

## Unit 2. Supply and demand

### Quiz

1. A successful government TV advertisement campaign has achieved its goal to show that eating oatmeal reduces the risk of colon cancer. We should observe that

- A. the price of oatmeal falls;
- B. the price of oatmeal rises;
- C. the equilibrium quantity of oatmeal falls;
- D. the supply of oatmeal falls;
- E. the demand for oatmeal falls.

2. The demand curve for a good shows, for each quantity level, the buyers'

- A. target price;
- B. minimum acceptable price;
- C. maximum acceptable price;
- D. average willingness to pay;
- E. none of the above.

3. If a unique Picasso painting is offered for sale at an auction, which, if any, of the following correctly shows the supply curve for the painting?

- A. a vertical line;
- B. a horizontal line;
- C. a 45 degree line (a line that goes through the origin so that the angle between the line and either axis is 45 degrees);
- D. a downward-sloping line;
- E. it is impossible to determine the shape of the supply curve from the given information.

4. In the year 2007 the quantity supplied of gadgets was 1000 when the price was \$3 per gadget. In the year 2008 the quantity supplied was 1400 when the price was \$4 per gadget. With supply and demand curves of normal slopes, this phenomenon can be explained as follows:

- A. in 2008 the demand curve has shifted to the left and supply curve did not shift.
- B. in 2008 the supply curve shifted to the left and the demand curve did not shift.
- C. in 2008 the demand curve shifted to the right and the supply curve did not shift.
- D. in 2008 the supply curve shifted to the right and the demand curve did not shift.
- E. none of the above.

5. The competitive market for gasoline is currently in equilibrium. Which of the following would most likely increase the price of gasoline?

- A. A decrease in household income
- B. Improvement in gasoline production technology
- C. A decrease in the price of subway tickets and other public transportation
- D. An increase in the price of crude oil
- E. An increase in the price of car insurance

6. A consequence of a binding price floor is:

- A. A persistent shortage of the good
- B. An increase in total welfare
- C. A persistent surplus of the good
- D. Elimination of deadweight loss
- E. An increase in quantity demanded and a decrease in quantity supplied

7. Suppose that the government gives a per-unit subsidy to producers in a perfectly competitive market. If the law of demand holds at the market then

- A. the demand for the product will increase
- B. the demand for the product will decrease
- C. the consumer surplus will increase
- D. the consumer surplus will decrease
- E. the supply will decrease

8. What will happen to the equilibrium price and the equilibrium quantity of good Z when the price of good X, which is a close substitute for Z, rises?

- A. The equilibrium price will rise and the equilibrium quantity will fall
- B. The equilibrium price will fall and the equilibrium quantity will rise
- C. The equilibrium price and the equilibrium quantity will both rise
- D. The equilibrium price and the equilibrium quantity will both fall
- E. There is not enough information to answer definitely

9. Introduction of a per-unit subsidy to suppliers of a good would result in:

- A. A net gain to the society
- B. A rise in consumer surplus greater than the government's expenditures
- C. A rise in producer surplus greater than the government's expenditures
- D. A net loss to the society
- E. An increase in producer surplus only in case of absolutely inelastic supply

10. Which of the following could have caused an increase in the demand for ice cream cones?

- A. A decrease in the price of ice cream cones
- B. A decrease in the price of ice cream, a complementary good for ice cream cones
- C. An increase in the price of ice cream, a complementary good for ice cream cones
- D. A decrease in the price of lollipops, a close substitute for ice cream
- E. An increase in the supply of ice cream cones