pound on imported coffee beans would have on the cream industry?

- (A) Graph A
- (B) Graph B
- (C) Graph C
- (D) Graph D
- (E) Graph E

19. Refer to exhibit 1. Assume that all graphs represent the new automobile market. Which graph best illustrates the affect of an increase in interest rates on new car loans for consumers.

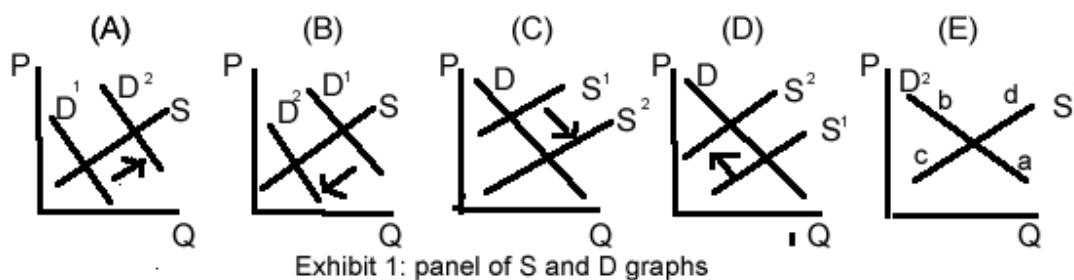
- (A) graph A
- (B) graph B
- (C) graph C
- (D) graph D
- (E) graph E

20. Refer to exhibit 1. Assume that all graphs represent the coffee market. Which graph best illustrates the affects of per pound tax on imported coffee beans?

- (A) Graph A
- (B) Graph B
- (C) Graph C
- (D) Graph D
- (E) Graph E

21. Refer to exhibit 1. Assume that all graphs represent the market for coffee. Assume that coffee and tea are substitute goods. Which graph will best illustrate the affect of a decrease in the supply of tea on the coffee market?

- (A) Graph A
- (B) Graph B
- (C) Graph C
- (D) Graph D
- (E) Graph E



22. Refer to exhibit 1: a panel of supply and demand graphs. Assume that every graph deals with the market for oranges. Which graph best illustrates the affect of an unexpected freeze that hits the economy's orange groves.

- (A) graph A
- (B) graph B
- (C) graph C
- (D) graph D
- (E) graph E

23. A government subsidy to the sugar produces will result in which of the following?

- (A) The private cost of sugar production is less than the total social cost of sugar production and resources are over allocated to the production of sugar.
- (B) The private cost of sugar production is greater than the total cost of production and resources are over allocated to the production of sugar.
- (C) The private cost of sugar production is less than the total cost of production and resources are under-allocated to the production of sugar.
- (D) The private cost of sugar production is greater than the total cost of sugar production and resources are under-allocated to the production of sugar.
- (E) The market price of sugar will not be affected by the subsidy.

24. Assume that slices of pizza and hamburgers are substitute goods. Which of the following will cause the demand curve for slices of pizza to shift to the left?

- (A) The price of a slice of pizza increases.
- (B) The price of a slice of pizza decreases.
- (C) The price of a hamburger increases.
- (D) The price of a hamburger decreases.
- (E) The cost of tomato sauce used in making pizzas decreases.

25. Used Toyotas and Hondas are known for their durability. An increase number of used Toyotas and Hondas exported from the United States to Central and South America will have what affect on the market for used Toyotas and Hondas in the United States?

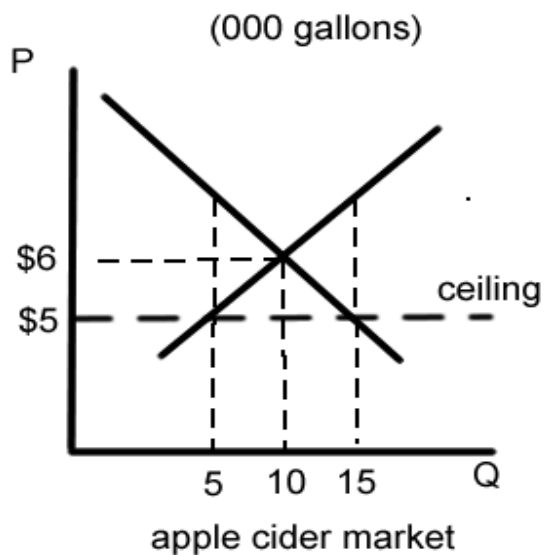
- (A) The price and quantity supplied of used Toyotas and used Hondas will increase in the United States.
- (B) The price and quantity supplied of used Toyotas and used Hondas will decrease in the United States.
- (C) The price of used Toyotas and Hondas will increase and the quantity supplied of used Toyotas and Hondas will decrease in the United States.
- (D) The price of used Toyotas and Hondas will not change in the United States.
- (E) The price of used Toyotas and Hondas will decrease and the quantity supplied of used Toyotas and Hondas will increase in the United States.

26. If consumers expect the price of plasma televisions to increase in the near future, the

- (A) quantity demanded of plasma televisions will increase but demand will not shift.
- (B) demand for plasma televisions will increase.
- (C) the current supply for plasma televisions will increase.
- (D) the current price of plasma televisions will decrease.
- (E) there will be not affect on the market for plasma televisions.

27. The increase in demand for Vidalia onions has led to an increase in market price. If thousands of additional acres suitable to the production of Vidalia onions are added next season, what will be the affect on price and equilibrium quantity assuming that demand remains constant at the new level?

- (A) Price will increase and equilibrium quantity will increase.
- (B) Price will decrease and equilibrium quantity will increase.
- (C) Price will increase and equilibrium quantity will decrease.
- (D) Price will decrease and equilibrium quantity will decrease.
- (E) Price will decrease and equilibrium quantity will not change.



28. Refer to the graph for the apple cider market. The current equilibrium is \$6 a gallon and the government establishes a maximum price of \$5 a gallon. Which of the following will occur?

- (A) The new price of \$5 will not be effective.
- (B) There will be a shortage of 10,000 gallons of apple cider.
- (C) There will be a surplus of 10,000 gallons of apple cider.
- (D) The supply of apple cider will increase.
- (E) The demand for apple cider will decrease.

29. Refer to the graph for apple cider with a price ceiling of \$5. Once the price ceiling is established, what will be the decrease in total revenues (and total expenditures) for the apple cider market?

- (A) \$5,000
- (B) \$10,000
- (C) \$25,000
- (D) \$35,000
- (E) Total expenditures will increase but total revenues will decrease.

30. The demand for notebook computers has increased. The price for notebook computers has decreased. Which of the following most accurately explains how this could happen?

- (A) The increase in demand leads to an increase in quantity supplied and therefore a lower cost of production.
- (B) The increase in demand increase the supply of notebooks.
- (C) The increase in demand leads to a surplus of notebook computers that forces the sellers to lower price.
- (D) The technological advances in computer chips leads to lower costs of producing notebook computers and the resulting increase in supply has a greater impact on price than the increase in demand.
- (E) This could not possibly happen because an increase in demand will lead to an increase in price regardless of any changes in supply.

31. If lemonade and limeade are both selling for \$1 and an increase in the price of lemonade to \$1.50 leads to a doubling of quantity demanded for limeade then we can conclude that:

- (A) the demand for lemonade is relatively inelastic.
- (B) lemonade and limeade are complementary goods.
- (C) the supply for limeade will shift.
- (D) lemonade is an inferior good.
- (E) the cross price elasticity demand for limeade is positive.

32. If demand for newbies decrease as the price for fragbies increases, we can conclude that:

- (A) newbies and fragbies are substitute goods.
- (B) newbies and fragbies are complementary goods.
- (C) newbies were originally more expensive than fragbies.
- (D) both goods are inferior goods.
- (E) the demand for fragbies must have increased.

33. If a terrible blight destroyed a large amount of the potato crop, what would be the affect on the market for French fries?

- (A) Price would decrease and output would decrease.
- (B) Price would increase and output would remain constant.
- (C) Price would remain constant and output would decrease.
- (D) Price would increase and output would increase.
- (E) Price would increase and output would decrease.

34. Assume that orange juice and grapefruit juice are substitute goods. An improvement in technology that only affects the productivity of grapefruit producers will lead to:

- (A) an increase in the price of grapefruit juice.
- (B) a decrease in the output of grapefruit juice producers.
- (C) an increase in the price of orange juice.
- (D) a decrease in the price of orange juice.
- (E) an increase in the output of orange juice producers.

35. Assume that there is an open market for corn in North America. If the use of corn in the production of ethanol for automobiles increases, which of the following is most likely to occur in Mexico?

- (A) The price of new automobiles will increase.
- (B) The price of new automobiles will decrease.
- (C) The price of corn tortillas will increase.
- (D) The price of corn tortillas will decrease.
- (E) The supply of gasoline will decrease.

36. Assume that the price of a widget increases from \$2 to \$3 and the quantity sold decreases from 1,000 to 800. One plausible explanation of this is:

- (A) the demand for widgets is relatively elastic.
- (B) the demand for widgets is relatively inelastic.
- (C) the demand for widgets increased.
- (D) the supply of widgets increased.
- (E) the demand for widget decreased.

37. A government subsidy to sugar growers has what affect on the market for sugar.

- (A) The supply of sugar increases and the market price for sugar increases.
- (B) The supply of sugar decreases and the market price for sugar increases.
- (C) The supply of sugar decreases and the market price for sugar decreases.
- (D) The supply of sugar increases and the market price for sugar decreases.
- (E) The supply of sugar increases and there is not change in the market price for sugar.

38. If the total revenue for denim jeans remains constant as price changes from \$40 a pair to \$41 a pair, then

- (A) the demand for denim jeans is elastic on that range of the demand curve.
- (B) The demand for denim jeans is inelastic on that range of the demand curve.
- (C) the demand for denim jeans is unit elastic on that range of the demand curve.
- (D) the demand for denim jeans has increased.
- (E) the demand for jeans has decreased.

39. The price of tea increases and this causes the price of coffee to increase. Which of the following best explains this event?

- (A) Tea and coffee are complementary goods and the increase in quantity demanded for tea leads to a decrease in the supply of coffee.
- (B) Tea and coffee are complementary goods and the increase in quantity demanded for tea increases the demand for coffee.
- (C) Tea and coffee are substitute goods and the decrease in quantity demanded for tea decreases the supply of coffee.
- (D) Tea and coffee are substitute goods and the decrease in the quantity demanded of tea leads to an increase in demand for coffee.
- (E) Tea and coffee are not related goods and the only explanation of the higher price of tea is inflation and inflation will also increase the price of coffee.

40. If technology increases the production of wheat per acre and at the same time consumers become more aware of the health advantages to eating wheat the equilibrium price and quantity for wheat will change in what ways?

- (A) Price and equilibrium quantity will increase.
- (B) Price and equilibrium quantity will decrease.
- (C) Price will decrease and equilibrium quantity will increase.
- (D) Price is indeterminate from the information given and equilibrium quantity will increase.
- (E) Price will decrease and equilibrium quantity is indeterminate.