Chapter 02

Demand and Supply: The Basics of the Market Economy

True / False Questions

1. The rate at which buyers exchange money for a good or service is known as the price.

   True False

2. Individuals in a market economy can be both buyers and sellers.

   True False

3. Buyers and sellers who are geographically close are part of a national market.

   True False

4. The Internet has allowed an increasing number of goods and services to be traded on the national market.

   True False

5. Crude oil is sold on a local market.

   True False

6. The market price is the typical price at which a good or service sells.

   True False

7. The individual quantity demanded is the amount the buyer is allowed to purchase at a given price.

   True False

8. The law of demand says that in most cases, the lower the price, the lower the quantity demanded.

   True False

9. Zero-price products and services exist only in the technology sector.

   True False

10. A demand schedule illustrates the quantities demanded for a particular product or service at different prices.

    True False

Multiple Choice Questions

11. The demand curve is the graphical counterpart to the

    A. demand schedule.

    B. supply curve.

    C. supply schedule.

    D. general demand.

12. The law of demand suggests that most demand curves will be

    A. upward-sloping.

    B. a straight line.

    C. downward-sloping.

    D. variable.

13. A supply schedule illustrates the quantity supplied at

    A. various demand levels.

    B. a single selling price.

    C. different selling prices.

    D. market equilibrium.

14. A market supply schedule

A. is all the products or services demanded in a market.

B. combines the quantities supplied by all businesses in a market.

C. has an upward-sloping demand curve.

D. is determined by adding demand and supply.

15. The law of supply says that higher prices tend to _____ the quantity supplied of a good or service, assuming no other changes.

A. increase

B. decrease

C. have no effect on

D. first increase, then decrease

16. Supply curves are generally

A. upward-sloping.

B. downward-sloping.

C. a straight line in real life.

D. responsive to demand curves.

17. The demand schedule is a description of the behavior of _____ in a market.

A. sellers

B. buyers

C. a supply schedule

D. a demand schedule

18. *Ceteris paribus,* when used by economists, means

A. for every action, there is a reaction.

B. things never change.

C. all other things equal.

D. buyer beware.

19. Opportunity cost is defined as the value or benefit of the

A. most expensive item.

B. least expensive item.

C. supply curve.

D. next best alternative.

20. If you wished to sell glasses of lemonade, but were uncertain at what price to sell each glass, you would use a _____, if one were available, to assist in the decision.

A. calculator

B. demand schedule

C. opportunity schedule

D. negotiated price

21. The typical worker is a(n) _____ in a labor market.

A. buyer

B. seller

C. opportunity cost

D. market demand

22. Global markets consist of buyers and sellers

A. anywhere in the world.

B. only within their community.

C. within a nation.

D. within a state.

23. The market price can sometimes be difficult to identify due to which of the following?

A. The laws of supply and demand.

B. Equilibriums.

C. Satiation.

D. Sale prices, negotiated prices, and volume discounts.

24. Which of the following is NOT an example of an advance purchase discount?

A. Prepaid tuition plans.

B. Airline tickets.

C. Movie tickets purchased online at a lower price than at the box office.

D. Buying a soda at the local fast-food outlet.

25. A market demand schedule for hamburgers would NOT include which of the following?

A. Vegetarians, who buy no hamburgers.

B. People who eat a cheeseburger every day for lunch.

C. The concept of *ceteris paribus.*

D. The labor market.

26. If the market price of $10 per lawn leads to the quantity supplied of 15 mowed lawns, and the market price of $15 per lawn leads to 25 lawns mowed, which way does the supply curve slope?

A. Downward.

B. Upward.

C. Horizontally.

D. Vertically.

27. Generally speaking, in the law of demand, the lower the price, the _____ the quantity demanded.

A. lower

B. greater

C. supply schedule shows

D. market will adjust

28. Which of the following is not an example of zero price?

A. Most cable television plans.

B. Unlimited cell-to-cell calling plans.

C. Unlimited refills of coffee.

D. A hot dog at a stand.

29. Which of the following is an example of a product that is sold primarily in a local market?

A. Cheese.

B. Butter.

C. Milk.

D. Oil.

30. Sale prices mean that the price is lowered for a _____ period of time.

A. limited

B. long

C. extended

D. prolonged

31. Using the law of demand, what would generally happen if the price of gasoline were to rise to $7.00 per gallon?

A. The quantity demanded would increase.

B. There would be no effect on demand.

C. The quantity demanded would decrease.

D. Automakers would increase production.

32. In economics, satiation means

A. eventually the marginal value of the good consumed increases.

B. that you are full.

C. eventually the marginal value of the good consumed decreases.

D. that the market price has been attained.

33. In contrast to the law of supply, sometimes _____ can reduce the quantity supplied.

A. an increased price

B. a market supply curve

C. a market demand curve

D. price negotiations

34. Markets can be

A. global.

B. national.

C. local.

D. global, national, and local.

35. What would it mean if a demand curve sloped upward?

A. Quantity demanded drops as the price increases.

B. Quantity demanded increases as the price increases.

C. There is no relationship between price and quantity demanded.

D. Quantity demanded increases as the price drops.

36. A vertical supply curve would mean that

A. as price decreases, quantity supplied decreases.

B. as price decreases, quantity supplied increases.

C. the price does not affect the quantity supplied.

D. market equilibrium has been reached.

37. One of the biggest benefits of a market-based economy is

A. centralized planning.

B. the ability to adapt quickly to change.

C. government regulation.

D. consumer protection policies.

38. If the quantity demanded increases sharply when the price drops, this illustrates what principle?

A. The law of supply.

B. The law of demand.

C. The law of the curve.

D. *Ceteris paribus.*

39. Which of the following is not an example of a good provided by a market?

A. Online video games.

B. Airline tickets between New York and Los Angeles.

C. Pizza in Toledo, Ohio.

D. The air we breathe.

40. Buying a used textbook from a fellow student is an example of what type of market?

A. Local.

B. National.

C. Global.

D. Labor.

41. The market price is

A. the exact price a product sells for at a specific time.

B. the typical price at which a good or service sells.

C. always easy to determine.

D. usually higher than the equilibrium price.

42. What phrase do economists use to describe the assumption that everything else about a situation stays the same, while one variable, such as price, changes?

A. *E pluribus unum.*

B. *Caveat emptor.*

C. *Vini, vidi, vici.*

D. *Ceteris paribus.*

43. When you give up the opportunity to do something else, the value to you of that activity is called

A. opportunity demand.

B. opportunity cost.

C. market price.

D. equilibrium.

44. What might happen if the market price of haircuts went up?

A. Haircutting would be less profitable.

B. Some stylists would work fewer hours.

C. Some salons might close.

D. A hair salon might hire more stylists.

45. The number of markets is

A. Fixed.

B. Always changing.

C. Closed.

D. Variable on a local basis, and fixed on a national basis.

46. What is the price of labor in a market?

A. The supply rate.

B. The demand rate.

C. The net profit.

D. The wage rate.

47. The law of demand

A. always holds true.

B. is the opposite of the law of supply.

C. works only in large markets.

D. is a general tendency.

48. The demand schedule reports the quantity demanded at

A. different prices.

B. one price.

C. the average of all prices.

D. the supply price.

49. The supply schedule is a description of

A. the quantity demanded at a single price.

B. the supply offered according to demand.

C. the basis of calculating market price.

D. the relationship between quantities supplied and market prices.

50. The individual quantity demanded is the amount the _____ is willing to _____ at a given price.

A. seller, purchase

B. buyer, purchase

C. buyer, sell

D. seller, sell

51. Natural resources, such as crude oil and fish, are often sold in _____ markets.

A. local

B. national

C. global

D. labor

52. Households are generally buyers in the markets for products and sellers in _____ markets.

A. goods

B. service

C. natural resource

D. labor

53.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. Which of the following statements does not explain why the quantity demanded was not higher for a price of $0?

A. There are only so many songs that people want to listen to.

B. Downloading an MP3 takes time.

C. MP3s take up space on a computer's hard drive.

D. People would rather pay for their downloads.

54.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. Does this demand schedule conform to the law of demand?

A. Yes, because as the price falls, the quantity demanded rises.

B. Yes, because as the price falls, the quantity demanded also falls.

C. No, because there appears to be no relationship between price and quantity demanded.

D. No, because the demand for most goods does not follow the law of demand.

55.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. What would happen to the quantity of MP3s demanded at a price of $2 if the university's enrollment were to increase significantly?

A. The quantity demanded would fall below 200 because there would be more students competing for MP3s.

B. The quantity demanded would remain at 200 because the number of buyers in a market does not impact the market demand schedule.

C. The quantity demanded would increase above 200 because the market demand schedule is the sum of individual demand schedules, and more students mean more individual demand schedules for MP3s.

D. The quantity demanded would rise to exactly 400 because every number in the table would simply shift down one row.

56. Does the law of supply apply to labor markets?

A. Yes, because all workers will increase the number of hours they work if their wages increase.
B. Yes, because some workers who are less committed to the labor force, like teenagers, will decide to work if wages increase.
C. No, because the laws of supply and demand both apply only to product markets.
D. No, because workers have no control over the number of hours they work.

57. The average sale price of a home in the United States increased from $207,000 to $297,000 from 2000 to 2005. All else equal, we would expect that during the same time

A. The quantity of new homes supplied also increased.
B. The quantity of new homes supplied decreased.
C. The quantity of new homes supplied did not change.
D. The quantity of new homes supplied changed in proportion to changes in the population.

58. If the average market price for haircuts increases, all else equal, which of the following is LEAST likely to occur as a result?

A. More new salons will open.

B. Existing salons and barber shops will hire more stylists and barbers.

C. Some workers will leave other jobs in order to become hair stylists.

D. Many salons will go out of business.

59. The market for automobiles in China has experienced tremendous growth primarily because of

A. relaxed emissions standards in China.

B. rising incomes in China.

C. higher wages of American workers.

D. the invention of new products.

60. The market for iPads did not exist 30 years ago because

A. consumers did not need or want iPads.

B. portable electronic devices were illegal.

C. the technology did not exist to produce iPads.

D. iPads were too expensive for most consumers.

Short Answer Questions

61. Explain why a demand curve slopes downward.

62. What determines a market supply schedule?

63. What does an upward-sloping supply curve mean?

64. Give three examples of why new markets are created every day.

65. What do economists mean when they say *ceteris paribus*?

Chapter 02 Demand and Supply: The Basics of the Market Economy

Answer Key

True / False Questions

1. The rate at which buyers exchange money for a good or service is known as the price.

   TRUE

   The rate at which the buyer and seller exchange money for a good or service is called the price.

AACSB: Analytic

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

2. Individuals in a market economy can be both buyers and sellers.

TRUE

A typical worker is a seller of labor, while also a buyer of products and services.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

3. Buyers and sellers who are geographically close are part of a national market.

FALSE

Buyers and sellers who are geographically close are part of a local market.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01 Describe the key elements of a market.

4. The Internet has allowed an increasing number of goods and services to be traded on the national market.

TRUE

Many services and products are available from the sellers' websites, regardless of geography.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.

5. Crude oil is sold on a local market.

FALSE

Because of the multinational basis of many oil companies, crude oil has been sold on a global market for decades.

AACSB: Analytic
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.

6. The market price is the typical price at which a good or service sells.

TRUE

The market price is the typical price at which a good or service sells.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

7. The individual quantity demanded is the amount the buyer is allowed to purchase at a given price.

FALSE

Individual quantity demanded is based on the amount the buyer is willing to purchase at a given price.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

8. The law of demand says that in most cases, the lower the price, the lower the quantity demanded.

FALSE

The law of demand says a lower price tends to increase the quantity demanded, all other things equal.

AACSB: Analytic
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

9. Zero-price products and services exist only in the technology sector.

FALSE

You can use all-you-can-eat buffets, as well as unlimited refills of coffee, as examples of zero-price products outside of technology.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

10. A demand schedule illustrates the quantities demanded for a particular product or service at different prices.

TRUE

The demand schedule illustrates the link between a buyer's quantity demanded and price.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

Multiple Choice Questions

11. The demand curve is the graphical counterpart to the

A. demand schedule.

B. supply curve.

C. supply schedule.

D. general demand.

The demand curve shows the graphical representation of quantity demanded at different prices.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

12. The law of demand suggests that most demand curves will be

A. upward-sloping.

B. a straight line.

C. downward-sloping.

D. variable.

As price increases, there is usually a reduction in quantity demanded, causing the downward slope on a demand curve.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

13. A supply schedule illustrates the quantity supplied at

A. various demand levels.

B. a single selling price.

C. different selling prices.

D. market equilibrium.

The supply schedule for a good or service reports the quantity supplied at different selling prices.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

14. A market supply schedule

A. is all the products or services demanded in a market.

B. combines the quantities supplied by all businesses in a market.

C. has an upward-sloping demand curve.

D. is determined by adding demand and supply.

The market supply schedule adds up the quantity supplied by all the sellers in a market.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

15. The law of supply says that higher prices tend to _____ the quantity supplied of a good or service, assuming no other changes.

A. increase

B. decrease

C. have no effect on

D. first increase, then decrease

The law of supply states that a higher price tends to increase the quantity supplied, all other things equal.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

16. Supply curves are generally

A. upward-sloping.

B. downward-sloping.

C. a straight line in real life.

D. responsive to demand curves.

As the price of a product or service increases, generally so does the quantity supplied, creating an upward-sloping supply curve.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

17. The demand schedule is a description of the behavior of _____ in a market.

A. sellers

B. buyers

C. a supply schedule

D. a demand schedule

The demand schedule provides a link between a buyer's quantity demanded and the price.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

18. *Ceteris paribus,* when used by economists, means

A. for every action, there is a reaction.

B. things never change.

C. all other things equal.

D. buyer beware.

In assuming a demand schedule, economists use the concept of *ceteris paribus* to mean that the schedule reflects no other changes aside from price and demand.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Describe the key elements of a market.

19. Opportunity cost is defined as the value or benefit of the

A. most expensive item.

B. least expensive item.

C. supply curve.

D. next best alternative.

See the definition of opportunity cost.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

20. If you wished to sell glasses of lemonade, but were uncertain at what price to sell each glass, you would use a _____, if one were available, to assist in the decision.

A. calculator

B. demand schedule

C. opportunity schedule

D. negotiated price

The demand schedule shows a seller the optimal (highest demanded) price for a product or service.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

21. The typical worker is a(n) _____ in a labor market.

A. buyer

B. seller

C. opportunity cost

D. market demand

Workers typically sell their time for money.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

22. Global markets consist of buyers and sellers

A. anywhere in the world.

B. only within their community.

C. within a nation.

D. within a state.

Global markets allow buyers and sellers to be anywhere in the world.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

23. The market price can sometimes be difficult to identify due to which of the following?

A. The laws of supply and demand.

B. Equilibriums.

C. Satiation.

D. Sale prices, negotiated prices, and volume discounts.

Sale prices, negotiated prices, and volume discounts each affect market price.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Describe the key elements of a market.

24. Which of the following is NOT an example of an advance purchase discount?

A. Prepaid tuition plans.

B. Airline tickets.

C. Movie tickets purchased online at a lower price than at the box office.

D. Buying a soda at the local fast-food outlet.

When the buyer pays for a good or service in advance, the buyer typically will receive a discount from the market price.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Describe the key elements of a market.

25. A market demand schedule for hamburgers would NOT include which of the following?

A. Vegetarians, who buy no hamburgers.

B. People who eat a cheeseburger every day for lunch.

C. The concept of *ceteris paribus.*

D. The labor market.

The market demand schedule for hamburgers would tell us how many hamburgers would be bought by people at any given price.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

26. If the market price of $10 per lawn leads to the quantity supplied of 15 mowed lawns, and the market price of $15 per lawn leads to 25 lawns mowed, which way does the supply curve slope?

A. Downward.

B. Upward.

C. Horizontally.

D. Vertically.

When market price increases, and you have a corresponding increase in quantity supplied, there is an upward slope.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

27. Generally speaking, in the law of demand, the lower the price, the _____ the quantity demanded.

A. lower

B. greater

C. supply schedule shows

D. market will adjust

The law of demand states that a lower price tends to increase the quantity demanded, all other things equal.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

28. Which of the following is not an example of zero price?

A. Most cable television plans.

B. Unlimited cell-to-cell calling plans.

C. Unlimited refills of coffee.

D. A hot dog at a stand.

Some products come with a zero price, so that you get an additional unit of a good or service at no extra charge. For example, we may pay an initial fee but have unlimited use.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

29. Which of the following is an example of a product that is sold primarily in a local market?

A. Cheese.

B. Butter.

C. Milk.

D. Oil.

Due to transportation issues and government regulations, milk is primarily sold locally. Cheese and butter are sold globally.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

30. Sale prices mean that the price is lowered for a _____ period of time.

A. limited

B. long

C. extended

D. prolonged

A sale price is intentionally set below the market price for a limited time to stimulate purchases.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

31. Using the law of demand, what would generally happen if the price of gasoline were to rise to $7.00 per gallon?

A. The quantity demanded would increase.

B. There would be no effect on demand.

C. The quantity demanded would decrease.

D. Automakers would increase production.

According to the law of demand, when the price increases, there generally is a corresponding decrease in quantity demanded.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

32. In economics, satiation means

A. eventually the marginal value of the good consumed increases.

B. that you are full.

C. eventually the marginal value of the good consumed decreases.

D. that the market price has been attained.

You reach a satiation point when the good consumed no longer has value. There is only so much free coffee you can drink before your body physically rebels.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

33. In contrast to the law of supply, sometimes _____ can reduce the quantity supplied.

A. an increased price

B. a market supply curve

C. a market demand curve

D. price negotiations

Labor markets provide a good example: If you have a goal to earn $2,000, and are paid $10 per hour, it will take you 200 hours to achieve that goal. If your rate increases to $20 per hour, the amount of labor you supply to reach your goal will decrease.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

34. Markets can be

A. global.

B. national.

C. local.

D. global, national, and local.

Markets are a way for buyers and sellers to voluntarily exchange goods and services for money.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

35. What would it mean if a demand curve sloped upward?

A. Quantity demanded drops as the price increases.

B. Quantity demanded increases as the price increases.

C. There is no relationship between price and quantity demanded.

D. Quantity demanded increases as the price drops.

Demand curves are generally downward-sloping because as price falls, quantity demanded rises.

AACSB: Analytic

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

36. A vertical supply curve would mean that

A. as price decreases, quantity supplied decreases.

B. as price decreases, quantity supplied increases.

C. the price does not affect the quantity supplied.

D. market equilibrium has been reached.

A vertical supply curve would imply that quantity supplied was constant, regardless of the price.

AACSB: Analytic

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

37. One of the biggest benefits of a market-based economy is

A. centralized planning.

B. the ability to adapt quickly to change.

C. government regulation.

D. consumer protection policies.

New markets are created everyday to the changing needs of consumers and to take advantage of the changing capabilities of producers.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Discuss why the number of markets can increase.

38. If the quantity demanded increases sharply when the price drops, this illustrates what principle?

A. The law of supply.

B. The law of demand.

C. The law of the curve.

D. *Ceteris paribus.*

The law of demand states that when a price drops, the quantity demanded generally increases.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

39. Which of the following is not an example of a good provided by a market?

A. Online video games.

B. Airline tickets between New York and Los Angeles.

C. Pizza in Toledo, Ohio.

D. The air we breathe.

The air we breathe is not exchanged between buyers and sellers.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

40. Buying a used textbook from a fellow student is an example of what type of market?

A. Local.

B. National.

C. Global.

D. Labor.

Because the textbook sale was person to person, within a specific school, this is an example of a local market.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

41. The market price is

A. the exact price a product sells for at a specific time.

B. the typical price at which a good or service sells.

C. always easy to determine.

D. usually higher than the equilibrium price.

Market price is the typical price at which a good or service sells.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

42. What phrase do economists use to describe the assumption that everything else about a situation stays the same, while one variable, such as price, changes?

A. *E pluribus unum.*

B. *Caveat emptor.*

C. *Vini, vidi, vici.*

D. *Ceteris paribus.*

The implicit assumption that everything else about a buying situation stays the same when the price changes is called ceteris paribus, meaning all other things equal.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-01 Describe the key elements of a market.

43. When you give up the opportunity to do something else, the value to you of that activity is called

A. opportunity demand.

B. opportunity cost.

C. market price.

D. equilibrium.

Opportunity cost is the value or benefit of the next-best alternative use of money or time.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

44. What might happen if the market price of haircuts went up?

A. Haircutting would be less profitable.

B. Some stylists would work fewer hours.

C. Some salons might close.

D. A hair salon might hire more stylists.

The law of supply states that a higher price tends to increase the quantity supplied, all other things equal.

AACSB: Analytic

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

45. The number of markets is

A. Fixed.

B. Always changing.

C. Closed.

D. Variable on a local basis, and fixed on a national basis.

As technologies change, so do markets.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Discuss why the number of markets can increase.

46. What is the price of labor in a market?

A. The supply rate.

B. The demand rate.

C. The net profit.

D. The wage rate.

Sellers trade their time for money (wages).

AACSB: Analytic

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

47. The law of demand

A. always holds true.

B. is the opposite of the law of supply.

C. works only in large markets.

D. is a general tendency.

Generally speaking, the lower the price, the greater the quantity demanded.

AACSB: Analytic

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

48. The demand schedule reports the quantity demanded at

A. different prices.

B. one price.

C. the average of all prices.

D. the supply price.

The demand schedule shows the link between a buyer's quantity demanded and the price.

AACSB: Analytic

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

49. The supply schedule is a description of

A. the quantity demanded at a single price.

B. the supply offered according to demand.

C. the basis of calculating market price.

D. the relationship between quantities supplied and market prices.

The supply schedule for a good or service reports the quantity supplied at different selling prices.

AACSB: Reflective Thinking

Blooms: Remember

Difficulty: 3 Haro

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

50. The individual quantity demanded is the amount the _____ is willing to _____ at a given price.

A. seller, purchase

B. buyer, purchase

C. buyer, sell

D. seller, sell

The quantity demanded by a particular buyer is the amount that a buyer is willing to purchase at a given price.

AACSB: Analytic

Blooms: Remember

Difficulty: 3 Haro

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

51. Natural resources, such as crude oil and fish, are often sold in _____ markets.

A. local

B. national

C. global

D. labor

The textbook uses crude oil and fish as two examples of goods sold in global markets.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01 Describe the key elements of a market.

52. Households are generally buyers in the markets for products and sellers in _____ markets.

A. goods

B. service

C. natural resource

D. labor

In labor markets, individuals sell their labor; in product markets, individuals buy goods and services.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-01 Describe the key elements of a market.

53.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. Which of the following statements does not explain why the quantity demanded was not higher for a price of $0?

A. There are only so many songs that people want to listen to.

B. Downloading an MP3 takes time.

C. MP3s take up space on a computer's hard drive.

D. People would rather pay for their downloads.

The quantity demanded at a price of zero is not infinite because of opportunity cost and satiation.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

54.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. Does this demand schedule conform to the law of demand?

A. Yes, because as the price falls, the quantity demanded rises.

B. Yes, because as the price falls, the quantity demanded also falls.

C. No, because there appears to be no relationship between price and quantity demanded.

D. No, because the demand for most goods does not follow the law of demand.

The law of demand holds that as prices rise, the quantity demanded falls.

AACSB: Reflective Thinking

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

55.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. What would happen to the quantity of MP3s demanded at a price of $2 if the university's enrollment were to increase significantly?

A. The quantity demanded would fall below 200 because there would be more students competing for MP3s.

B. The quantity demanded would remain at 200 because the number of buyers in a market does not impact the market demand schedule.

C. The quantity demanded would increase above 200 because the market demand schedule is the sum of individual demand schedules, and more students mean more individual demand schedules for MP3s.

D. The quantity demanded would rise to exactly 400 because every number in the table would simply shift down one row.

The market demand schedule sums the demand schedules of all buyers, so more buyers would increase the quantities demanded at every price.

AACSB: Reflective Thinking

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

56. Does the law of supply apply to labor markets?

A. Yes, because all workers will increase the number of hours they work if their wages increase.

B. Yes, because some workers who are less committed to the labor force, like teenagers, will decide to work if wages increase.

C. No, because the laws of supply and demand both apply only to product markets.

D. No, because workers have no control over the number of hours they work.

Although some workers may not respond to an increase in wages by working more (some workers may even work less), higher wages tend to draw workers into labor markets.

AACSB: Analytic

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

57. The average sale price of a home in the United States increased from $207,000 to $297,000 from 2000 to 2005. All else equal, we would expect that during the same time

A. The quantity of new homes supplied also increased.

B. The quantity of new homes supplied decreased.

C. The quantity of new homes supplied did not change.

D. The quantity of new homes supplied changed in proportion to changes in the population.

The law of supply states that as prices rise, quantity supplied also rises.

AACSB: Analytic

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

58. If the average market price for haircuts increases, all else equal, which of the following is LEAST likely to occur as a result?

A. More new salons will open.

B. Existing salons and barber shops will hire more stylists and barbers.

C. Some workers will leave other jobs in order to become hair stylists.

D. Many salons will go out of business.

Higher prices lead to higher quantities supplied. This is because existing suppliers produce more and because new suppliers enter the market.

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

59. The market for automobiles in China has experienced tremendous growth primarily because of

A. relaxed emissions standards in China.

B. rising incomes in China.

C. higher wages of American workers.

D. the invention of new products.

See the section on new markets.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-04 Discuss why the number of markets can increase.

60. The market for iPads did not exist 30 years ago because

A. consumers did not need or want iPads.

B. portable electronic devices were illegal.

C. the technology did not exist to produce iPads.

D. iPads were too expensive for most consumers.

There are different reasons why new markets arise. Consumers would certainly have enjoyed iPads 30 years ago, but most of the technology required did not exist at that time.

AACSB: Analytic

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-04 Discuss why the number of markets can increase.

Short Answer Questions

61. Explain why a demand curve slopes downward.

As price decreases, the quantity demanded increases because the product is less expensive to purchase. Because of the lower price, more consumers are inclined to purchase it, increasing the quantity demanded.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

62. What determines a market supply schedule?

By combining the quantity supplied by all businesses in a given market at different prices, the market supply schedule indicates the amount of a product or service all sellers are willing to provide at those prices.

AACSB: Analytic

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

63. What does an upward-sloping supply curve mean?

As the price increases, the quantity supplied generally increases, causing the line to slope upward. Suppliers are generally willing to invest in more production to increase supply if they are going to be paid more for the product or service. More profit also tends to attract more suppliers of the same product or service.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.

64. Give three examples of why new markets are created every day.

New technologies create products for needs we didn't know we had, new services for technologies that didn't exist before, and new countries with fast-growing economies. An example of this is the MP3 player. Prior to the introduction of MP3 technology, consumers did not need a small, handheld device to store and transfer recorded music. The creation of this technology resulted in a complete shift in the distribution of music.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-04 Discuss why the number of markets can increase.

65. What do economists mean when they say *ceteris paribus*?

When speaking about the laws of demand and supply, economists want to isolate changes in price from other changes, so they assume that key factors don't change when price goes up or down. When economists say that quantity demanded will decrease, for example, as price increases, they mean that this will happen if there are no other changes that could affect quantity demanded.

AACSB: Reflective Thinking

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Describe the key elements of a market.