

Microeconomics Quiz #1 Study Guide

Note: Below is a list of study questions for the upcoming Quiz #1 (Monday, March 29; the quiz covers Ch. 4 and 5 and supplementary notes during class). Please answer the questions (all of them or as many as you can) as a way of preparing for your quiz. Most, if not all, of the study questions here will appear in the quiz. (Some of them could also appear in a slightly different format than shown here.) Since you don't know which ones will be in the quiz, it would be a good idea to answer all of them. Please don't ask me for the answers although you can ask me for clarification of the questions. Also, there could be some other questions on the quiz that are not found on this list. The best way to use this study guide is to try to answer all the questions as best as you can on your own and then compare your answers with those of your classmates'. Then *discuss* why your answers are different so that you learn the reason why. Form a study group if you can. –Rudy

Instructions: This quiz is closed notes, closed book, meaning you are not allowed to use your notes. You may use a dictionary but *only* a dictionary and nothing else. *No* sharing of dictionary allowed. Bring your own. Bring a *calculator* with you, your own. *No* sharing of calculator allowed. On the multiple choice questions, circle the correct answer. There is only *one* correct answer in each question.

Circle the letter of the best (only one) answer.

1. The negative relationship between price and quantity demanded
 - a. applies to (or is true for) 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.

2. Suppose you currently buy 6 hot dogs a month as a college student. You will graduate from college in December and you will start a new, well-paying job in January. You have no plans to buy hot dogs in January after your graduation. For you, hot dogs are
 - a. a substitute good.
 - b. a normal good.
 - c. an inferior good.
 - d. a law-of-demand good.

3. A likely example of *complementary* goods for most people would be
 - a. hamburgers and hot dogs.
 - b. lawnmowers and automobiles.
 - c. hamburgers and French fries.
 - d. Dr. Pepper and Pepsi.

4. A likely example of *substitute* goods for most people would be
 - a. peanut butter and jelly.
 - b. tennis balls and tennis rackets.
 - c. televisions and subscriptions to cable television services.
 - d. pencils and pens.

5. Which of the following demonstrates the law of demand?
 - a. Compared to last month, Jon buys more pretzels at \$1.50 per pretzel since he got a raise at work this month.
 - b. Melissa buys fewer muffins at \$0.75 per muffin than at \$1 per muffin, other things equal (the same).
 - c. Dave buys more donuts at \$0.25 per donut than at \$0.50 per donut, other things equal.
 - d. Kendra buys fewer Snickers at \$0.60 per Snickers (a brand of chocolate bar) since the price of Milky Ways (another brand of chocolate bar) fell to \$0.50 per Milky Way.

6. If a decrease in income increases the demand for a good, then the good is
 - a. a substitute good.
 - b. a complement good.
 - c. a normal good.
 - d. an inferior good.

7. Which of the following changes would *not* shift the demand curve for a good or service?
 - a. a change in income
 - b. a change in the price of the good or service
 - c. a change in expectations about the future price of the good or service
 - d. a change in the price of a related good or service

8. Which of the following would *not* affect an individual's (a person's) demand curve?

- a. expectations
- b. income
- c. prices of related goods
- d. the number of buyers

9. If the number of buyers in the market *decreases*, the

- a. market demand will increase.
- b. market demand will decrease.
- c. market supply will increase.
- d. market supply will decrease.

10. Pizza is a *normal* good if

- a. the demand for pizza rises (increases) when income rises.
- b. the demand for pizza rises when the price of pizza falls.
- c. the demand curve for pizza slopes downward.
- d. the demand curve for pizza shifts to the right when the price of burritos falls, assuming pizza and burritos are substitutes.

12. A market demand curve

- a. is derived by a vertical summation (adding) of individual demand curves.
- b. is derived by a horizontal summation of individual demand curves.
- c. will shift in response to a change in the price of the good.
- d. is always steeper than an individual demand curve.

The table below shows individual (personal) demand schedules in a market. (*Hint*: Create a column for "Market.")

Table 4-1

Price of the Good	Aaron	Angela	Austin	Alyssa
\$0.00	20 units	16 units	4 units	8 units
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

13. **Refer to Table 4-1.** When the price of the good is \$1.00, the quantity demanded in this market would be

- a. 42 units.
- b. 31 units.
- c. 24 units.
- d. 14 units.

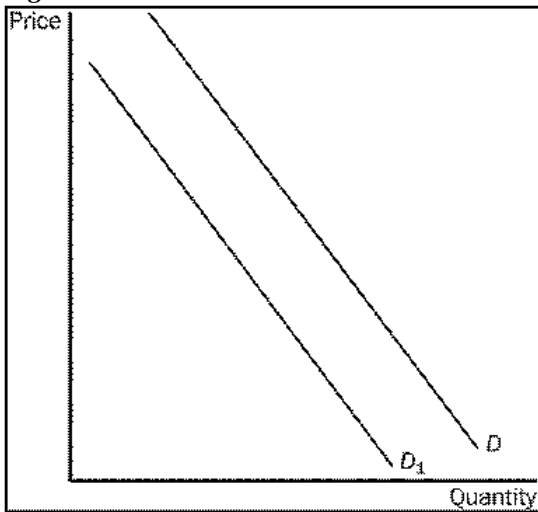
14. **Refer to Table 4-1.** If the price increases from \$1.00 to \$1.50,

- a. the market demand decreases by 20 units.
- b. individual demand curves, when drawn, will shift to the left.
- c. the quantity demanded in the market decreases by 2 units.
- d. the quantity demanded in the market decreases by 7 units.

15. If buyers today become more willing and able than before to purchase (buy) larger quantities of Vanilla Coke at each price of Vanilla Coke,

- a. we will observe a movement downward along the demand curve for Vanilla Coke.
- b. we will observe a movement upward along the demand curve for Vanilla Coke.
- c. the demand curve for Vanilla Coke will shift to the right.
- d. the demand curve for Vanilla Coke will shift to the left.

Figure 4-2



16. Refer to Figure 4-2. The shift from D to D_1 is called
- an increase in demand.
 - a decrease in demand.
 - a decrease in quantity demanded.
 - an increase in quantity demanded.
17. Refer to Figure 4-2. If the demand curve shifts from D to D_1 , then
- firms (companies) would be willing to supply less of the good than before at each possible price.
 - people are willing to buy less of the good than before at each possible price.
 - people's incomes evidently have decreased.
 - the price of the product has increased, causing consumers to buy less of the product.
18. A decrease in the number of sellers in the market causes
- the supply curve to shift to the left.
 - the supply curve to shift to the right.
 - a movement up and to the right along a stationary (unchanged) supply curve.
 - a movement downward and to the left along a stationary supply curve.
19. Wheat is the main input in the production of flour. If the price of wheat decreases, all else equal (the same), we would expect the
- demand for flour to increase.
 - demand for flour to decrease.
 - supply of flour to increase.
 - supply of flour to decrease.
20. If demand is inelastic, then
- buyers do not respond much to a change in price (buyers are price-insensitive).
 - buyers respond substantially to a change in price, but the response is very slow.
 - buyers do not alter (change) their quantities demanded much in response to advertising, fads, or general changes in tastes.
 - the demand curve is very flat.
21. If a person only occasionally (not often) buys a cup of coffee, his demand for coffee is probably
- represented by a vertical or nearly-vertical demand curve.
 - not easily represented by a demand schedule or demand curve.
 - inelastic.
 - elastic.
22. A good will have a more inelastic demand,
- the greater the availability of close substitutes.
 - the broader the definition of the market.
 - the longer the period of time (horizon).
 - the more it is regarded (considered) as a luxury.

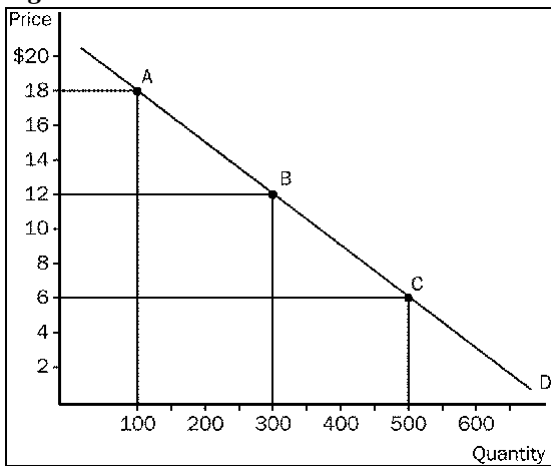
23. When the price of candy is \$0.50, the quantity demanded is 400 packs (units) per day. When the price falls to \$0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, we know that the demand for candy is: (*Hint: Calculate total revenue if price = \$0.50 and then if price = \$0.40 then compare the revenues.*)

- inelastic.
- elastic.
- unit elastic.
- perfectly inelastic.

24. Consider airfares on flights between New York and Minneapolis. When the airfare is \$250, the quantity demanded of tickets is 2,000 per week. When the airfare is \$280, the quantity demanded of tickets is 1,700 per week. Using the midpoint method,

- the price elasticity of demand is about 1.43 and an increase in the airfare will cause airlines' total revenue to decrease.
- the price elasticity of demand is about 1.43 and an increase in the airfare will cause airlines' total revenue to increase.
- the price elasticity of demand is about 0.70 and an increase in the airfare will cause airlines' total revenue to decrease.
- the price elasticity of demand is about 0.70 and an increase in the airfare will cause airlines' total revenue to increase.

Figure 5-2



25. Refer to Figure 5-2. The price elasticity of demand between point A and point B, using the midpoint method, is

- 1.
- 1.5.
- 2.
- 2.5.

26. Refer to Figure 5-2. If the price decreased from \$18 to \$6,

- total revenue would increase by \$1,200 and demand is elastic between points A and C.
- total revenue would increase by \$800 and demand is elastic between points A and C.
- total revenue would decrease by \$1,200 and demand is inelastic between points A and C.
- total revenue would decrease by \$800 and demand is inelastic between points A and C.

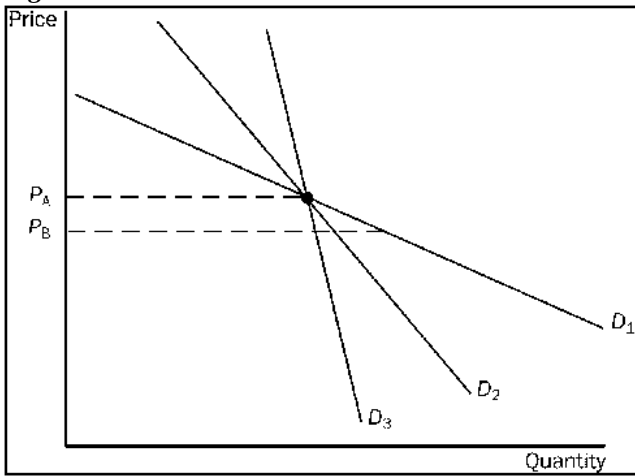
27. Refer to Figure 5-2. Sellers' total revenue would increase if the price

- increased from \$4 to \$6.
- increased from \$16 to \$18.
- decreased from \$8 to \$6.
- All of the above are correct.

28. In any market, total revenue is calculated by taking the price of the good and

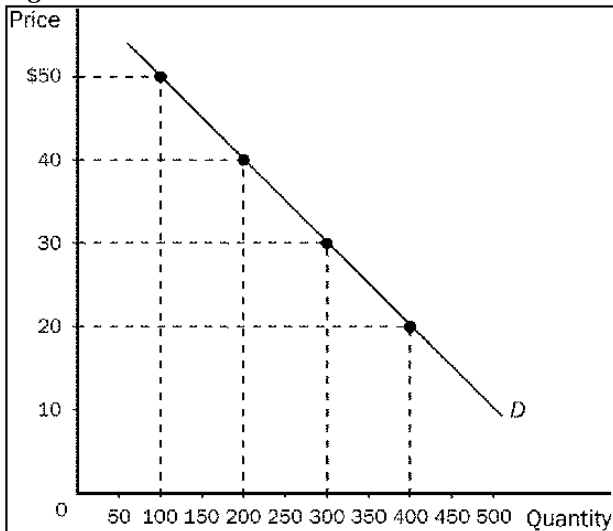
- dividing it by the price elasticity of demand.
- multiplying it by the price elasticity of demand.
- multiplying it by the quantity of the good.
- multiplying it by the quantity of the good and then subtracting the costs of production.

Figure 5-4



29. Refer to Figure 5-4. As price falls from P_A to P_B , which demand curve represents the most elastic demand?
- D_1
 - D_2
 - D_3
 - All of the above are equally elastic.

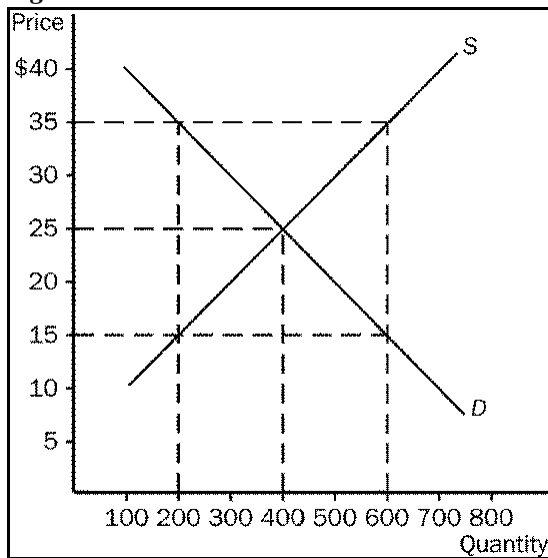
Figure 5-5



30. Refer to Figure 5-5. When the price is \$30, total revenue is
- \$3,000.
 - \$5,000.
 - \$7,000.
 - \$9,000.
31. Refer to Figure 5-5. When price falls from \$50 to \$40, it can be inferred that demand between those two prices is
- inelastic, since total revenue decreases from \$8,000 to \$5,000.
 - inelastic, since total revenue increases from \$5,000 to \$8,000.
 - elastic, since total revenue increases from \$5,000 to \$8,000.
 - unit elastic, since total revenue increases from \$5,000 to \$8,000.
32. Refer to Figure 5-5. An increase in price from \$30 to \$35 would
- increase total revenue by \$250
 - decrease total revenue by \$250.
 - increase total revenue by \$500.
 - decrease total revenue by \$500.

33. Total revenue
- always increases as price increases.
 - increases as price increases, as long as demand is elastic.
 - decreases as price increases, as long as demand is inelastic.
 - remains unchanged (the same) as price increases when demand is unit elastic.
34. Suppose good X has a negative income elasticity of demand. This implies (means) that good X is
- a normal good.
 - a necessity.
 - an inferior good.
 - a luxury.
35. The price elasticity of supply measures how much
- the quantity supplied responds to changes in input prices.
 - the quantity supplied responds to changes in the price of the good.
 - the price of the good responds to changes in supply.
 - sellers respond to changes in technology.
36. The price elasticity of supply measures how responsive
- sellers are to a change in price.
 - sellers are to a change in buyers' income.
 - buyers are to a change in production costs.
 - equilibrium price is to a change in supply.
37. If, at the current price, there is a shortage of a good,
- sellers are producing more than buyers wish to buy.
 - the market must be in equilibrium.
 - the price is below the equilibrium price.
 - quantity demanded equals quantity supplied.

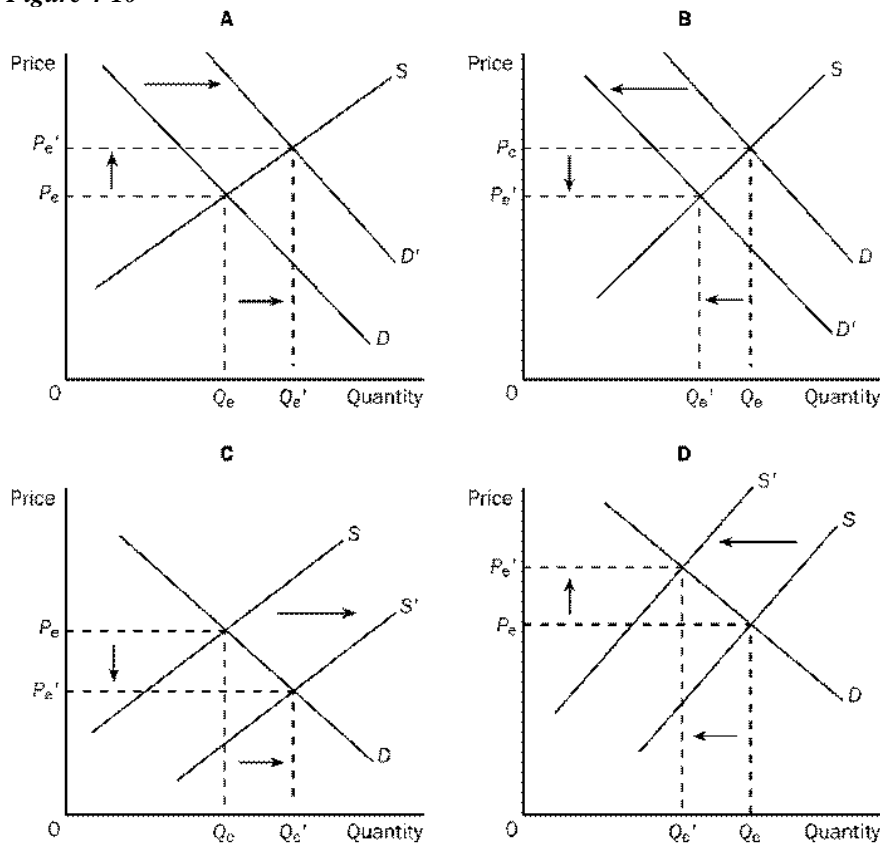
Figure 4-7



38. Refer to Figure 4-7. Equilibrium price and quantity are, respectively,
- \$35 and 200.
 - \$35 and 600.
 - \$25 and 400.
 - \$15 and 200.
39. Refer to Figure 4-7. At a price of \$35,
- there would be a shortage of 400 units.
 - there would be a surplus of 200 units.
 - there would be a surplus of 400 units.
 - there would be an excess supply of 200 units.
40. Refer to Figure 4-7. At a price of \$15,
- there would be a shortage of 400 units.
 - there would be a surplus of 400 units.
 - there would be a shortage of 200 units.
 - there would be an excess demand of 200 units.

41. Refer to Figure 4-7. At the equilibrium price,
- 200 units would be supplied and demanded.
 - 400 units would be supplied and demanded.
 - 600 units would be supplied and demanded.
 - 600 units would be supplied, but only 200 would be demanded.
42. Refer to Figure 4-7. At a price of \$35,
- a shortage would exist and the price would tend to fall from \$35 to a lower price.
 - a surplus would exist and the price would tend to rise from \$35 to a higher price.
 - a surplus would exist and the price would tend to fall from \$35 to a lower price.
 - an excess demand would exist and the price would tend to fall from \$35 to a lower price.
43. Refer to Figure 4-7. At what price would there be an *excess demand* amounting to approximately 200 units of the good?
- \$15
 - \$20
 - \$30
 - \$35
44. A surplus exists in a market if
- there is an excess demand for the good.
 - the situation is such that the law of supply and demand would predict an increase in the price of the good from its current level.
 - the current (actual) price is above its equilibrium price.
 - None of the above is correct.
45. If excess demand exists in a market we know that the actual price is
- below equilibrium price and quantity demanded is greater than quantity supplied.
 - above equilibrium price and quantity demanded is greater than quantity supplied.
 - above equilibrium price and quantity supplied is greater than quantity demanded.
 - below equilibrium price and quantity supplied is greater than quantity demanded.

Figure 4-10



46. Refer to Figure 4-10. Which of the four graphs represents the market for peanut butter after a major hurricane (storm) hits the peanut-growing south and damages (destroys) most of the peanut crops?
- A
 - B
 - C
 - D

47. **Refer to Figure 4-10.** Which of the four graphs represents the market for winter coats as we progress (move) from winter weather to spring weather?

- a. A
- b. B
- c. C
- d. D

48. **Refer to Figure 4-10.** Which of the four graphs represents the market for pizza delivery in a college (or university) town as we go from summer to the beginning of the fall semester?

- a. A
- b. B
- c. C
- d. D

Answers to selected questions:

- 14. d
- 24. a
- 31. c