

Chapter 5 Review

Multiple Choice

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

- _____ 1. Which of the following is an example of lower production costs brought about by the use of technology?
- the delivery costs of gasoline to the consumer by diesel trucks
 - the use of e-mail to replace slower surface mail
 - the making of breads and pastries in local shops rather than large bakeries
 - the importing of fresh vegetables from South America rather than using canned vegetables
- _____ 2. What is the effect of import restrictions on prices?
- They cause prices to drop.
 - They cause prices to rise.
 - They often cause prices to rise steeply and then drop.
 - They usually do not have any lasting effect on price.
- _____ 3. What do sellers do if they expect the price of goods they have for sale to increase dramatically in the near future?
- sell the goods now and try to invest the money instead of resupplying
 - sell the goods now but try to get the higher price for them
 - store the goods until the price rises
 - store the goods indefinitely regardless of when the price rises
- _____ 4. Which of the following is the best example of the law of supply?
- A sandwich shop increases the number of sandwiches they supply every day when the price is increased.
 - A food producer increases the number of acres of wheat he grows to supply a milling company.
 - A catering company buys a new dishwasher to make their work easier.
 - A milling company builds a new factory to process flour to export.
- _____ 5. Which of the following is an example of a good with an inelastic supply?
- beanbags
 - toothbrushes
 - apples
 - hats
- _____ 6. Which of the following receives government subsidies that are in place to protect the population rather than for economic reasons?
- a national car company in Indonesia
 - small farmers in France
 - tobacco growers in the United States
 - national airlines in Western Europe
- _____ 7. When the selling price of a good goes up, what is the relationship to the quantity supplied?
- The cost of production goes down.
 - The profit made on each item goes down.
 - It becomes practical to produce more goods.
 - There is no relationship between the two.
- _____ 8. What factor has the greatest influence on elasticity and inelasticity of supply?
- profit
 - time
 - labor
 - financing
- _____ 9. Which of the following is a fixed cost for a store?
- short-term workers
 - rent
 - advertising
 - inventory
- _____ 10. Which of these events would indicate a movement *along* a supply curve for batteries?
- Workers at a major battery factory go on strike and stop production.

- b. A new law requires battery manufacturers to spend more money on environmentally-sound trash disposal.
 - c. Battery manufacturers raise the price of eight AA batteries from \$3.50 to \$3.95 a set.
 - d. A new trade agreement enables stores to import foreign batteries.
- ___ 11. Which of these is an example of a good with elastic supply?
- a. large hand-made rugs
 - b. plums
 - c. sandwiches
 - d. passenger airplanes
- ___ 12. If the supply of a good is inelastic,
- a. producers will not change their quantity supplied by much if the market price doubles.
 - b. a small increase in price will lead producers to sharply increase their quantity supplied.
 - c. producers have diminishing marginal returns of labor.
 - d. producers will increase their quantity supplied in response to sharp drops in the market price.
- ___ 13. An entrepreneur knits sweaters for sale. The entrepreneur has fixed costs of \$100. When he makes 10 sweaters in one month, he must spend \$15 on wool. To make eleven sweaters in one month, he must spend \$17 on wool. If he has no other costs, what is the marginal cost of the eleventh sweater?
- a. \$1
 - b. \$2
 - c. \$17
 - d. \$117
- ___ 14. A baker calculates that by spending \$16 on labor and materials, she can bake 10 cakes a day. \$24 will allow her to bake 12 cakes, while \$36 spent on labor and materials produces 14 cakes. In terms of capital and labor, the baker has
- a. increasing marginal returns.
 - b. constant marginal returns.
 - c. decreasing marginal returns.
 - d. negative marginal returns.
- ___ 15. A shoe factory has an elasticity of supply of .5 as the price of shoes rises from \$50 to \$75. If the factory produced 100,000 shoes at a market price of \$50, how many will be produced at the new price?
- a. 75,000
 - b. 125,000
 - c. 200,000
 - d. 400,000
- ___ 16. What is an example of a variable cost in a major league baseball franchise?
- a. stadium rent
 - b. manager's salary
 - c. stadium maintenance
 - d. ticket-takers' salaries
- ___ 17. Complete the following sentence: At the most profitable level of production, a firm's marginal cost will be ___ the market price.
- a. equal to
 - b. set by
 - c. less than
 - d. greater than
- ___ 18. Which of the following is an example of government influence on supply?
- a. law of supply
 - b. subsidies
 - c. marginal costs
 - d. market supply curve

g. variable cost

- ___ 25. the tendency of suppliers to offer more of a good at a higher price
- ___ 26. a payment to the government on the production or sale of a good
- ___ 27. a measure of the way a quantity supplied reacts to a change in price
- ___ 28. a chart that lists how much of a good a supplier will offer at various prices
- ___ 29. a government payment that supports a business or market
- ___ 30. a level of production in which the marginal production decreases with new investment
- ___ 31. the cost of producing one more unit of a good
- ___ 32. a chart that lists how much of a good all suppliers will offer at different prices
- ___ 33. the additional income from selling one more unit of a good
- ___ 34. the change in output from hiring one additional unit of labor

Identifying Key Terms

Match each term with the correct statement below.

- a. increasing marginal returns
- b. diminishing marginal returns
- c. marginal revenue
- d. marginal product of labor
- e. marginal cost
- f. supply schedule
- g. quantity supplied
- h. market supply curve
- i. total cost
- j. law of supply
- k. variable
- l. elasticity of supply
- m. regulation

- ___ 35. the change in output from hiring one additional unit of labor
- ___ 36. a chart that lists how much of a good a supplier will offer at different prices
- ___ 37. the cost of producing one more unit of a good
- ___ 38. the additional income from selling one more unit of a good
- ___ 39. a level at which the marginal production goes up with new investment
- ___ 40. government intervention in a market that affects the production of a good
- ___ 41. a factor that can change
- ___ 42. fixed costs plus variable costs
- ___ 43. the amount a supplier is willing and able to supply at a certain price
- ___ 44. a graph of the quantity supplied of a good by all suppliers at different prices

Short Answer

Reading a Chart

Production Costs					
Beanbags (per hour)	Fixed cost	Variable cost	Marginal cost	Total revenue	Profit
0	\$36	\$0	—	\$0	-\$36
1	36	8	\$8	24	-20
2	36	12	4	48	0
3	36	15	3	72	21
4	36	20	5	96	40
5	36	27	7	120	57

6	36	36	9	144	72
7	36	48	12	168	84
8	36	63	15	192	93
9	36	82	19	216	98
10	36	106	24	240	98
11	36	136	30	264	92
12	36	173	37	288	79

Figure 5.1

45. According to Figure 5.1, how is the figure for profit arrived at?
46. According to Figure 5.1, to achieve the greatest profit, how many beanbags should be made?
47. According to Figure 5.1, what is the variable cost for the production of the eleventh bag?
48. According to Figure 5.1, how is the figure for total revenue calculated?
49. According to Figure 5.1, why does the fixed cost stay the same no matter how much is produced?
50. According to Figure 5.1, why does “Marginal Cost” go down and then up again as more goods are produced?

Essay

Critical Thinking

51. **Formulating Questions** What questions should be asked about an excise tax or government supply regulation to determine its purpose?
52. **Making Comparisons** What is the difference between a supply schedule and a market supply schedule?
53. **Determining Relevance** How is elasticity of supply related to elasticity of demand?
54. **Drawing Conclusions** What causes supply to grow as price rises?
55. **Expressing Problems Clearly** Why doesn't the supply increase when a new owner buys an existing facility that is producing a good, since there is a new supplier?
56. **Drawing Conclusions** How do you think the invention of the airplane affected the supply of imported goods from other continents?