NAME ______________________ CLASS __________ DATE __________

CHAPTER 4

Section 1: Guided Reading and Review

Understanding Demand

A. As You Read

As you read Section 1, for each boxed example, fill in the key term the example illustrates in the space provided.

1. the higher the price of pizza, the fewer slices people will buy

   ____

2. eating salad or tacos instead of pizza when the price of pizza goes up

   ____

3. buying fewer slices of pizza when rising prices reduce real income

   ____

4.

Price	Quantity
1	5
2	4
3	3
4	2

____

5.

Price	Quantity
1	300
2	250
3	200
4	150

____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

6. A ________________ is a table that lists the quantities of a good a person will buy at each price that may be offered in the market.
7. A ________________ is a table that lists the quantities of a good demanded by all consumers at each price that may be offered in the market.
8. A ________________ is a graphical representation of a demand schedule
9. The ________________ is the change in consumption resulting from a change in real income.
10. The ________________ says that when a good's price is lower, consumers will buy more of it.

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Section 1: Quiz

Understanding Demand

CHAPTER 4

A. Key Terms

Briefly define or identify each of the following.

1. law of demand ______________________
2. substitution effect ______________________
3. income effect ______________________
4. market demand schedule ______________________

B. Main Ideas

Write the letter of the correct answer in the blank provided.

____ 5. Why does an economist create a market demand curve?
 a. to learn what demands the market will make under unusual conditions
 b. to have an idea of how a market would change if conditions in an area changed
 c. to predict how people will change their buying habits when prices change
 d. to show how various conditions can change the demand for a good

____ 6. What is the effect of the interaction of buyers and sellers on a market?
 a. agreement on the price and the quantity traded
 b. association of both supply and demand with income
 c. theoretical relationship between price and use
 d. desire for goods that cannot actually be afforded

____ 7. What does it mean when an economist says that a consumer has demand for a good or service?
 a. The consumer is able to afford the good or service, but may be unwilling to buy it.
 b. The consumer wants the good or service but may not actually have the money for it.
 c. The consumer is able to buy the good or service but not at the price demanded.
 d. The consumer is willing and able to buy the good or service at the specified price.

____ 8. How do economists measure the consumption of a good?
 a. the amount of money spent to buy a good
 b. the amount of a good that is bought
 c. the amount of a good that is bought for a specific amount of money
 d. the amount of good that is actually used rather than bought

____ 9. How does the substitution effect work when the price of an item drops?
 a. The item becomes less and less popular as its price drops.
 b. The substitutes for the item also suffer a drop in prices.
 c. Consumers buy the item as a substitute for other things.
 d. Consumers buy the item even if they do not particularly want it.

____ 10. If prices rise and income stays the same, what is the effect on demand?
 a. More is bought of some goods and less of others.
 b. Fewer goods are bought.
 c. More goods are bought.
 d. Demand stays the same.

NAME ______________________ CLASS ____________ DATE ____________

Section 2: Guided Reading and Review

Shifts of the Demand Curve

CHAPTER 4

A. As You Read

As you read Section 2, answer the following questions in the space provided.

1. What condition must exist to make a demand curve accurate? ____________________

2. What happens to a demand curve when there is a change in factors (other than price) that can affect consumers' decisions about purchasing the good? ____________________

3. How does consumer income affect the demand for normal and inferior goods? ____________________

4. How does consumer expectation affect demand for certain goods? ____________________

5. Explain how the baby boom generation affected demand for certain goods. ____________________

6. How are consumer tastes and advertising related? ____________________

7. Explain how demand for a good can affect demand for a related good. ____________________

8. Give an example of a substitute good. ____________________

B. Reviewing Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

____ 9. all other things held constant

____ 10. goods whose demand increases as consumer income increases

____ 11. goods whose demand falls as consumer income increases

____ 12. goods that are bought and used together

____ 13. goods that are used in place of one another

Column II

a. normal goods

b. substitutes

c. *ceteris paribus*

d. inferior goods

e. complements

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Section 2: Quiz

Shifts of the Demand Curve

CHAPTER 4

A. Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

____ 1. two goods that are used together

____ 2. goods that consumers demand more of when incomes increase

____ 3. goods used in place of one another

____ 4. goods for which demand falls as income increases

Column II

a. normal goods

b. inferior goods

c. complements

d. substitutes

B. Main Ideas

Write the letter of the correct answer in the blank provided.

____ 5. What is the meaning of the phrase *ceteris paribus* to an economist?
 a. the way that economists consider the changes in demand for a good
 b. a conjecture about the changes in consumer behavior
 c. an assumption that nothing but the price of an item will change
 d. a projection about the change in availability of a good

____ 6. What do economists call a situation in which consumers buy a different quantity than they did before, at every price?
 a. a change in demand
 b. a change in expectations
 c. a shift in size of the demand curve
 d. a move along the demand curve

____ 7. How can expectations about the future change consumer behavior?
 a. Immediate demand for a good will drop if its price is expected to stay the same.
 b. Immediate demand for a good can rise if the good is expected to be plentiful.
 c. Immediate demand for a good will go up if its price is expected to rise.
 d. Immediate demand for a good is not related to future expectations.

____ 8. How can population changes affect demand for certain goods?
 a. Different levels of demand will cause different prices.
 b. More people demanding goods will cause prices to rise.
 c. Demand will exceed supply under some population conditions.
 d. People at different stages of their lives have different demands.

____ 9. How can the demand for one good be affected by increased demand for another one?
 a. When goods are bought together, increased demand for one will decrease demand for the other.
 b. If goods are used together, increased demand for one will increase demand for the other.
 c. If goods are substitutes for each other, increased demand for one will increase demand for the other.
 d. A drop in price for a good will increase demand for the good and its substitute.

____ 10. What causes a change in the demand curve or a shift in demand?
 a. a decrease in price
 b. an increase in price
 c. a change in an area other than price
 d. a change in price and availability

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Section 3: Guided Reading and Review

Elasticity of Demand

A. As You Read

As you read Section 3, supply the missing information in the spaces provided.

Calculating Elasticity (Provide a formula or numerical value.)

1. Computation of elasticity of demand: ______________________________

2. Elastic demand: ______________________________

3. Inelastic demand: ______________________________

4. Unitary elastic demand: ______________________________

Factors Affecting Elasticity (How does each affect elasticity?)

5. Substitutes: ______________________________

6. Necessities vs. luxuries: ______________________________

7. Changes over time: ______________________________

Elasticity and Revenue (Define and explain.)

8. Total revenue: ______________________________

9. How elasticity affects a company's pricing: ______________________________

B. Reviewing Key Terms

Briefly define or identify each of the following.

10. elasticity of demand ______________________________
11. inelastic ______________________________
12. elastic ______________________________
13. unitary elastic ______________________________

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Section 3: Quiz

Elasticity of Demand

A. Key Terms

Briefly define or identify each of the following.

1. elastic ______________________
2. inelastic ______________________
3. total revenue ______________________

B. Main Ideas

Write the letter of the correct answer in the blank provided.

____ 4. What does elasticity of demand measure?
- a. an increase in the quantity available
- b. a decrease in the quantity demanded
- c. how buyers will cut back or increase their demand when price rises or falls
- d. the amount of time consumers need to change their demand for a good

____ 5. When elasticity of demand for a good is exactly 1, how is demand described?
- a. unitary elastic
- b. balanced
- c. exactly equal
- d. inelastic

____ 6. How does elasticity affect a company's pricing policy?
- a. If demand is inelastic at the current price, the company knows that an increase in price would reduce total revenues.
- b. If demand is elastic at the current price, the company knows that an increase in price would reduce total revenues.
- c. If demand is unitary elastic, the company knows that a decrease in price would decrease total revenues.
- d. If demand is unitary elastic, the company knows that an increase in price would increase total revenues.

____ 7. How does the price range affect the elasticity of demand for a product?
- a. Demand for all goods is elastic if the price is low enough.
- b. Demand for a good can be elastic at a low price but inelastic at a high price.
- c. Demand for a good can be inelastic at a low price, but elastic at a high price.
- d. Price range has little or no effect on elasticity of demand for a good.

____ 8. Which of the following is an example of a good for which the demand is likely to become more elastic over time if price changes dramatically?
- a. prescription medicine
- b. gourmet food
- c. electricity
- d. shoe polish

____ 9. How does a person's perception of whether a good is a necessity or a luxury affect his or her purchases of it?
- a. Different people will have different concepts of necessity and luxury.
- b. People who have a lot of money will buy goods even if they think they are a luxury.
- c. A good that is perceived as expensive will no longer be considered a necessity.
- d. A good that is perceived as a necessity will be purchased even if the price rises.

____ 10. What effect does the availability of many good substitutes have on the elasticity of demand for a good?
- a. Demand is elastic.
- b. Demand is inelastic.
- c. Demand is unitary elastic.
- d. Demand is not affected.