Chapter 4 Practice Test

Multiple Choice
*Identify the letter of the choice that best completes the statement or answers the question.*

_____ 1. A competitive market is
a. a market in which there are many buyers and many sellers so that each has a negligible impact on price.
   b. a market where consumers cannot freely interact with sellers.
   c. a market where suppliers are under no government restrictions.
   d. a market with many buyers but few sellers.

_____ 2. There are thousands of wheat farmers who produce and sell wheat and there are millions of consumers who use wheat and wheat products. The market for wheat would be considered
a. perfectly competitive.
   b. monopolistic.
   c. oligopolistic.
   d. monopolistically competitive.

_____ 3. As a seller, you would be considered part of a perfectly competitive market if
a. your actions are quickly followed by competitors.
   b. your pricing has no impact on the amount you can sell.
   c. your actions essentially have no effect on the market price.
   d. increases in the price of your product have an impact on the market price.

_____ 4. Which of the following would be an example of a monopoly?
a. a local cable television company
   b. local cement companies
   c. a bakery in a large city
   d. a potato farmer

_____ 5. If a seller is supplying a product that is slightly different than that of many close competitors and is able to charge a different price than competitors, then the seller
a. is a monopolist.
   b. is producing a homogeneous product.
   c. will eventually have to decrease the price.
   d. is participating in a monopolistically competitive market.

_____ 6. When we are studying the behavior of buyers, we are studying
a. supply.
   b. demand.
   c. government regulation.
   d. an entire market.

_____ 7. Which of the following would NOT be a determinant of demand?
a. the price of related goods
   b. income
   c. tastes
   d. the prices of the inputs used to produce the good
8. Suppose that a decrease in the price of X results in less of good Y sold. This would mean that X and Y are
a. complementary goods.
b. substitute goods.
c. unrelated goods.
d. normal goods.

9. Which of the following is a determinant of demand?
   a. the price of a substitute good
   b. the price of a complement good
   c. the price of the good next month
   d. all of the above

10. An increase in the number of scholarships issued for college education would
   a. increase the supply of education.
   b. decrease the supply of education.
   c. increase the demand for education.
   d. decrease the demand for education.

11. Refer to Graph 4-2. If the demand curve shifts from $D_1$ to $D$ on the graph, this means that
    a. firms would be willing to supply less than before.
    b. people are less willing to buy the product at any price than before.
    c. people are now more willing to buy the product at any price than before.
    d. the price of the product has decreased, causing consumers to buy more of the product.

12. One reason why government taxes on cigarettes imposed on sellers reduces smoking is that
   a. cigarette companies are successful in passing much of the tax on to consumers.
   b. cigarette companies do not pass much of the tax on to consumers.
   c. there are many good substitutes for cigarettes.
   d. None of the above answers is correct.
Suppose you make jewelry. If the price of gold falls, we would expect
a. you to be willing and able to produce more jewelry than before at each possible price.
b. you to be willing and able to produce less jewelry than before at each possible price.
c. you will face a greater demand for your jewelry.
d. you will face a weaker demand for your jewelry.

A technological advancement
a. will shift the demand curve to the right.
b. will shift the demand curve to the left.
c. will shift the supply curve to the right.
d. will shift the supply curve to the left.

An increase in the price of oranges would
a. lead to an increased supply of oranges.
b. lead to a movement up the supply curve for oranges.
c. lead to an increased demand for oranges.
d. lead to a reduction in the prices of inputs used in orange production.

Refer to Graph 4-5. According to the graph, at a price of $7,
a. there would be a shortage of 40 units.
b. there would be a surplus of 40 units.
c. there would be a surplus of 20 units.
d. the market would be in equilibrium.
Table 4-2

<table>
<thead>
<tr>
<th>PRICE</th>
<th>QUANTITY DEMANDED</th>
<th>QUANTITY SUPPLIED</th>
</tr>
</thead>
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<tr>
<td>$10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
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<td>80</td>
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<td>6</td>
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<td>60</td>
</tr>
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<td>40</td>
</tr>
<tr>
<td>2</td>
<td>50</td>
<td>20</td>
</tr>
</tbody>
</table>

17. Refer to Table 4-2. In the table shown, if the price were $8,
   a. a surplus of 30 units would exist and price would tend to fall.
   b. a surplus of 60 units would exist and price would tend to rise.
   c. a surplus of 60 units would exist and price would tend to fall.
   d. a shortage of 30 units would exist and price would tend to rise.

18. When the price is higher than the equilibrium price,
   a. a shortage will exist.
   b. buyers desire to purchase more than is produced.
   c. sellers desire to produce and sell more than buyers wish to purchase.
   d. quantity demanded equals quantity supplied.