Additional practice questions for the final exam, Intro to Economics, Fall 2013

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

1) "Demand" is best defined as the relationship between: 1) ________
A) the price of a good and the quantity consumers are willing and able to buy at each price.
B) the quantity supplied and the price people are willing to pay for a good.
C) the amount of income someone has and the price he is willing to pay for a good.
D) the current price of a good and the quantity demanded at that price.

2) Which of the following is an example of substitute goods? 2) ________
A) Tennis racquets and tennis balls.
B) Beer and pretzels.
C) Ford and Dodge sport utility vehicles.
D) Cars and gasoline.

3) Which of the following is an example of complementary goods? 3) ________
A) SUVs and gasoline.
B) Ford and Dodge sport utility vehicles (SUVs).
C) SUVs and public transportation.
D) Air travel and train travel.

4) Many people consider hot dogs to be an *inferior* good. For such people, all else constant, a decrease in income would cause their demand for hot dogs to: 4) ________
A) increase.
B) decrease.
C) stay the same.
D) cannot be determined with the information given.

5) All else constant, a decrease in income would cause the demand for a *normal* good to: 5) ________
A) decrease.
B) stay the same.
C) increase.
D) cannot be determined with the information given.

6) If video tape movies for home rental and movies seen at a theater are substitutes, and the price of movies seen at a theater increases, the demand for movies on video tape will: 6) ________
A) decrease.
B) stay the same.
C) increase.
D) cannot be determined.

7) An increase in the number of buyers in the market for good X would cause the market demand curve for X to: 7) ________
A) stay the same because market demand doesn't depend on the number of buyers.
B) shift left or right depending on whether the new buyers purchase more or less than existing customers at each price.
C) shift right.
D) shift left.

8) Assume the demand function for good X can be written as Qd = 80 - 3Px + 2Py + 10I, where Px = the price of X, Py = the price of good Y, and I = Consumer income. According to this equation: 8) ________

A) X and Y are substitutes.
B) because the coefficient on income is positive, X is a given good.
C) because the coefficient on Px is negative, X is an inferior good.
D) X and Y are complements

9) "Supply" is best defined as the relationship between: 9) ________

A) the current price of a good and the quantity supplied at that price.
B) the cost of producing a good and the price consumers are willing to pay for it.
C) the price of a good or service and the quantity supplied by producers at each price during a period of time.
D) the quantity supplied and the price people are willing to pay for a good.

10) In the market for cell phones, all of the following would cause the supply of cell phones to change *except*: 10) ________

A) an increase in the number of buyers in the market for cell phones.
B) an improvement in the technology used to produce cell phones.
C) a change in cell phone producers' expectations.
D) an increase in the cost of labor used to produce cell phones.

11) Which of the following would *not* cause the supply curve for gasoline to shift? 11) ________

A) A change in the incomes of drivers.
B) A change in the wages paid to gas station attendants.
C) A significant war in the Middle East.
D) A change in the number of gas stations.

12) Assume declining profits in the market for Internet service force several firms in the area to drop out of the market. All else constant, this would cause the: 12) ________

A) equilibrium price and quantity to increase.
B) equilibrium price to decrease and equilibrium quantity to increase.
C) equilibrium price to increase and equilibrium quantity to decrease.
D) equilibrium price and quantity to decrease.

13) Assume declining profits in the market for Internet service force several firms in the area to drop out of the market. Which of the following best describes the effect of the reduction in the number of service providers and the subsequent adjustment of the market to the new equilibrium price and quantity? 13) ________

A) Quantity supplied would decrease, creating excess supply at the initial equilibrium price. Demand would then decrease until quantity demanded and quantity supplied are once again equal.
B) Quantity supplied would decrease, creating excess demand at the initial equilibrium price. Demand would then decrease until quantity demanded and quantity supplied are once again equal.
C) Supply would decrease, creating excess demand at the initial equilibrium price. Price would then rise, causing quantity demanded to decrease and quantity supplied to increase until a new equilibrium is reached.
D) Supply would increase, creating excess demand at the initial equilibrium price. Price would then rise, causing quantity demanded to decrease and quantity supplied to increase until a new equilibrium is reached.

14) All else constant, an *increase* in the number of buyers in the market for cell phone service would cause: 14) _______

A) equilibrium price and quantity to decrease.
B) equilibrium price to decrease and equilibrium quantity to increase.
C) equilibrium price and quantity to increase.
D) equilibrium price to increase and equilibrium quantity to decrease.

15) All else constant, if the market for diet soft drinks is initially in equilibrium and a new brand of diet soft drink is then introduced into the market, this will cause: 15) _______

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

16) For a particular product, a demand elasticity is a quantitative measure that shows: 16) _______

A) the percentage change in quantity demanded relative to the percentage change in any of the other variables included in the demand function for that product.
B) the absolute change in quantity demanded relative to the percentage change in any of the other variables included in the demand function for that product.
C) the absolute change in quantity demanded relative to the absolute change in any of the other variables included in the demand function for that product.
D) the percentage change in quantity demanded relative to the absolute change in any of the other variables included in the demand function for that product.

17) The price elasticity of demand is calculated as: 17) _______

A) the percentage change in price divided by the percentage change in quantity demanded.
B) the change in quantity demanded divided by the change in price.
C) the change in price divided by the change in quantity demanded.
D) the percentage change in quantity demanded divided by the percentage change in price.

18) Assume the demand for a good is price elastic, i.e., $e_d > 1$ (in absolute terms). This means that if price increases by 10 percent, quantity demanded will: 18) _______

A) increase by less than 10 percent.
B) decrease by more than 10 percent.
C) decrease by less than 10 percent.
D) increase by more than 10 percent.

19) According to the text, the price elasticity of demand for oranges has been estimated to be -0.62. This implies that a doubling of the price of oranges would cause the quantity demanded of oranges to: 19) _______

A) increase by 6.2 percent.
B) decrease by 6.2 percent.
C) increase by 62 percent.
D) decrease by 62 percent.

20) If the percentage change in quantity demanded is *less* than the percentage change in price, we would say that over this range, demand is: 20) _______

A) inelastic.
B) elastic.
C) unit elastic.
D) perfectly elastic.

21) If electricity demand is inelastic, and electric rates increase, which of the following is likely to occur? 21) _______

A) Quantity demanded will fall in the short run, but rise in the long run.
B) Quantity demanded will fall by a relatively small amount.
C) Quantity demanded will rise in the short run, but fall in the long run.
D) Quantity demanded will fall by a relatively large amount.

22) Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect the total revenues the restaurant earns to: 22) _______

A) increase.
B) decrease.
C) stay the same.
D) cannot be determined with the information given.

23) An increase in price will result in an increase in total revenue if demand is: 23) _______

A) unit elastic.
B) inelastic.
C) relatively elastic.
D) perfectly elastic.

24) When demand is inelastic and price is decreased: 24) _______

A) quantity demanded and total revenue fall to zero.
B) the effect of the decrease in price on total revenue dominates the effect of the increase in quantity demanded on total revenue; overall total revenue declines.
C) the effects of the decrease in price on total revenue and the corresponding increase in quantity demanded on total revenue perfectly offset one another; overall total revenue remains unchanged.
D) the effect of the increase in quantity demanded on total revenue dominates the effect of the decrease in price on total revenue; overall total revenue increases.

25) At a price of \$5, consumers buy 150 units of good X. When the price rises to \$6, quantity demanded decreases to 100 units. We can conclude that over this range, demand is: 25) _______

A) inelastic.
B) elastic.
C) unit elastic.
D) perfectly inelastic.

26) Which of the following is *not* a determinant of the price elasticity of demand for a particular good? 26) _______

A) The quantity of the good that is supplied to the market.
B) The time period under consideration.
C) The number of available substitutes.
D) The cost of the good relative to total income.

27) Demand for a good will tend to be more elastic if it exhibits which of the following characteristics? 27) _______

A) It accounts for a small part of the consumer's total income.
B) It is a non-durable (as opposed to a durable good).
C) There is little time for the consumer to adjust to the price change.
D) The good has many available substitutes.

28) In the long run, the price elasticity of demand is ________ than in the short run because ________. 28) _______

A) greater; firms have more time to shift the burden of the tax forward to consumers
B) greater; consumers have more time in which to make adjustments to price changes
C) less; the percentage change is measured over a larger amount of time
D) less; consumers have more time in which to make adjustments to price changes

29) If the consumer has a great deal of time to adjust to an increase in the price of gasoline, which of the following is correct? 29) _______

A) The percentage change in quantity demanded will be quite small relative to the percentage change in price.
B) The percentage change in price will be quite large relative to the percentage change in quantity demanded.
C) Quantity demanded will be relatively sensitive to the change in price.
D) Demand will tend to be unitary elastic as it is for most goods in the long run.

30) Assuming the inverse demand function for good Z can be written as P = 90 - 3Q, the corresponding average revenue function is: 30) _______

A) 90 - 6Q. B) $90Q - 3Q^2$. C) 90 - 3Q. D) 6Q.

31) Suppose the price of movies seen at a theater rises from $12 per couple to $20 per couple. The theater manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? 31) _______

A) 0.5 B) 0.8 C) 1.0 D) 1.2

32) Suppose a department store has a sale on its silverware. If the price of a place-setting is reduced from $30 to $20 and the quantity demanded increases from 3,000 place-settings to 5,000 place-settings, what is the price elasticity of demand for silverware? 32) _______

A) 0.8 B) 1.0 C) 1.25 D) 1.50

33) In which of the following circumstances would the demand for a product *most* likely be perfectly inelastic? 33) _______

A) When the good is absolutely necessary for life.
B) When there is only one supplier of the good.
C) When a good is highly addictive.
D) When there are no available substitutes for the good.

34) Which of the following is *not* true of a perfectly elastic demand function? 34) _______

A) Consumers will purchase all of the good offered on the market at one price.
B) The demand curve is horizontal.
C) The marginal revenue from each additional unit of the good sold is 0.
D) Consumers will not purchase any of the good at a higher price.

35) For a normal good, the income elasticity of demand is: 35) _______

A) positive if income increases and negative when income declines.
B) always equal to 1.
C) always positive.
D) positive or negative depending on the share of income accounted for by the good.

36) Assume the income elasticity of a good has been calculated to be +0.83. Based on this information, we can infer that the good is: 36) _______

A) an inferior good and a luxury. B) an inferior good and a necessity.
C) a normal good and a luxury. D) a normal good and a necessity.

37) A recent study determined that, at the current market price, there is a shortage of widgets in Pleasantville. If the market for widgets is allowed to adjust, the ultimate result will be: 37) _______

A) an increase in price and an increase in the quantity demanded.
B) a decrease in price and an increase in the quantity supplied.
C) a decrease in price and an increase in the quantity demanded.
D) an increase in price and an increase in the quantity supplied.

38) Assume the costs of production in the U.S. auto industry are rising and, at the same time, the prices of Japanese-made autos are decreasing. What would reasonably be expected to happen to the equilibrium price and quantity of U.S.-made autos? 38) _______

A) Price will increase; quantity cannot be determined.
B) Price will decrease; quantity cannot be determined.
C) Quantity will increase; price cannot be determined.
D) Quantity will decrease; price cannot be determined.

39) Assume there is a simultaneous decrease in the incomes of people in the market for new homes and a decrease in the wages paid to carpenters, plumbers, and electricians. All else constant, we can predict, *with certainty*, that in the market for new homes the equilibrium: 39) _______

A) price of new homes will decrease.
B) quantity of new homes will decrease.
C) quantity of new homes will increase.
D) price of new homes will increase.

40) File-sharing programs such as Napster, Kazaa, and iMesh make it possible for individuals to exchange music files over the Internet. All else constant, which of the following statements best describes how the development of these programs has affected the retail market for new music CDs? 40) _______

A) Demand for CDs has increased, causing equilibrium price and quantity to increase.
B) Demand for CDs has decreased, causing equilibrium price and quantity to decrease.
C) Demand for CDs has decreased, causing equilibrium price to decrease and equilibrium quantity to increase.
D) Demand for CDs has increased, causing equilibrium price to increase and equilibrium quantity to decrease.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

41) "Demand" refers to the relationship between the price of a good and the quantity consumers are willing and able to buy at each price. 41) _______

42) A "change in demand" is caused only by a change in the price of the good. 42) _______

43) Assume goods X and Y are complements. An increase in the price of X would cause the demand for Y to increase. 43) _______

44) Assume the demand function for good X can be written as 44) _______
$Qd = 80 - 3Px + 2Py + 10I$
where Px = the price of X,
Py = the price of good Y, and
I = Consumer income.
This equation implies that X and Y are substitutes.

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

45) Households are on the ________ side of input (factor) markets and on the ________ side of output (product) markets. 45) ______

A) supply; demand
B) demand; demand
C) demand; supply
D) supply; supply

46) Firms are on the ________ side of input (factor) markets and on the ________ side of output (product) markets. 46) ______

A) demand; supply
B) demand; demand
C) supply; supply
D) supply; demand

47) Which of the following is held constant along the demand curve? 47) ______

A) Income
B) Quantity
C) Price of the good
D) Both A and B

48) According to the law of demand, as prices fall, ceteris paribus, 48) ______

A) demand increases.
B) demand decreases.
C) quantity demanded increases.
D) quantity demanded decreases.

49) According to the law of demand there is ________ relationship between price and quantity demanded. 49) ______

A) either a positive or negative
B) a positive
C) a constantly changing
D) a negative

50) Which of the following explains the law of demand? 50) ______

A) A tastes and preferences effect
B) The law of output increasing at a decreasing rate
C) A normal versus inferior good effect
D) The law of diminishing marginal utility