Faculty of Commerce- English Section

Department of Economics

Principles of Economics

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Tutorial on Chapter 3 (Economics, 10e (Parkin))

Question 1: Choose the best answer for the following questions:

1. The quantity demanded of a good or service is the amount that
   A) a consumer would like to buy but might not be able to afford.
   B) is actually bought during a given time period at a given price.
   C) consumers plan to buy during a given time period at a given price.
   D) firms are willing to sell during a given time period at a given price.

2. The law of demand implies that demand curves
   A) slope down. B) slope up.
   C) shift rightward whenever the price rises. D) shift leftward whenever the price rises.

3. The price of cereal rises. As a result, people have cereal for breakfast on fewer days and eat eggs instead. This behavior is an example of
   A) a decrease in the quantity demanded of cereal because of the substitution effect.
   B) an increase in the quantity demanded of eggs because of the income effect.
   C) a decrease in the quantity supplied of cereal because of the substitution effect.
   D) an increase in the quantity supplied of eggs because of the income effect.

4. A substitute is a good
   A) that can be used in place of another good. B) that is not used in place of another good.
   C) of lower quality than another good. D) of higher quality than another good.

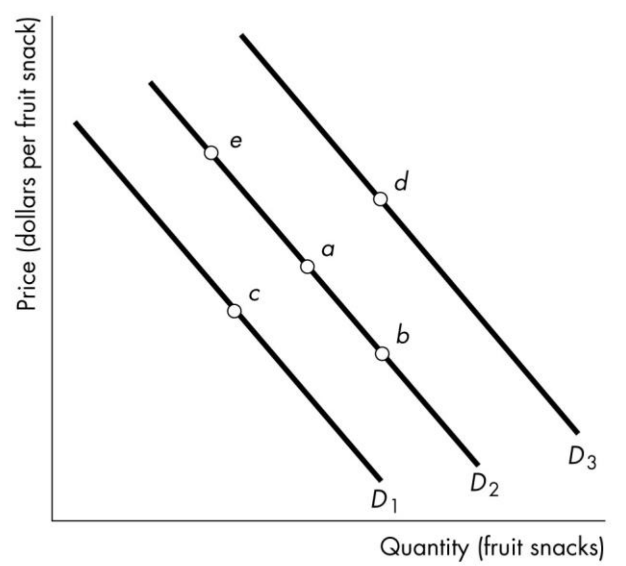
5. A complement is a good
   A) of lower quality than another good. B) used in combination with another good.
   C) used instead of another good. D) of higher quality than another good.

6. Macaroni is a normal good and rice is a substitute for macaroni. Tomato sauce is a complement for macaroni. Which of the following increases the demand for macaroni?
   A) an increase in the price of Tomato sauce B) a decrease in income
   C) a decrease in population D) an increase in the price of rice

7. 10) Salma graduates and her income increases by $25,000 a year. Other things remaining the same, she increases the quantity of clothes she buys. For Salma, clothes are ________.
   A) an inferior good B) a normal good
   C) a substitute good D) a complement good

Figure (1) shows the demand for fruit snacks, use it to answer questions (8) – (17):

Figure 1



8. In figure (1), which movement reflects an increase in demand?
   A) from point a to point e B) from point a to point b
   C) from point a to point c D) from point a to point d

9. In figure (1), which movement reflects a decrease in demand?
   A) from point a to point e B) from point a to point b
   C) from point a to point c D) from point a to point d

10. In figure (1), which movement reflects a decrease in quantity demanded but **NOT** a decrease in demand?
    A) from point a to point e B) from point a to point b
    C) from point a to point c D) from point a to point d

11. In figure (1), which movement reflects how consumers would react to an increase in the price of a non-fruit snack?
    A) from point a to point e B) from point a to point b
    C) from point a to point c D) from point a to point d

12. In figure (1), which movement reflects an increase in the price of a substitute for fruit snacks?
    A) from point a to point e B) from point a to point b
    C) from point a to point c D) from point a to point d

13. In figure (1), which movement reflects an increase in the price of a complement for fruit snacks?
    A) from point a to point e
    B) from point a to point b
    C) from point a to point c
    D) from point a to point d

14. In figure (1), which movement reflects how consumers would react to an increase in the price of a fruit snack that is expected to occur in the future?
    A) from point a to point e
    B) from point a to point b
    C) from point a to point c
    D) from point a to point d

15. In figure (1), which movement reflects an increase in income if fruit snacks are an inferior good?
    A) from point a to point e
    B) from point a to point b
    C) from point a to point c
    D) from point a to point d

16. In figure (1), which movement reflects an increase in income if fruit snacks are a normal good?
    A) from point a to point e
    B) from point a to point b
    C) from point a to point c
    D) from point a to point d

17. In figure (1), which movement reflects a decrease in population?
    A) from point a to point e
    B) from point a to point b
    C) from point a to point c
    D) from point a to point d

18. Which of the following shifts the supply curve rightward?
    A) an increase in the population
    B) a positive change in preferences for the good
    C) a decrease in the price of the good
    D) a decrease in the price of a factor of production used to produce the good

19. An increase in the number of fast-food restaurants
    A) raises the price of fast-food meals.
    B) increases the demand for fast-food meals.
    C) increases the supply of fast-food meals.
    D) increases the demand for substitutes for fast-food meals.

Figure (2) shows the supply curves for soft drinks, use it to answer questions (20) – (28):

Figure (2)

20. In figure (2), suppose the economy is at point a. A movement to point c could be the result of
    A) a decrease in technology.
    B) a decrease in the relative price of a soft drink.
    C) an increase in the relative price of a soft drink.
    D) an increase in the money price of a soft drink.

21. In figure (2), suppose the economy is at point a. An increase in the price of a soft drink is shown as a movement from point a to
    A) none of the points that are illustrated.
    B) point b.
    C) point c.
    D) point d.

22. In figure (2), suppose the economy is at point a. A movement to point d would be the result of
    A) an increase in technology.
    B) a decrease in the relative price of a soft drink.
    C) an increase in the relative price of a soft drink.
    D) an increase in the number of soft drink suppliers.

23. In figure (2), suppose the economy is at point a. A decrease in the price of sugar used to make soft drinks is shown as a movement from point a to a point such as
    A) none of the points that are illustrated.
    B) point b.
    C) point c.
    D) point d.

24. In figure (2), suppose the economy is at point a. An increase in the number of suppliers would be shown as a movement from point a to a point such as
    A) none of the points that are illustrated.
    B) point b.
    C) point c.
    D) point d.

25. In figure (2), suppose the economy is at point a. A movement to point b could be the result of
    A) an increase in technology.
    B) a decrease in the relative price of a soft drink.
    C) an increase in the relative price of a soft drink.
    D) an increase in the money price of a soft drink.

26. When a market is in equilibrium,
    A) everyone has all they want of the commodity in question.
    B) there is no shortage and no surplus at the equilibrium price.
    C) the number of buyers is exactly equal to the number of sellers.
    D) the supply curve has the same slope as the demand curve.

27. The equilibrium price is the price at which the quantity
    A) sold equals the quantity bought.
    B) demanded equals the quantity sold.
    C) demanded equals the quantity supplied.
    D) supplied equals the quantity bought.

28. If the quantity of textbooks supplied is 10,000 per year and the quantity of textbooks demanded is 12,000 per year, there is a _____ in the market and the price will ________.
    A) shortage; rise
    B) shortage; fall
    C) surplus; rise
    D) surplus; fall

Table 1) shows the demand schedule and supply schedule for chocolate chip cookies, use it to answer questions (29) – (32):

Table (1)

Price (dollars per pound)	Quantity supplied (pounds)	Quantity demanded (pounds)
3	1	7
4	2	5
5	4	4
6	5	2
7	6	1

29. In table (1), What is the equilibrium quantity and equilibrium price for chocolate chip cookies?
    A) 7 pounds, $3.00 per pound
    B) 2 pounds, $3.00 per pound
    C) 2 pounds, $6.00 per pound
    D) 4 pounds, $5.00 per pound

30. In table (1), If the price is $4.00 per pound, there is a
    A) shortage of 2 pounds of chocolate chip cookies.
    B) shortage of 3 pounds of chocolate chip cookies.
    C) shortage of 5 pounds of chocolate chip cookies.
    D) surplus of 3 pounds of chocolate chip cookies.

31. In table (1), An increase in income results in an increase in the demand for chocolate cookies by an amount of 3 pounds at every price. What are the new equilibrium quantity and equilibrium price?
    A) 5 pounds, $4.00 per pound   B) 5 pounds, $6.00 per pound
    C) 5 pounds, $5.00 per pound   D) 4 pounds, $5.00 per pound

32. If the quantity of textbooks supplied is 10,000 per year and the quantity of textbooks demanded is 8,000 per year, there is a _________ in the market and the price will _________.

A) shortage; rise   B) shortage; fall
C) surplus; rise   D) surplus; fall