

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.

The answer is B. Demand curve for oatmeal is going to shift outwards.

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.

The answer is C. Buyers would be happy to pay a lower price, but they will not pay a higher price for each quantity of the good.

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.

The answer is A. There is just one painting, and the quantity supplied is independent of the price.

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.

The answer is C. In 2008 both price and quantity were higher than in 2007. It cannot happen unless the demand curve shifts to the right.

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

The answer is D, since crude oil is an input in gasoline production.

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

The answer is C, since producers would want to supply more of the good than the buyers would be willing to purchase at the price that is above the equilibrium price.

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

The answer is C. Supply curve shifts outwards, and equilibrium price goes down.

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

The answer is C. See the corresponding graph in the lecture notes.

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

The answer is D. The situation is similar to that with a per-unit tax.

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

The answer is B. See the corresponding graph in the lecture notes.