1. Assume Leo buys coffee beans in a competitive market. It follows that
   a. Leo has a limited number of sellers from which to buy coffee beans.
   b. Leo will negotiate with sellers whenever he buys coffee beans.
   c. Leo cannot influence the price of coffee beans even if he buys a large quantity of them.
   d. None of the above is correct.
   ANS\(\text{WER: }c\)

2. In competitive markets, buyers
   a. are price takers, but sellers are price setters.
   b. are price setters, but sellers are price takers.
   c. and sellers are price takers.
   d. and sellers are price setters.
   ANS\(\text{WER: }c\)

3. Which of the following is not a characteristic of a perfectly competitive market?
   a. Different sellers sell identical products.
   b. There are many sellers.
   c. Sellers must accept the price the market determines.
   d. All of the above are characteristics of a perfectly competitive market.
   ANS\(\text{WER: }d\)

4. A movement downward and to the right along a demand curve is called a(n)
   a. increase in demand.
   b. decrease in demand.
   c. decrease in quantity demanded.
   d. increase in quantity demanded.
   ANS\(\text{WER: }d\)

5. A decrease in the price of a good would
   a. increase the supply of the good.
   b. increase the quantity demanded of the good.
   c. give producers an incentive to produce more to keep profits from falling.
   d. shift the supply curve for the good to the left.
   ANS\(\text{WER: }b\)

6. “Other things equal, when the price of a good rises, the quantity demanded of the good falls, and
   when the price falls, the quantity demanded rises.” This relationship between price and quantity
   demanded
   a. applies to most goods in the economy.
   b. is represented by a downward-sloping demand curve.
   c. is referred to as the law of demand.
   d. All of the above are correct.
   ANS\(\text{WER: }d\)
7. The following table contains a monthly demand schedule for large, single-topping, carry-out pizzas.

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15</td>
<td>1</td>
</tr>
<tr>
<td>$20</td>
<td>25</td>
</tr>
</tbody>
</table>

If the law of demand applies to these pizzas, then A could be
a. 0.
b. 15.
c. 25.
d. 30.
ANSWER: d

8. When quantity demanded decreases at every possible price, the demand curve has
a. shifted to the left.
b. shifted to the right.
c. not shifted; rather, we have moved along the demand curve to a new point on the same curve.
d. not shifted; rather, the demand curve has become flatter.
ANSWER: a

9. The market demand curve
a. is found by vertically adding the individual demand curves.
b. slopes upward.
c. represents the sum of the prices that all the buyers are willing to pay for a given quantity of the good.
d. represents the sum of the quantities demanded by all the buyers at each price of the good.
ANSWER: d

10. Consider the table below.

<table>
<thead>
<tr>
<th>Price</th>
<th>Bert's Quantity Demanded</th>
<th>Ernie's Quantity Demanded</th>
<th>Grover's Quantity Demanded</th>
<th>Oscar's Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00</td>
<td>20</td>
<td>16</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>$0.50</td>
<td>18</td>
<td>12</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$1.00</td>
<td>14</td>
<td>10</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>$1.50</td>
<td>12</td>
<td>8</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>$2.00</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>$2.50</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

If these are the only four buyers in the market, then the market quantity demanded at a price of $1 is
a. 4 units.
b. 7.75 units.
c. 14 units.
d. 31 units.
ANSWER: d

11. Suppose John and Wayne are the only two demanders of cowboy movies. Each month, John buys six cowboy movies when the price is $10 each, and he buys four cowboy movies when the price is $15 each. Each month, Wayne buys four cowboy movies when the price is $10 each, and he buys two cowboy movies when the price is $15 each. Which of the following points is on the market demand curve?
14. Which of the following would shift the demand curve for gasoline to the right?
   a. a decrease in the price of gasoline
   b. an increase in consumer income, assuming gasoline is a normal good
   c. an increase in the price of cars, a complement for gasoline
   d. a decrease in the expected future price of gasoline
   ANSWER: b

15. Currently you purchase ten frozen pizza per month. You will graduate from college in December, and you will start a new job in January. You have no plans to purchase frozen pizzas in January. For you, frozen pizzas are a(n)
   a. substitute good.
   b. normal good.
   c. inferior good.
   d. complementary good.
   ANSWER: c

16. Suppose that a decrease in the price of good X results in fewer units of good Y being demanded. This implies that X and Y are
   a. complementary goods.
   b. normal goods.
   c. inferior goods.
   d. substitute goods.
   ANSWER: d

17. If muffins and bagels are substitutes, a higher price for bagels would result in a(n)
   a. increase in the demand for bagels.
   b. decrease in the demand for bagels.
   c. increase in the demand for muffins.
   d. decrease in the demand for muffins.
ANSWER: c

18. If textbooks and study guides are complements, then an increase in the price of textbooks will result in
   a. more textbooks being sold.
   b. more study guides being sold.
   c. fewer study guides being sold.
   d. no difference in the quantity sold of either good.
ANSWER: c

19. Suppose you like to make, from scratch, pies filled with banana cream and vanilla pudding. You notice that the price of bananas has increased. As a result, your demand for vanilla pudding would
   a. decrease.
   b. increase.
   c. be unaffected.
   d. There is insufficient information given to answer the question.
ANSWER: a

20. If a study by medical researchers finds that eating brown rice causes weight loss while eating white rice causes weight gain, then we likely would see
   a. an increase in demand for brown rice and a decrease in demand for white rice.
   b. a decrease in demand for brown rice and an increase in demand for white rice.
   c. an increase in demand for both brown and white rice.
   d. no change in demand for either type of rice because weight loss is not a determinant of demand.
ANSWER: a

21. You love peanut butter. You hear on the news that 50 percent of the peanut crop in the South has been wiped out by drought and that this will cause the price of peanuts to double by the end of the year. As a result, your demand for peanut butter
   a. will increase but not until the end of the year.
   b. increases today.
   c. decreases as you look for a substitute good.
   d. shifts left today.
ANSWER: b

22. Today's demand curve for gasoline could shift in response to a change in
   a. today's price of gasoline.
   b. the expected future price of gasoline.
   c. the number of sellers of gasoline.
   d. All of the above are correct.
ANSWER: b
Refer to Figure 1 above for questions 23 through 26.

23. In this market, equilibrium price and quantity, respectively, are
   a. $10 and 30 units.
   b. $10 and 50 units.
   c. $10 and 70 units.
   d. $4 and 50 units.
   ANSWER: b

24. If price in this market is currently $14, then there would be a(n)
   a. surplus of 20 units. The law of supply and demand predicts that the price will rise from $14 to a higher price.
   b. excess supply of 20 units. The law of supply and demand predicts that the price will fall from $14 to a lower price.
   c. surplus of 40 units. The law of supply and demand predicts that the price will rise from $14 to a higher price.
   d. excess supply of 40 units. The law of supply and demand predicts that the price will fall from $14 to a lower price.
   ANSWER: d

25. If there is currently a shortage of 20 units of the good, then the law of
   a. demand predicts that the price will rise by $2 to eliminate the shortage.
   b. supply predicts that the price will rise by $2 to eliminate the shortage.
   c. supply and demand predicts that the price will rise by $2 to eliminate the shortage.
   d. supply and demand predicts that the price will fall by $2 to eliminate the shortage.
   ANSWER: c

26. Suppose buyers of computers and printers regard the two goods as complements. Then an increase in the price of computers will cause a(n)
a. decrease in the demand for printers and a decrease in the quantity supplied of printers.
b. decrease in the supply of printers and a decrease in the quantity demanded of printers.
c. decrease in the equilibrium price of printers and an increase in the equilibrium quantity of printers.
d. increase in the equilibrium price of printers and a decrease in the equilibrium quantity of printers.

\[\text{ANSWER: a}\]

27. A decrease in input costs to firms in a market will result in a(n)
   a. decrease in equilibrium price and an increase in equilibrium quantity.
b. decrease in equilibrium price and a decrease in equilibrium quantity.
c. increase in equilibrium price and a decrease in equilibrium quantity.
d. increase in equilibrium price and an increase in equilibrium quantity.

\[\text{ANSWER: a}\]

28. What would happen to the equilibrium price and quantity of lattés if coffee shops began using a machine that reduced the amount of labor necessary to produce them?
   a. Both the equilibrium price and quantity would increase.
b. Both the equilibrium price and quantity would decrease.
c. The equilibrium price would increase, and the equilibrium quantity would decrease.
d. The equilibrium price would decrease, and the equilibrium quantity would increase.

\[\text{ANSWER: d}\]

29. The market for diamond rings is closely linked to the market for high-quality diamonds. If a large quantity of high-quality diamonds enters the market, then the
   a. supply curve for diamond rings will shift right, which will create a shortage at the current price.
      Price will increase, which will decrease quantity demanded and increase quantity supplied. The new market equilibrium will be at a higher price and higher quantity.
b. supply curve for diamond rings will shift right, which will create a surplus at the current price.
      Price will decrease, which will increase quantity demanded and decrease quantity supplied. The new market equilibrium will be at a lower price and higher quantity.
c. demand curve for diamond rings will shift right, which will create a shortage at the current price. Price will increase, which will decrease quantity demanded and increase quantity supplied. The new market equilibrium will be at a higher price and higher quantity.
d. demand curve for diamond rings will shift right, which will create a surplus at the current price. Price will decrease, which will increase quantity demanded and decrease quantity supplied. The new market equilibrium will be at a lower price and higher quantity.

\[\text{ANSWER: b}\]

30. What will happen to the equilibrium price of new textbooks if more students attend college, paper becomes cheaper, textbook authors accept lower royalties, and fewer used textbooks are sold?
   a. Price will rise.
b. Price will fall.
c. Price will stay exactly the same.
d. The price change will be ambiguous.

\[\text{ANSWER: d}\]

31. What will happen to the equilibrium price and quantity of new cars if the price of gasoline rises, the price of steel rises, public transportation becomes cheaper and more comfortable, and auto-workers negotiate higher wages?
32. Price controls are usually enacted
   a. as a means of raising revenue for public purposes.
   b. when policymakers believe that the market price of a good or service is unfair to buyers or sellers.
   c. when policymakers tax a good.
   d. All of the above are correct.
   \textit{ANSWER:} b

33. A price ceiling is
   a. often imposed on markets in which “cutthroat competition” would prevail without a price ceiling.
   b. a legal maximum on the price at which a good can be sold.
   c. often imposed when sellers of a good are successful in their attempts to convince the government that the market outcome is unfair without a price ceiling.
   d. All of the above are correct.
   \textit{ANSWER:} b

34. If a price ceiling is not binding, then
   a. the equilibrium price is above the price ceiling.
   b. the equilibrium price is below the price ceiling.
   c. it has no legal enforcement mechanism.
   d. None of the above is correct because all price ceilings must be binding.
   \textit{ANSWER:} b

35. A price ceiling will be binding only if it is set
   a. equal to the equilibrium price.
   b. above the equilibrium price.
   c. below the equilibrium price.
   d. either above or below the equilibrium price.
   \textit{ANSWER:} c

36. Suppose the government has imposed a price ceiling on laptop computers. Which of the following events could transform the price ceiling from one that is not binding into one that is binding?
   a. Improvements in production technology reduce the costs of producing laptop computers.
   b. The number of firms selling laptop computers decreases.
   c. Consumers' income decreases, and laptop computers are a normal good.
   d. The number of consumers buying laptop computers decreases.
   \textit{ANSWER:} b

37. If the government removes a binding price ceiling from a market, then the price paid by buyers will
   a. increase, and the quantity sold in the market will increase.
b. increase, and the quantity sold in the market will decrease.

c. decrease, and the quantity sold in the market will increase.

d. decrease, and the quantity sold in the market will decrease.

**ANSWER:** a

38. A binding price ceiling
   (i) causes a surplus.
   (ii) causes a shortage.
   (iii) is set at a price above the equilibrium price.
   (iv) is set at a price below the equilibrium price.

a. (ii) only
b. (iv) only

c. (i) and (iii) only
d. (ii) and (iv) only

**ANSWER:** d

39. A nonbinding price floor
   (i) causes a surplus.
   (ii) causes a shortage.
   (iii) is set at a price above the equilibrium price.
   (iv) is set at a price below the equilibrium price.

a. (iii) only
b. (iv) only
c. (i) and (iii) only
d. (ii) and (iv) only

**ANSWER:** b

40. A price floor will be binding only if it is set
   a. equal to the equilibrium price.
   b. above the equilibrium price.
   c. below the equilibrium price.
   d. either above or below the equilibrium price.

**ANSWER:** b

41. Which of the following observations would be consistent with the imposition of a binding price floor on a market? After the price floor becomes effective,
   a. a smaller quantity of the good is bought and sold.
   b. a larger quantity of the good is demanded.
   c. a smaller quantity of the good is supplied.
   d. the price falls below the equilibrium price.

**ANSWER:** a

42. Suppose the government has imposed a price floor on the market for soybeans. Which of the following events could transform the price floor from one that is not binding into one that is binding?
   a. Farmers use improved, draught-resistant seeds, which lowers the cost of growing soybeans.
   b. The number of farmers selling soybeans decreases.
   c. Consumers' income increases, and soybeans are a normal good.
   d. The number of consumers buying soybeans increases.
ANSWER: a

43. If the government removes a binding price floor from a market, then the price paid by buyers will
a. increase, and the quantity sold in the market will increase.
b. increase, and the quantity sold in the market will decrease.
c. decrease, and the quantity sold in the market will increase.
d. decrease, and the quantity sold in the market will decrease.
ANSWER: c

Figure 2.

44. Refer to Figure 2. If the horizontal line on the graph represents a price ceiling, then the price ceiling is
a. binding and creates a shortage of 20 units of the good.
b. binding and creates a shortage of 40 units of the good.
c. not binding but creates a shortage of 40 units of the good.
d. not binding, and there will be no surplus or shortage of the good.
ANSWER: b

45. Refer to Figure 2. If the horizontal line on the graph represents a price floor, then the price floor is
a. binding and creates a shortage of 20 units of the good.
b. binding and creates a shortage of 40 units of the good.
c. not binding but creates a shortage of 40 units of the good.
d. not binding, and there will be no surplus or shortage of the good.
ANSWER: d
46. Refer to Figure 3. In this market, a minimum wage of $7.25 is
a. binding and creates a labor shortage.
b. binding and creates unemployment.
c. nonbinding and creates a labor shortage.
d. nonbinding and creates neither a labor shortage nor unemployment.
ANSWER: b

47. Refer to Figure 3. In this market, a minimum wage of $2.75 is
a. binding and creates a labor shortage.
b. binding and creates unemployment.
c. nonbinding and creates a labor shortage.
d. nonbinding and creates neither a labor shortage nor unemployment.
ANSWER: d

48. Refer to Figure 3. In this market, a minimum wage of $7.25 creates a labor
a. shortage of 2,250 workers.
b. shortage of 4,500 workers.
c. surplus of 2,250 workers.
d. surplus of 4,500 workers.
ANSWER: d

49. In January 2014, over 600 economists sent a letter to President Obama, in order to
a. call for the need of a fall in the minimum wage to $6.50 by January 2016.
b. call for the need of a rise in the minimum wage to $10.10 by January 2016.
c. call for abondining any minimum wage law that is present.
d. tax cuts on the financial earnings.
ANSWER: b

50. When a tax is placed on the sellers of a product, buyers pay
a. more, and sellers receive more than they did before the tax.
b. more, and sellers receive less than they did before the tax.
c. less, and sellers receive more than they did before the tax.
d. less, and sellers receive less than they did before the tax.

ANSWER: b

51. If the government levies a $1,000 tax per boat on sellers of boats, then the price paid by buyers of boats would
   a. increase by more than $1,000.
b. increase by exactly $1,000.
c. increase by less than $1,000.
d. decrease by an indeterminate amount.

ANSWER: c

52. Suppose sellers of perfume are required to send $1.00 to the government for every bottle of perfume they sell. Further, suppose this tax causes the price paid by buyers of perfume to rise by $0.60 per bottle. Which of the following statements is correct?
   a. The effective price received by sellers is $0.40 per bottle less than it was before the tax.
b. Sixty percent of the burden of the tax falls on sellers.
c. This tax causes the demand curve for perfume to shift downward by $1.00 at each quantity of perfume.
d. All of the above are correct.

ANSWER: a

53. Suppose there is currently a tax of $50 per ticket on airline tickets. Sellers of airline tickets are required to pay the tax to the government. If the tax is reduced from $50 per ticket to $30 per ticket, then
   a. demand curve will shift upward by $20, and the price paid by buyers will decrease by less than $20.
b. demand curve will shift upward by $20, and the price paid by buyers will decrease by $20.
c. supply curve will shift downward by $20, and the effective price received by sellers will increase by less than $20.
d. supply curve will shift downward by $20, and the effective price received by sellers will increase by $20.

ANSWER: c

54. A tax on the buyers of cereal will increase the price of cereal paid by buyers,
   a. decrease the effective price of cereal received by sellers, and decrease the equilibrium quantity of cereal.
b. decrease the effective price of cereal received by sellers, and increase the equilibrium quantity of cereal.
c. increase the effective price of cereal received by sellers, and decrease the equilibrium quantity of cereal.
d. increase the effective price of cereal received by sellers, and increase the equilibrium quantity of cereal.

ANSWER: a
Refer to Figure 4 above for questions 55 through 59.

55. The price paid by buyers after the tax is imposed is
   a. $8.
   b. $16.
   c. $14.
   d. $12.
   ANSWER: b

56. The effective price received by sellers after the tax is imposed is
   a. $8.
   b. $16.
   c. $14.
   d. $12
   ANSWER: a

57. The amount of the tax per unit is
   a. $4.
   b. $8.
   c. $14.
   d. $10
   ANSWER: b

58. The per-unit burden of the tax is
   a. $2 for buyers and $6 for sellers.
   b. $4 for buyers and $4 for sellers.
   c. $6 for buyers and $2 for sellers.
   d. $8 for buyers and $0 for sellers.
   ANSWER: a

59. How much tax revenue does this tax produce for the government?
   a. $480
b. $640  
c. $360  
d. $120  
**ANSWER:** a

Figure 5. The market demand and market supply for good Z.

Refer to Figure 5 above for questions 60 through 63.

60. Suppose a tax of $3 per unit is imposed on this market. What will be the new equilibrium quantity in this market?
   a. less than 8 units  
   b. 8 units  
   c. between 8 units and 10 units  
   d. greater than 10 units  
   **ANSWER:** c

61. Suppose a tax of $3 per unit is imposed on this market. How much will sellers receive per unit after the tax is imposed?
   a. $16  
   b. between $16 and $20  
   c. between $20 and $22  
   d. $22  
   **ANSWER:** b

62. Suppose a tax of $6 per unit is imposed on this market. How much will buyers pay per unit after the tax is imposed?
   a. $16  
   b. between $16 and $20  
   c. between $20 and $22  
   d. $22
63. Suppose a tax of $6 per unit is imposed on this market. Which of the following is correct?
   a. Buyers and sellers will share the burden of the tax equally.
   b. Buyers will bear more of the burden of the tax than sellers will.
   c. Sellers will bear more of the burden of the tax than buyers will.
   d. Any of the above is possible.

\textit{Answer: c}