ECON1005 Assignment 2

1. In a perfectly competitive market,

a. there can be few or many buyers and sellers
b. the price is driven upward when suppliers hold back on goods and services
c. each participant is too small to affect the market price
d. government intervention is needed to ensure that prices are *fair* for consumers
e. resources are allocated by a central authority

2. If the price of orange juice rises, it is likely that the demand for grapefruit juice will

a. increase because the two goods are substitutes
b. increase because it is a complement
c. decrease because the two goods are substitutes
d. decrease because the two goods are complements
e. not change unless the price of grapefruit juice also changes

3. If the prices of raw materials rise, the result is a(n)

a. decrease in supply of the firms' output
b. increase in supply of the firms' output
c. decrease in demand for the firms' output
d. increase in quantity demanded for the firms' output
e. decrease in quantity supplied of the firms' output

4. Oil and Natural Gas can each be used as a source of energy and are, for many purposes interchangeable. Which of the following best explains the increase in the price of natural gas that accompanied the increase in the price of oil during the 1990-1991 Persian Gulf War?

a. Increased oil prices raised demand for natural gas, a substitute good.
b. Increased oil prices raised the quantity demanded of natural gas by movement along the natural gas demand curve.
c. Increased oil prices reduced supply of natural gas, a substitute good.
d. Increased oil prices reduced supply of natural gas, an alternate good.
e. Increased oil prices raised supply of natural gas, a substitute good.

5. Which of the following statements about demand is correct?

a. A change in the price of bicycles will not lead to a shift of the demand curve for bicycles.
b. A change in the price of motocycles will lead to a shift of the demand curve for motorcycles.
c. A change in demand is equivalent to a movement along a given demand curve.
d. When price falls, so does the quantity demanded.
e. When the demand curve shifts to the right, so will the supply curve.

6. If steel manufacturers expected that the price of steel was going to rise in the next six months, this would

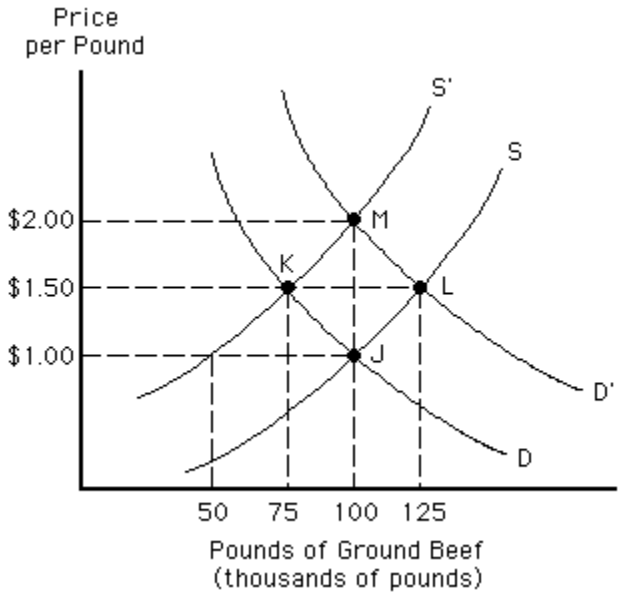
a. have no change in the competitive market for steel
b. lead to a decreased demand for steel now
c. lead to a decreased supply of steel now
d. increase the future demand for automobiles
e. lead to a decrease in the quantity of steel supplied to the market

7. A decrease in demand and an increase in supply results in

a. ambiguous effect on equilibrium price and an increase in equilibrium quantity
b. ambiguous effect on equilibrium price and an decrease in equilibrium quantity
c. increase in equilibrium price and a decrease in equilibrium quantity
d. decrease in equilibrium price and an ambiguous effect on equilibrium quantity
e. increase in equilibrium price and an ambiguous effect on equilibrium quantity

8. In a competitive market, excess demand (or shortage) for a good exists whenever

a. the current price is below the equilibrium price
b. resources are scarce
c. the quantity supplied at the current price exceeds the quantity demanded
d. sellers are subject to the constraints imposed by input prices and technology
e. the current price is above the equilibrium price



9. Consider the market for ground beef represented by the above figure, which is initially in equilibrium at point J. Assume that ground beef is an inferior good. Which of the following could explain a movement to a new equilibrium at point M?

a. a change in tastes away from hamburgers combined with an increased price for cattle feed
b. an increase in buyers' incomes combined with a cost-saving technological improvement
c. a decrease in the price of hot dogs combined with an increased price for labor
d. a decrease in buyers' incomes combined with a decrease in the number of acres owned by cattle ranches
e. a drop in the population combined with an increased price for an alternate form of packaged beef

10. If a sales tax is imposed on automobiles sellers,

a. the demand curve will shift upward and the market price will increase
b. the supply curve will shift downward and the market price will increase
c. the supply curve will shift upward and the market price will increase
d. the equilibrium quantity supplied will increase
e. the equilibrium quantity demanded will increase

11. When the minimum wage is set above the equilibrium market wage

a. there will be a shortage of labor at the minimum wage
b. it will have no effect on the quantity of labor employed
c. it will result in unemployment
d. the quality of the labor force will increase
e. the unemployment rate will fall

12. If the government thinks the price that a consumer has to pay for a good is too high, then which of the following would lower the price paid by a consumer?

a. a price ceiling or a sales tax
b. a price floor or a sales tax
c. a price ceiling or a subsidy
d. a price floor or a subsidy
e. none of the above will lower the price a consumer has to pay for a good

13. Government subsidizes self-financed continual education by paying subsidies to learners. It will have the effect of

a. increasing the number of people seeking continual education and lowering tuition (i.e. the market price)
b. increasing the number of people seeking continual education and raising tuition (i.e. the market price)
c. decreasing the number of people seeking continual education and lowering tuition (i.e. the market price)
d. decreasing the number of people seeking continual education and raising tuition (i.e. the market price)

e. There is no effect on the market

14. The tax burden of a sales tax

a. refers to the amount of the tax the consumers and producers are actually paying for
b. always falls on producers
c. is equally divided between consumers and producers
d. is determined by the number of consumers
e. none of the above

15. Whether a sales tax is imposed on a demander or supplier is irrelevant because

a. in either case the price that the demander has to pay will decrease by the same amount; while the price the supplier receives will increase by the same amount
b. in either case the price that the demander has to pay will increase by the same amount; while the price the supplier receives will decrease by the same amount
c. either situation will create excess demand
d. either situation will create excess supply
e. none of these are correct