

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Normal goods are: 1) _____
- A) pairs of goods consumed together.
 - B) goods whose demand falls as people's incomes rise.
 - C) goods whose demand rises as people's incomes rise.
 - D) pairs of goods which are considered by consumers to be alternatives to each other.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

- 2) Assume that there is a rise in the demand for a good. Ceteris paribus, this will result in: 2) _____
- A) a fall in the price of the good, but a rise in the price of the factors used to make it.
 - B) a rise in the price of the good, but an unknown effect on the price of the factors used to make it.
 - C) a rise in the price of the good, but a fall in the price of the factors used to make it.
 - D) a fall in the price of the good and a fall in the price of the factors used to make it.
 - E) a rise in the price of the good and a rise in the price of the factors used to make it.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 3) The government imposes a maximum rent on flats that is BELOW the equilibrium rent. You accurately predict that: 3) _____
- A) the new law will have no economic impact.
 - B) landlords are less likely to do routine maintenance work in the flats.
 - C) renters will find that landlords start offering to furnish the flats.
 - D) the new law will create a surplus of flats to rent.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

- 4) Which of the following would NOT cause a shift in the demand curve for CDs? 4) _____
- A) A change in the price of DVDs
 - B) A change in wealth
 - C) A change in the price of CDs
 - D) A change in income

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)

- 10) Which of the following is not a problem that can occur when the government imposes a maximum price? 10) _____
- A) Some consumers may be unable to obtain the product.
 - B) Producers' income will be cut and thus supplies of an already scarce product are likely to be reduced further.
 - C) Firms may be discouraged from investing and thus future supplies are likely to be less.
 - D) Surpluses will be produced, which is wasteful.

Answer: D

Explanation: A)
B)
C)
D)

- 11) Consider the market for new flats. What will be the effect on demand and supply if flat living becomes more fashionable? 11) _____
- A) A rightward shift in demand and a rightward shift in supply
 - B) A rightward shift in demand and no shift in supply
 - C) A rightward shift in demand and a leftward shift in supply
 - D) No shift in demand

Answer: B

Explanation: A)
B)
C)
D)

- 12) The law of demand states that, other things being equal, a decrease in the price of a good will result in: 12) _____
- A) greater production of the good.
 - B) a decrease in the quantity willingly purchased.
 - C) an increase in the quantity willingly purchased.
 - D) a surplus.
 - E) a decrease in income.

Answer: C

Explanation: A)
B)
C)
D)
E)

- 13) If a government sets a price below the equilibrium price: 13) _____
- A) demand will be greater than supply.
 - B) quantity demanded will be greater than quantity supplied.
 - C) demand will be less than supply.
 - D) quantity demanded will equal quantity supplied.

Answer: B

Explanation: A)
B)
C)
D)

- 14) Consider the market for DVDs. What will happen to the demand and supply curves if people expect that the price of DVDs will fall? 14) _____
- A) Leftward shift in demand and supply
 - B) Leftward shift in demand and rightward shift in supply
 - C) Rightward shift in demand and supply
 - D) Rightward shift in demand and leftward shift in supply

Answer: B

- Explanation: A)
B)
C)
D)

- 15) If a government wished to keep down rents of flats and houses it should: 15) _____
- A) control the rents charged by private landlords.
 - B) provide subsidies to people renting flats and houses.
 - C) provide cheap rented flats and houses.
 - D) A and B
 - E) A and C

Answer: E

- Explanation: A)
B)
C)
D)
E)

- 16) A firm produces 2 products: goods A and B. If the profitability of producing good B decreases, which of the following will occur? 16) _____
- A) A movement up along the supply curve for good A
 - B) A rightward shift of the supply curve for good A
 - C) A leftward shift of the supply curve for good A
 - D) A movement down along the supply curve for good A
 - E) Need more information to say

Answer: B

- Explanation: A)
B)
C)
D)
E)

- 17) If a games-freak became unemployed and decided not to buy as many computer games, economists would say that they were treating computer games as: 17) _____
- A) a normal good.
 - B) an inferior good.
 - C) a substitute good.
 - D) a complementary good.

Answer: D

- Explanation: A)
B)
C)
D)

- 18) The government fixes a maximum price for petrol that is below the market price. You are asked to suggest a rationing scheme, which will minimise the misallocation of resources. You suggest: 18) _____
- A) using rationing on a first-come, first-served basis.
 - B) using rationing coupons which can be resold.
 - C) using rationing coupons which cannot be resold.
 - D) using rationing only on weekdays.

Answer: B

Explanation: A)
B)
C)
D)

- 19) Which of the following refers to a minimum price? 19) _____
- A) A price floor set by the government or some other agency
 - B) A price ceiling set by the government or some other agency
 - C) A situation where the price is not allowed to fall below this level
 - D) A situation where the price is not allowed to rise above this level
 - E) A and C

Answer: E

Explanation: A)
B)
C)
D)
E)

- 20) A good harvest will cause: 20) _____
- A) a movement up along the supply curve of wheat.
 - B) a rightward shift in the supply curve of wheat.
 - C) a leftward shift in the supply curve of wheat.
 - D) a movement down along the supply curve of wheat.

Answer: B

Explanation: A)
B)
C)
D)

- 21) A movement along the demand curve to the left could be caused by: 21) _____
- A) a rise in inflation.
 - B) a rise in income.
 - C) a decrease in supply.
 - D) a fall in the price of substitutes.

Answer: C

Explanation: A)
B)
C)
D)

- 22) It is necessary to ration a good whenever: 22) _____
A) supply exceeds demand. B) demand exceeds supply.
C) a surplus exists. D) a perfectly inelastic demand exists.

Answer: B

- Explanation: A)
B)
C)
D)

- 23) Consider the supply curve of organically grown wheat. What will be the effect of a government subsidy granted to farmers using organic methods? 23) _____
A) Leftward shift
B) No shift
C) Rightward shift
D) Movement up along
E) Movement down along

Answer: C

- Explanation: A)
B)
C)
D)
E)

- 24) Which of the following correctly describes how price adjustments eliminate a surplus? 24) _____
A) As the price falls, the quantity demanded will decrease while the quantity supplied increases.
B) As price falls, the demand for substitutes rises, getting rid of the surplus.
C) As the price rises, the quantity demanded will decrease while the quantity supplied increases.
D) As the price rises, the quantity demanded will increase while the quantity supplied decreases.
E) As the price falls, the quantity demanded will increase while the quantity supplied increases.

Answer: C

- Explanation: A)
B)
C)
D)
E)

- 25) Which of the following is the most likely cause of a decrease in demand for cameras? 25) _____
A) A decrease in the price of cameras
B) An increase in the price of a substitute good
C) An increase in the price of a complementary good
D) A decrease in the price of a complementary good

Answer: C

- Explanation: A)
B)
C)
D)

- 26) What will be the effect of the imposition of a tax on a product? 26) _____
A) Leftward shift in supply B) Rightward shift in supply
C) Leftward shift in demand D) Rightward shift in demand

Answer: A

- Explanation: A)
 B)
 C)
 D)

- 27) Consider a firm that produces goods A and B. What will be the effect on the supply curve for good A following an increase in the profitability of producing good B? 27) _____
A) A leftward shift B) A movement down along
C) A movement up along D) A rightward shift

Answer: A

- Explanation: A)
 B)
 C)
 D)

- 28) When excess supply occurs in a free market there is a tendency for: 28) _____
A) price to fall. B) price to rise.
C) quantity demanded to rise. D) quantity supplied to fall.

Answer: A

- Explanation: A)
 B)
 C)
 D)

- 29) A market clears when: 29) _____
A) demand exceeds supply. B) supply matches demand.
C) supply exceeds demand. D) none of the above

Answer: B

- Explanation: A)
 B)
 C)
 D)

- 30) A demand curve for a good is constructed by holding constant: 30) _____
A) tastes and the price of other goods.
B) income, tastes and the price of the good.
C) income and tastes.
D) income, tastes and the price of other goods.

Answer: D

- Explanation: A)
 B)
 C)
 D)

- 31) When the price of a good falls and customers tend to buy more of it instead of other goods, economists call this the _____ effect. 31) _____
- A) substitution
B) diminishing marginal utility
C) income
D) ceteris paribus
- Answer: A
Explanation: A)
B)
C)
D)
- 32) If the market is in equilibrium and there is an increase in consumer income, what will be the effect? 32) _____
- A) A rise in price but a fall in quantity
B) A rise in price and quantity
C) A fall in price and quantity
D) A fall in price but a rise in quantity
- Answer: B
Explanation: A)
B)
C)
D)
- 33) What will be the effect of a minimum price control imposed BELOW the equilibrium market price? 33) _____
- A) There will be a surplus.
B) Depends on the level of the price control
C) It will cause excess supply.
D) No effect
- Answer: D
Explanation: A)
B)
C)
D)
- 34) A market is in equilibrium. What will happen to the equilibrium price and quantity following an increase in income and a fall in the costs of production? 34) _____
- A) A rise in equilibrium price but a fall in equilibrium quantity
B) A rise in equilibrium quantity, but an unknown effect on price
C) A fall in equilibrium price but a rise in equilibrium quantity
D) A fall in equilibrium price and a fall in equilibrium quantity
E) A rise in equilibrium price and a rise in equilibrium quantity
- Answer: B
Explanation: A)
B)
C)
D)
E)
- 35) Expectations about price changes will affect: 35) _____
- A) both the demand and supply curves.
B) the demand curve only.
C) the supply curve only.
D) neither curve.
- Answer: A
Explanation: A)
B)
C)
D)

- 36) Suppose it is observed that the price of butter rises and so does the quantity sold. From this we can deduce that: 36) _____
- A) the supply curve has shifted to the left, but we cannot deduce whether or not the demand curve has shifted.
 - B) the demand curve has shifted to the right, but we cannot deduce whether or not the supply curve has shifted.
 - C) the supply curve has shifted to the right, but we cannot deduce whether or not the demand curve has shifted.
 - D) the demand curve has shifted to the left, but we cannot deduce whether or not the supply curve has shifted.

Answer: D

Explanation: A)
B)
C)
D)

- 37) An increase in supply is represented by: 37) _____
- A) a leftward shift of the supply curve.
 - B) a rightward shift of the supply curve.
 - C) a move down the given supply curve.
 - D) a move up the given supply curve.
 - E) both A and D

Answer: B

Explanation: A)
B)
C)
D)
E)

- 38) Consider the market for red jeans. If celebrities start to wear more and more red jeans, what is likely to happen to the equilibrium price and quantity of them? 38) _____
- A) A fall in price and quantity
 - B) An increase in price and fall in quantity
 - C) A fall in price and rise in quantity
 - D) An increase in price and quantity

Answer: D

Explanation: A)
B)
C)
D)

- 39) The 'law of demand' states that: 39) _____
- A) as prices rise, demand increases.
 - B) as prices fall, quantity demanded increases.
 - C) as prices fall, demand decreases.
 - D) as prices rise, quantity demanded increases.
 - E) A and B

Answer: B

Explanation: A)
B)
C)
D)
E)

- 40) Which of the following might shift the demand curve for butter to the right? 40) _____
- A) A decrease in the price of margarine, a substitute
 - B) An increase in the price of bread, a complement
 - C) A fall in the population
 - D) An increase in income
 - E) A decrease in the price of butter

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 41) Racketeers selling tickets for a pop concert will be successful: 41) _____
- A) when prices are too high.
 - B) when the price set by the concert hall is less than the market equilibrium price.
 - C) any time the pop group is popular.
 - D) only when there is excess supply.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)

- 42) Consider the market for new houses. What effect will a decrease in the price of new flats have? 42) _____
- A) Rightward shift in demand and no shift in supply
 - B) Rightward shift in demand and leftward shift in supply
 - C) Leftward shift in demand and leftward shift in supply
 - D) Rightward shift in demand and rightward shift in supply
 - E) Leftward shift in demand and rightward shift in supply

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

- 43) If the government sets a maximum price that is below the equilibrium price: 43) _____
- A) quantity demanded will be greater than quantity supplied.
 - B) quantity demanded will equal quantity supplied.
 - C) quantity demanded will be less than quantity supplied.
 - D) demand will be less than supply.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)

44) Which of the following is not a determinant of demand? 44) _____
A) The price of substitute goods
B) Tastes
C) Distribution of income
D) Income
E) The profitability of other products

Answer: E

Explanation: A)
B)
C)
D)
E)

45) The National Minimum Wage is an example of: 45) _____
A) a maximum price control. B) the price mechanism.
C) a minimum price control. D) equilibrium in the free market economy.

Answer: C

Explanation: A)
B)
C)
D)

46) The cost of pressing DVDs has fallen, this will cause: 46) _____
A) an increase in quantity supplied. B) an increase in demand.
C) an increase in supply. D) an increase in quantity demanded.

Answer: C

Explanation: A)
B)
C)
D)

47) When an increase in the price of good A causes an increase in demand for good B, the goods are: 47) _____
A) complements. B) inferior. C) substitutes. D) normal.

Answer: C

Explanation: A)
B)
C)
D)

48) In which of the following situations will the demand curve for a good shift to the right? 48) _____
A) An increase in the production subsidy paid on the good
B) A reduction in the production tax imposed by the government on the good
C) The government fixing a price below the equilibrium price
D) An increase in the supply of a complementary good
E) An increase in the supply of a substitute good

Answer: D

Explanation: A)
B)
C)
D)
E)

- 49) The adjustment of _____ is the rationing mechanism in free markets. 49) _____
 A) price B) supply C) quantity D) demand
 Answer: A
 Explanation: A)
 B)
 C)
 D)
- 50) Consider the supply of oil for central heating. What will be the effect on supply if the demand for petrol rises? 50) _____
 A) A movement down along the supply curve
 B) A leftward shift of the supply curve
 C) A movement up along the supply curve
 D) A rightward shift of the supply curve
 Answer: D
 Explanation: A)
 B)
 C)
 D)
- 51) A change in the price of a product will cause: 51) _____
 A) a shift in the demand curve. B) a movement along the demand curve.
 C) a shift in the supply curve. D) no effect.
 Answer: B
 Explanation: A)
 B)
 C)
 D)
- 52) When a decrease in the price of good A causes an increase in demand for good B, the goods are: 52) _____
 A) normal. B) complements. C) inferior. D) substitutes.
 Answer: B
 Explanation: A)
 B)
 C)
 D)
- 53) Which of the following is not a problem that can occur when the government imposes minimum prices? 53) _____
 A) Firms may find ways of evading the price controls and dumping the surpluses on to the market.
 B) Surpluses will be produced, which is wasteful.
 C) A black market may develop.
 D) High prices may cushion inefficiency.
 Answer: C
 Explanation: A)
 B)
 C)
 D)

- 54) What will happen to the equilibrium price and quantity of butter following a rise in the price of margarine? 54) _____
- A) An increase in price and quantity B) A fall in price and a rise in quantity
C) A rise in price but a fall in quantity D) A fall in price and quantity

Answer: A

- Explanation: A)
B)
C)
D)

- 55) Suppose it is observed that the price of cereal falls but that the quantity sold rises. From this we can deduce that: 55) _____
- A) the supply curve has shifted to the left, but we cannot deduce whether or not the demand curve has shifted.
B) the supply curve has shifted to the right, but we cannot deduce whether or not the demand curve has shifted.
C) the demand curve has shifted to the right, but we cannot deduce whether or not the supply curve has shifted.
D) the demand curve has shifted to the left, but we cannot deduce whether or not the supply curve has shifted.

Answer: B

- Explanation: A)
B)
C)
D)

- 56) In a free market, if there is an increase in demand which cannot be met immediately, prices tend to rise. This allocates the goods to those who are willing and able to pay the most. Economists call this: 56) _____
- A) a black market. B) price rationing.
C) equity. D) quantity allocation.

Answer: B

- Explanation: A)
B)
C)
D)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 57) What is speculation, and is it useful to society? 57) _____

Answer: Speculation occurs when people buy products because they think their prices are going to rise, or sell them because they think their prices are going to fall. Speculation is useful when it reduces price fluctuations, and harmful when it increases them. We consider the different types of speculation and their effects in the next chapter.

Explanation:

- 58) Distinguish between the income and substitution effects of a price change. 58) _____
 Answer: The income effect refers to the effect of a change in price on quantity demanded arising from the consumer becoming better or worse off as a result of the price change. On the other hand, the substitution effect refers to the effect of a change in price on quantity demanded arising from the consumer switching to or from alternative (substitute) products.
 Explanation:
- 59) What does a demand curve illustrate? 59) _____
 Answer: A demand curve is a graph showing the relationship between the price of a good and the quantity of the good demanded over a given time period. Price is measured on the vertical axis; quantity demanded is measured on the horizontal axis. A demand curve can be for an individual consumer or groups of consumers, or more usually for the whole market.
 Explanation:
- 60) Distinguish between a normal and an inferior good. 60) _____
 Answer: A normal good is a product, whose demand will increase when an individual's income increases. An inferior product is a good, whose demand will fall as incomes rise. It is generally thought of as a product with relatively poor quality. As your income increases, you can switch to higher quality products and hence your demand for lower quality products will begin to fall.
 Explanation:
- 61) What do we mean by perfect competition? 61) _____
 Answer: Perfect competition (at this stage) refers to a situation where the consumers and producers of a product are price takers. We will discuss other characteristics in later chapters.
 Explanation:
- 62) Explain what a government would have to do to keep the rents of houses and flats low. 62) _____
 Answer: It would have to find out the strength of the forces acting in the housing market, and how efficient the market was.
 It would then have to take steps to make the market more efficient, probably by making more information available.
 It would then probably have to act to increase supply without increasing demand. This would probably involve subsidising private and/or public landlords. The solutions actually chosen would depend on the political situation.
 Explanation:

- 63) How and why are shortages and surpluses eliminated and equilibrium restored in a market? Use an example to explain how the goods and factor markets are interdependent? 63) _____
- Answer: If the price is above the equilibrium price, supply will exceed demand—there is a surplus. In order to sell the excess products, firms will begin to lower the price of the good and as this occurs, there will be a movement down along the supply curve, as the good becomes less profitable and there will also be a movement down along the demand curve, as consumers increase the quantity demanded. The price mechanism will keep adjusting until demand once again equals supply.
 If the price is below the equilibrium, demand exceeds supply and the opposite will occur. There is a shortage and so the price mechanism will adjust and prices will start to increase. As this occurs, there will be a movement up along both the demand and supply curves until equilibrium is once again restored.
 The goods and factor markets are inter-connected, as if there is an increase in demand for a good, then there will also be an increase in demand for the factors of production that are used to produce this good. This will cause a rise in the price of those factors. See the flow chart in figure 1.7 of Sloman, Wride and Garratt *Economics* 8th edition.
- Explanation:
- 64) Explain the difference between changes in demand and changes in the quantity demanded. 64) _____
- Answer: Economists use the two different phrases to distinguish:
 a movement along a demand curve— 'a change in the quantity demanded', from
 a shift in the demand curve— 'a change in demand'
- Explanation:
- 65) If a government sets a maximum (low) price for a good, discuss two rationing devices that might be used to resolve the ensuing shortage 65) _____
- Answer: Firms might favour particular customers (allowing some people to receive special treatment) or
 the government might issue ration coupons (which entitle a person to purchase a certain amount of the product during a specified time).
- Explanation:
- 66) What is econometrics? 66) _____
- Answer: Econometrics is the science of applying statistical techniques to economic data in order to identify and test economic relationships.
- Explanation:
- 67) The price of blue staplers rises and yet it is observed that the sales of red staplers increase. Does this mean that the demand curve for red staplers is upward sloping? 67) _____
- Answer: No, it doesn't mean that the demand curve for red staplers is upward sloping. The price of a substitute product, such as a blue stapler, may have increased by more. If this was the case, and the price of blue staplers went up by more than the increase in the price of red staplers, then red staplers are now relatively cheaper and so you would expect sales to increase.
- Explanation:

68) What are the main determinants of supply? 68) _____

Answer: Factors that affect supply include the costs of production. As the costs of producing a good change, this will influence how much of a good a producer is willing to provide. Other factors include, the profitability of a product and any other products a firm sells. A firm will want to produce and sell those products that will make them the most money and so this will influence their supply decisions. This also links in with the profitability of goods in joint supply. Random shocks will also affect their supply decisions—i.e. oil prices, as well as their expectations. What do they think will happen to the price of the good they're selling in the future. If they think it may go down in the future, then they will sell more of it now to achieve the highest revenue possible. If they think they will be able to sell it for more in the future, then they will hold back now and wait until the price does rise.

Explanation:

69) Explain the difference between changes in supply and changes in the quantity supplied. 69) _____

Answer: Economists use the two different phrases to distinguish:
A movement along a supply curve—'a change in the quantity supplied', from
A shift in the supply curve—'a change in supply'.

Explanation:

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

70) If there is excess supply, then the price will be above the equilibrium price. 70) _____

Answer: True False

Explanation:

71) An inferior good is a good whose demand rises as people's incomes rise. 71) _____

Answer: True False

Explanation:

72) The income effect refers to the effect of a change in price on quantity demanded arising from the consumer becoming better or worse off as a result of the price change. 72) _____

Answer: True False

Explanation:

73) Equilibrium price and output is determined by the intersection of demand and supply. 73) _____

Answer: True False

Explanation:

74) A maximum price may result in a black market. 74) _____

Answer: True False

Explanation:

75) The substitution effect refers to the effect of a change in price on quantity demanded arising from the consumer becoming better or worse off as a result of the price change. 75) _____

Answer: True False

Explanation:

76) A price taker is a person or firm with no power to be able to influence the market price. 76) _____

Answer: True False

Explanation:

- 77) If price changes, the effect is shown by a shift in the supply curve. 77) _____
Answer: True False
Explanation:
- 78) An increase in demand and supply will always lead to a rise in price and quantity. 78) _____
Answer: True False
Explanation:
- 79) If a determinant of supply changes, other than price, then the supply curve will shift. 79) _____
Answer: True False
Explanation:
- 80) If goods have to be rationed, one way of doing this is to raise the price. 80) _____
Answer: True False
Explanation:
- 81) Rent control always reduces the supply of rented houses and flats. 81) _____
Answer: True False
Explanation:
- 82) A minimum price can be effective whether it is imposed above or below the equilibrium price. 82) _____
Answer: True False
Explanation:
- 83) If a supply change results in a change in the amount that customers buy, this is termed a change in quantity demanded by economists. 83) _____
Answer: True False
Explanation:
- 84) A change in the distribution of income will cause the demand curve to shift. 84) _____
Answer: True False
Explanation:

Answer Key
Testname: C2

- 1) C
- 2) E
- 3) B
- 4) C
- 5) D
- 6) E
- 7) B
- 8) C
- 9) B
- 10) D
- 11) B
- 12) C
- 13) B
- 14) B
- 15) E
- 16) B
- 17) D
- 18) B
- 19) E
- 20) B
- 21) C
- 22) B
- 23) C
- 24) C
- 25) C
- 26) A
- 27) A
- 28) A
- 29) B
- 30) D
- 31) A
- 32) B
- 33) D
- 34) B
- 35) A
- 36) D
- 37) B
- 38) D
- 39) B
- 40) D
- 41) B
- 42) E
- 43) A
- 44) E
- 45) C
- 46) C
- 47) C
- 48) D
- 49) A
- 50) D

Answer Key

Testname: C2

- 51) B
- 52) B
- 53) C
- 54) A
- 55) B
- 56) B
- 57) Speculation occurs when people buy products because they think their prices are going to rise, or sell them because they think their prices are going to fall.
Speculation is useful when it reduces price fluctuations, and harmful when it increases them. We consider the different types of speculation and their effects in the next chapter.
- 58) The income effect refers to the effect of a change in price on quantity demanded arising from the consumer becoming better or worse off as a result of the price change. On the other hand, the substitution effect refers to the effect of a change in price on quantity demanded arising from the consumer switching to or from alternative (substitute) products.
- 59) A demand curve is a graph showing the relationship between the price of a good and the quantity of the good demanded over a given time period. Price is measured on the vertical axis; quantity demanded is measured on the horizontal axis. A demand curve can be for an individual consumer or groups of consumers, or more usually for the whole market.
- 60) A normal good is a product, whose demand will increase when an individual's income increases. An inferior product is a good, whose demand will fall as incomes rise. It is generally thought of as a product with relatively poor quality. As your income increases, you can switch to higher quality products and hence your demand for lower quality products will begin to fall.
- 61) Perfect competition (at this stage) refers to a situation where the consumers and producers of a product are price takers. We will discuss other characteristics in later chapters.
- 62) It would have to find out the strength of the forces acting in the housing market, and how efficient the market was. It would then have to take steps to make the market more efficient, probably by making more information available. It would then probably have to act to increase supply without increasing demand.
This would probably involve subsidising private and/or public landlords. The solutions actually chosen would depend on the political situation.
- 63) If the price is above the equilibrium price, supply will exceed demand—there is a surplus. In order to sell the excess products, firms will begin to lower the price of the good and as this occurs, there will be a movement down along the supply curve, as the good becomes less profitable and there will also be a movement down along the demand curve, as consumers increase the quantity demanded. The price mechanism will keep adjusting until demand once again equals supply.
If the price is below the equilibrium, demand exceeds supply and the opposite will occur. There is a shortage and so the price mechanism will adjust and prices will start to increase. As this occurs, there will be a movement up along both the demand and supply curves until equilibrium is once again restored.
The goods and factor markets are inter-connected, as if there is an increase in demand for a good, then there will also be an increase in demand for the factors of production that are used to produce this good. This will cause a rise in the price of those factors. See the flow chart in figure 1.7 of Sloman, Wride and Garratt *Economics* 8th edition.
- 64) Economists use the two different phrases to distinguish:
a movement along a demand curve— 'a change in the quantity demanded', from
a shift in the demand curve— 'a change in demand'
- 65) Firms might favour particular customers (allowing some people to receive special treatment) or the government might issue ration coupons (which entitle a person to purchase a certain amount of the product during a specified time).
- 66) Econometrics is the science of applying statistical techniques to economic data in order to identify and test economic relationships.

Answer Key
Testname: C2

- 67) No, it doesn't mean that the demand curve for red staplers is upward sloping. The price of a substitute product, such as a blue stapler, may have increased by more. If this was the case, and the price of blue staplers went up by more than the increase in the price of red staplers, then red staplers are now relatively cheaper and so you would expect sales to increase.
- 68) Factors that affect supply include the costs of production. As the costs of producing a good change, this will influence how much of a good a producer is willing to provide. Other factors include, the profitability of a product and any other products a firm sells. A firm will want to produce and sell those products that will make them the most money and so this will influence their supply decisions. This also links in with the profitability of goods in joint supply. Random shocks will also affect their supply decisions—i.e. oil prices, as well as their expectations. What do they think will happen to the price of the good they're selling in the future. If they think it may go down in the future, then they will sell more of it now to achieve the highest revenue possible. If they think they will be able to sell it for more in the future, then they will hold back now and wait until the price does rise.
- 69) Economists use the two different phrases to distinguish:
A movement along a supply curve—'a change in the quantity supplied', from
A shift in the supply curve—'a change in supply'.
- 70) TRUE
71) FALSE
72) TRUE
73) TRUE
74) TRUE
75) FALSE
76) TRUE
77) FALSE
78) FALSE
79) TRUE
80) TRUE
81) FALSE
82) FALSE
83) TRUE
84) TRUE