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Problem Set 1

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Refer to the information provided in Figure 2.5 below to answer the questions that follow.

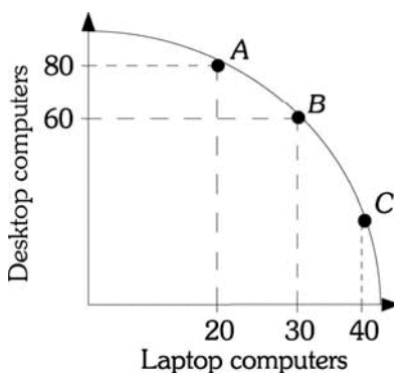


Figure 2.5

- 1) Refer to Figure 2.5. For this economy to move from Point B to Point C so that an additional 10 laptop computers could be produced, production of desktop computers would have to be reduced by
A) exactly 20. B) fewer than 20. C) exactly 40. D) more than 20.
- 2) The price of mozzarella cheese increases. In the market for pizza you would expect that the
A) demand for pizza would increase and the price of pizza would increase.
B) supply of pizza would increase and the price of pizza would decrease.
C) demand for pizza would decrease and the price of pizza would fall.
D) supply of pizza would decrease and the price of pizza would increase.

Refer to the information provided in Figure 3.10 below to answer the questions that follow.

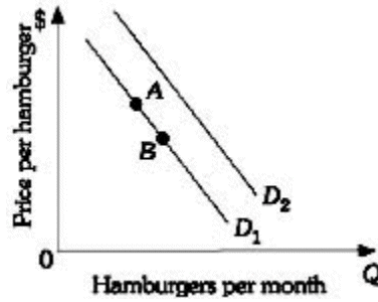


Figure 3.10

- 3) Refer to Figure 3.10. Assume hamburgers and hot dogs are substitutes. A fall in the price of hot dogs will cause a movement from
- A) D_2 to D_1 . B) D_1 to D_2 . C) Point A to Point B. D) Point B to Point A.
- 4) Refer to Figure 3.10. Assume hamburgers are a normal good. An increase in income will cause a _____ from _____.
- A) movement; Point B to Point A. B) shift; D_1 to D_2 .
 C) movement; Point A to Point B. D) shift; D_2 to D_1

Refer to the information provided in Figure 3.14 below to answer the questions that follow.

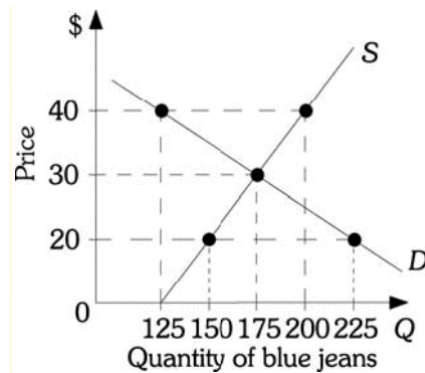


Figure 3.14

- 5) Refer to Figure 3.14. At a price of \$20, there is an excess _____ of _____ blue jeans.
- A) demand; 50 B) demand; 75 C) supply; 50 D) demand; 25
- 6) Refer to Figure 3.14. If this market is unregulated and the price is currently \$40, you would expect that the price
- A) would fall to \$30, where quantity demanded equals quantity supplied.
 B) of blue jeans would remain at \$40, because firms would not want to reduce the price.
 C) of blue jeans would fall to \$20, so the firm could sell its excess supply.
 D) would fall, but the new price is indeterminate from the information provided.

Refer to the information provided in Figure 3.1 below to answer the questions that follow.

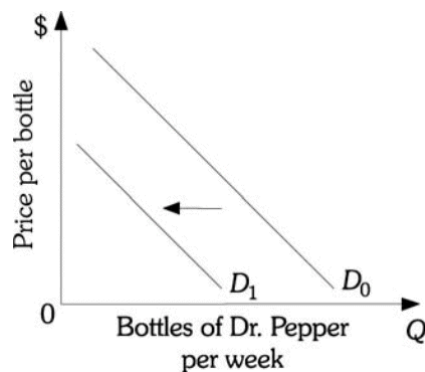


Figure 3.1

- 7) Refer to Figure 3.1. Which of the following would be most likely to cause the demand for Dr. Pepper to shift from D_0 to D_1 ?
- A) a reduction in the price of sugar used to make Dr. Pepper
 - B) a decrease in income, assuming that Dr. Pepper is a normal good
 - C) a decrease in the price of Dr. Pepper
 - D) an increase in the price of 7-UP, assuming 7-UP is a substitute for Dr. Pepper
- 8) A(n) _____ in equilibrium _____ will occur when there is an increase in demand for and a decrease in supply of milk.
- A) decrease; quantity
 - B) decrease; price
 - C) increase; quantity
 - D) increase; price
- 9) For an economy to produce at a point beyond its current ppf, the economy must
- A) increase its resource base.
 - B) be more efficient.
 - C) reduce inputs.
 - D) waste less.
- 10) During the war in Iraq some Iraqi oil refineries were destroyed. This would best be represented by a
- A) movement up Iraq's existing production possibility frontier.
 - B) shift of Iraq's production possibility frontier toward the origin.
 - C) movement off Iraq's production possibility frontier to some point inside the frontier.
 - D) movement down Iraq's existing production possibility frontier.

Refer to the information provided in Figure 3.7 below to answer the following questions.

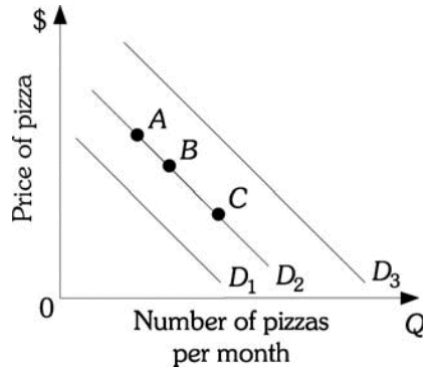


Figure 3.7

- 11) Refer to Figure 3.7. Assume buyers are initially at Point B on market demand curve D_2 and that pizza is a normal good. A decrease in the income of buyers would cause the market _____ to move from Point B to _____.
- A) demand; a point on demand curve D_3 .
 - B) demand; a point on demand curve D_1 .
 - C) quantity demanded; point A on demand curve D_2 .
 - D) quantity demanded; point C on demand curve D_2 .
- 12) Refer to Figure 3.7. A decrease in demand is represented by a _____ from _____.
- A) shift; D_2 to D_3 .
 - B) movement along D_2 ; Point B to Point C.
 - C) movement along D_2 ; Point B to Point A.
 - D) shift; D_2 to D_1 .

Refer to the information provided in Figure 5.4 below to answer the questions that follow.

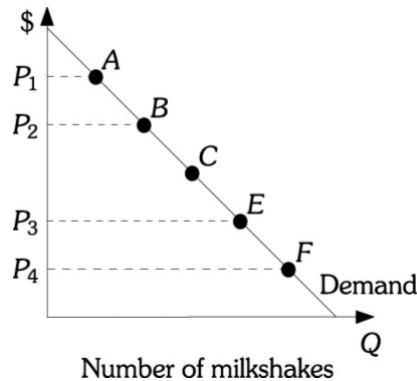


Figure 5.4

- 13) Refer to Figure 5.4. The demand for milkshakes is unitarily elastic at Point C. If the milkshake price falls from P_1 to P_2 , total revenue will
- A) remain constant.
 - B) increase.
 - C) decrease.
 - D) either increase or decrease.
- 14) A _____ line is a perfectly price inelastic demand curve.
- A) horizontal
 - B) positively sloped
 - C) vertical
 - D) negatively sloped

Refer to the information provided in Figure 5.2 below to answer the questions that follow.

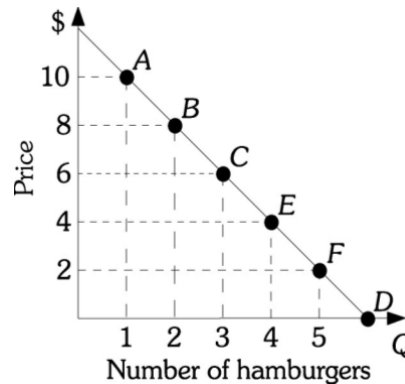


Figure 5.2

- 15) Refer to Figure 5.2. Using the midpoint formula (arc elasticity), if the price of a hamburger is increased from \$6 to \$8, the price elasticity of demand equals
 A) -1.4. B) 0.24. C) -2.0. D) 71.0.
- 16) A _____ line is a perfectly price elastic demand curve.
 A) negatively sloped B) positively sloped C) horizontal D) vertical

Refer to the information provided in Table 3.1 below to answer the questions that follow.

Price per Pizza	Quantity Demanded (Pizzas per Month)	Quantity Supplied (Pizzas per Month)
\$4	1,000	700
6	900	750
8	800	800
10	700	850
12	600	900

- 17) Refer to Table 3.1. In this market there will be an excess demand of 150 pizzas at a price of
 A) \$6. B) \$8. C) \$10. D) \$12.
- 18) When it passed through Louisiana in the summer of 2005, a hurricane destroyed approximately a quarter of the sugar cane crop. Ceteris paribus, the
 A) demand for sugar increased and the price of sugar increased.
 B) demand for sugar decreased and the price of sugar decreased.
 C) supply of sugar decreased and the price of sugar decreased.
 D) supply of sugar decreased and the price of sugar increased.
- 19) According to the law of supply, there is a
 A) positive relationship between price and the quantity of a good supplied.
 B) negative relationship between price and the quantity of a good supplied.
 C) positive relationship between price and the change in supply.
 D) negative relationship between price and the change in supply.

Refer to the information provided in Figure 2.3 below to answer the questions that follow.

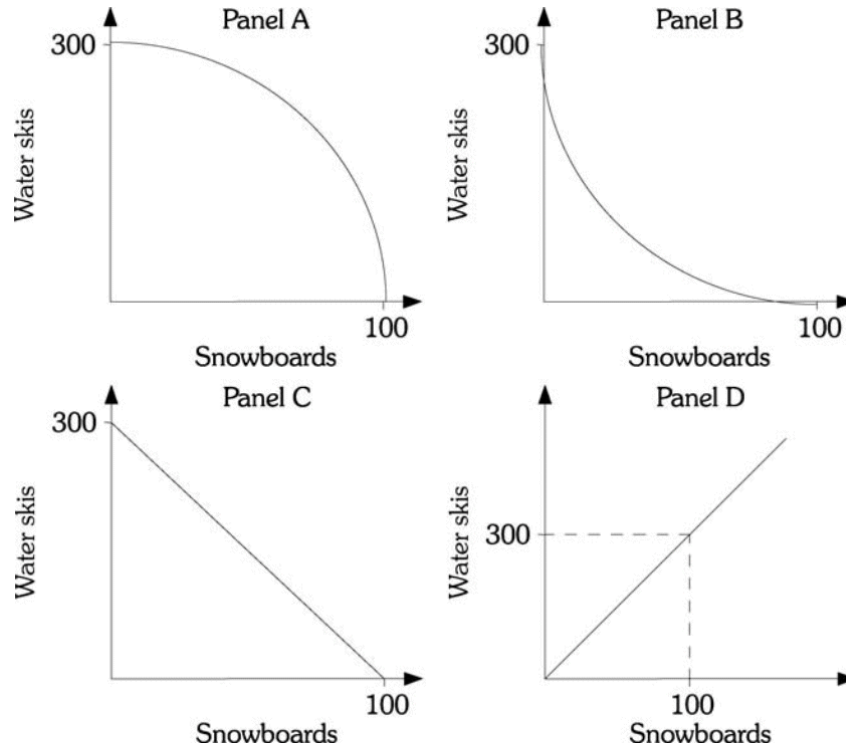


Figure 2.3

- 20) Refer to Figure 2.3. Assume that in Microland the marginal rate of transformation of snowboards for waterskis is increasing. A graph of this society's production possibility frontier will be represented by
 A) A. B) B. C) C. D) D.

Refer to the information provided in Table 3.2 below to answer the questions that follow.

Price per Gardenburger	Quantity Demanded (Gardenburgers per Month)	Quantity Supplied (Gardenburgers per Month)
\$6	1,100	650
8	1,000	700
10	900	750
12	800	800
14	700	850

- 21) Refer to Table 3.2. If the price per gardenburger is \$6, there is an excess _____ of _____ gardenburgers.
 A) demand; 150 B) demand; 450 C) supply; 150 D) supply; 50
- 22) The government wants to reduce the consumption of electricity by 10%. The price elasticity of demand for electricity is $-.4$. The government should _____ the price of electricity by _____.
 A) raise; 2.0% B) lower; 0.4% C) raise; 25.0% D) raise; 0.04%

- 23) At a price of \$20, a store can sell 24 picture frames a day. At a price of \$18 the store can sell 33 picture frames a day. Using the midpoint formula (arc elasticity), the price elasticity of demand is
 A) 0.33. B) 3.75. C) -3.0. D) 9.09.
- 24) An increase in supply caused no change in equilibrium quantity bought and sold. Thus, demand must be
 A) elastic. B) perfectly inelastic. C) inelastic. D) unitarily elastic.
- 25) The government wants to reduce the consumption of electricity by 5%. The price elasticity of demand for electricity is 4. The government should _____ the price of electricity by _____.
 A) raise; 1.25% B) lower; 0.4% C) raise; 2.0% D) raise; 0.08%
- 26) If the cross-price elasticity of demand between fish and chicken is 2, then a 2% increase in the price of fish will result in a _____ in the quantity of chicken demanded.
 A) 1% increase B) 4% increase C) 10% increase D) 20% decrease

Refer to the information provided in Figure 4.1 below to answer the questions that follow.

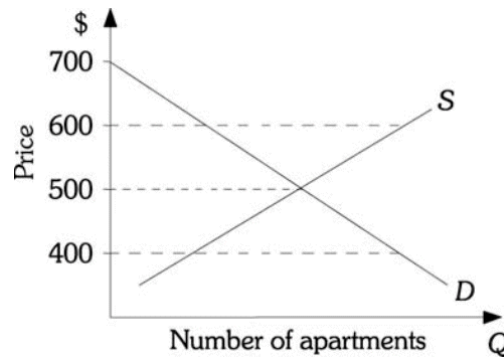


Figure 4.1

- 27) Refer to Figure 4.1 If the government will not allow landlords to charge less than \$600 for an apartment, which of the following will happen?
 A) Demand must eventually increase so that the market will come into equilibrium at a price of \$600.
 B) The market will be in equilibrium at a price of \$600.
 C) Supply must eventually decrease so that the market will come into equilibrium at a price of \$600.
 D) Landlords will supply more apartments than renters will demand.

Refer to Scenario 2 below to answer the questions that follow.

SCENARIO 2: Lettuce and spinach are substitutes. Lettuce and tomatoes are complements. Lettuce is a normal good. During the winter, about 20% of the lettuce crop was destroyed by flooding.

- 28) Refer to Scenario 2. As a result of the flooding during the winter, you would expect that
 A) the price of lettuce rose and both the quantity of lettuce supplied and the quantity of lettuce demanded increased.
 B) the supply of lettuce decreased, the price of lettuce rose, and the demand for lettuce decreased.
 C) the supply of lettuce decreased, the price of lettuce rose, and the quantity demanded of lettuce decreased.
 D) the price of lettuce would rise, the supply of lettuce would increase, and the quantity demanded of lettuce would decrease.

Refer to the information provided in Figure 3.17 below to answer the questions that follow.

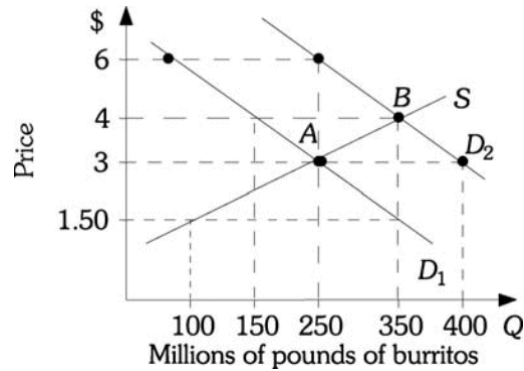


Figure 3.17

- 29) Refer to Figure 3.17. The market is initially in equilibrium at Point A. If demand shifts from D_1 to D_2 , the new equilibrium price will be _____ and the new equilibrium quantity will be _____.
- A) \$6.00; 250 B) \$3.00; 250 C) \$4.00; 150 D) \$4.00; 350
- 30) DVD players and DVDs are complements. A rise in the player price would cause which of the following in the market for DVDs? The equilibrium price
- A) of DVDs would fall and the equilibrium quantity would rise.
B) and quantity of DVDs would fall.
C) and quantity of DVDs would rise.
D) of DVDs would rise and the equilibrium quantity would fall.