HOMEWORK 1 (Demand and Supply) ECO41 FALL 2011 UDAYAN ROY

This homework assignment tests your understanding of the theory of supply and demand. Any textbook on the principles of economics will cover this material. See for example my PowerPoint lecture notes and "additional material" on "supply and demand" on this course's web site. This homework assignment is due on Wednesday, September 28, in class.

1. A competitive market is one in which

a. there is only one seller, but there are many buyers.
b. there are many sellers and each seller has the ability to set the price of his product.
c. there are many sellers and they compete with one another in such a way that some sellers are always being forced out of the market.
d. there are so many buyers and so many sellers that each has a negligible impact on the price of the product.

2. For a competitive market, which of the following statements is correct?

a. A seller can always increase her profit by raising the price of her product.
b. If a seller charges more than the going price, buyers will go elsewhere to make their purchases.
c. A seller often charges less than the going price to increase sales and profit.
d. A single buyer can influence the price of the product, but only when purchasing from several sellers in a short period of time.

3. Buyers and sellers who have no influence on market price are referred to as

a. market pawns.
b. monopolists.
c. price takers.
d. price makers.

4. An example of a perfectly competitive market would be the

a. cable TV market.
b. soybean market.
c. breakfast cereal market.
d. shampoo market.

5. A supply curve slopes upward because

a. as more is produced, total cost of production falls.
b. an increase in input prices increases supply.
c. the quantity supplied of most goods and services increases over time.
d. an increase in price gives producers an incentive to supply a larger quantity.

6. The supply of a good is negatively (that is, inversely) related to the

a. price of the raw materials and labor used to make the good.

b. demand for the good from consumers.
c. price of the good itself.
d. amount of profit a firm can expect to receive from selling the good

7. Suppose you make jewelry. If the price of gold falls, then we would expect you to

a. be willing and able to produce less jewelry than before at each possible price.
b. be willing and able to produce more jewelry than before at each possible price.
c. face a greater demand for your jewelry.
d. face a weaker demand for your jewelry.

8. A technological advance that reduces production costs will shift the

a. supply curve to the right.
b. supply curve to the left.
c. demand curve to the right.
d. demand curve to the left.

9. If a decrease in income increases the demand for a good, then the good is

a. a substitute good.
b. a complementary good.
c. a normal good.
d. an inferior good.

10. Two goods are substitutes when a decrease in the price of one good

a. decreases the demand for the other good.
b. decreases the quantity demanded of the other good.
c. increases the demand for the other good.
d. increases the quantity demanded of the other good.

11. Two goods are complements when a decrease in the price of one good

a. decreases the quantity demanded of the other good.
b. decreases the demand for the other good.
c. increases the quantity demanded of the other good.
d. increases the demand for the other good.

12. You love peanut butter. You hear on the news that 50 percent of the peanut crop in the South has been wiped out by drought, and that this will cause the price of peanuts to double by the end of the year. As a result of this change in your expectations,

a. your demand for peanut butter will increase, but not until the end of the year.
b. your demand for peanut butter increases today.
c. your demand for peanut butter decreases as you look for a substitute good.
d. your demand for peanut butter shifts left today.

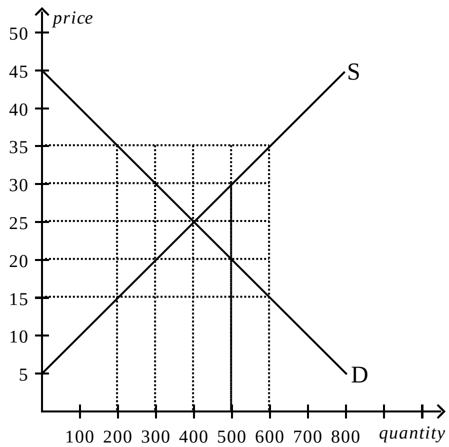
13. The unique point at which the supply and demand curves intersect is called

a. market harmony.
b. coincidence.
c. equivalence.
d. equilibrium.

14. If, at the current price, there is a shortage of a good, then

a. sellers are producing more than buyers wish to buy.
b. the market must be in equilibrium.
c. the price is below the equilibrium price.
d. quantity demanded equals quantity supplied.

Figure 4-8



15. Refer to Figure 4-8. Equilibrium price and quantity are, respectively,

a. $15 and 200.
b. $25 and 600.
c. $25 and 400.
d. $35 and 200.

16. Refer to Figure 4-8. At a price of $35,

a. there would be a shortage of 400 units.
b. there would be a surplus of 200 units.
c. there would be a surplus of 400 units.
d. there would be a surplus of 600 units.

17. Refer to Figure 4-8. At a price of $35,

a. a shortage would exist and the price would tend to rise from $35 to a higher price.
b. a surplus would exist and the price would tend to rise from $35 to a higher price.
c. an excess demand would exist and the price would tend to fall from $35 to a lower price.

d. an excess supply would exist and the price would tend to fall from $35 to a lower price.

18. Refer to Figure 4-8. At what price would there be an excess supply of 200 units of the good?

a. $15
b. $20
c. $30
d. $35

19. Refer to Figure 4-8. At a price of $15,

a. there would be a surplus of 400 units.
b. there would be a shortage of 200 units.
c. there would be a shortage of 400 units.
d. there would be a shortage of 600 units.

20. Refer to Figure 4-8. At a price of $20,

a. there would be a shortage and the law of supply and demand predicts that the price will fall from $20 to a lower price.
b. there would be a surplus and the law of supply and demand predicts that the price will rise from $20 to a higher price.
c. there would be an excess demand and the law of supply and demand predicts that the price will rise from $20 to a higher price.
d. there would be an excess supply and the law of supply and demand predicts that the price will fall from $20 to a lower price.