



Section 1: Quiz

Understanding Supply

CHAPTER 5

A. Key Terms

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

Column I

- ___ 1. a measure of how suppliers react to a change in price
- ___ 2. a factor that can change
- ___ 3. how much of a good is offered for sale at a specific price
- ___ 4. relationship between price and total quantity supplied by all firms

Column II

- a. variable
- b. quantity supplied
- c. market supply schedule
- d. elasticity of supply

B. Main Ideas

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

- ___ 5. For which of the following products or services is supply likely to be inelastic in the short term whether prices rise or fall?
 - a. cargo ships
 - b. haircuts
 - c. newspapers
 - d. staples
- ___ 6. What is the principle of the law of supply?
 - a. The lower the price, the larger the quantity produced.
 - b. The higher the price, the larger the quantity produced.
 - c. The higher the price, the smaller the quantity produced.
 - d. The lower the price, the more manufacturers will produce the good.
- ___ 7. What is the term for supply of a product that cannot easily or quickly expand or reduce its production?
 - a. profit
 - b. supply schedule
 - c. inelastic
 - d. elastic
- ___ 8. A graph of the data points in the supply schedule creates which of the following?
 - a. a demand curve
 - b. a supply curve
 - c. the quantity of goods demanded
 - d. the supply of goods available
- ___ 9. What happens in the case of a product that has elastic supply when the price decreases?
 - a. Existing producers expand, and new producers enter the market.
 - b. Some producers produce less, and others drop out of the market.
 - c. Existing firms continue their usual output but earn less.
 - d. New firms enter the market as older ones drop out.
- ___ 10. A supply schedule is characterized by which of the following?
 - a. It shows the quantity supplied at only one price.
 - b. It shows the factors that could influence supply.
 - c. It is sensitive to changes in the costs of labor and parts.
 - d. It lists supply for a specific good.

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Section 2: Guided Reading and Review

Costs of Production



A. As You Read

As you read Section 2, supply the requested information in the spaces provided.

1. A basic question a producer must answer: _____

2. Marginal product of labor benefits gained from worker specialization: _____

3. Negative effect of a firm's limited capital: _____

4. Curve pattern for marginal product of labor when capital is limited: _____

5. Examples of typical fixed costs: _____

6. Why labor is a variable cost: _____

7. How the marginal costs of production for the beanbag producer changed after the rate of three bags per hour was surpassed: _____

8. How total revenue and total cost can help set the most profitable output level: _____

9. How marginal revenue and marginal cost can help set the most profitable output level: _____

10. Why a producer would continue to increase output even though the marginal cost of production may be rising: _____

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B. Reviewing Key Terms

Define the following terms.

11. marginal product of labor _____
12. diminishing marginal returns _____
13. total cost _____
14. marginal cost _____



Section 2: Quiz

Costs of Production

A. Key Terms

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

Column I

- ___ 1. a cost that rises or falls depending on the quantity produced
- ___ 2. the change in output that results from having one more worker
- ___ 3. a cost that does not change no matter how much is produced
- ___ 4. the additional income from selling one more unit of a good
- ___ 5. the additional cost of producing one more unit

Column II

- a. marginal cost
- b. variable cost
- c. fixed cost
- d. marginal product of labor
- e. marginal revenue

B. Main Ideas

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

- ___ 6. When do diminishing marginal returns occur?
 - a. when some workers increase output but others decrease it
 - b. when additional workers increase total output at a decreasing rate
 - c. when extra workers will have to wait their turn to be productive
 - d. when additional workers will get in each other's way
- ___ 7. How does a manufacturer set his or her total output to maximize profit?
 - a. set production so that total revenue plus costs is greatest
 - b. set production at the point where marginal revenue is smallest
 - c. determine the largest gap between total revenue and total cost
 - d. determine where marginal revenue and profit are the same
- ___ 8. If marginal cost becomes higher than price, what happens to a company?
 - a. The company will go out of business.
 - b. The company will lose money on each additional unit produced.
 - c. Company specialization will lower the actual price charged.
 - d. Diminishing marginal returns will shrink the production.
- ___ 9. When would it make sense for a factory that is losing money to remain in operation?
 - a. if marginal revenue is equal to marginal cost
 - b. if total cost of the goods being manufactured exceeds the operating cost
 - c. if marginal product of labor becomes negative
 - d. if the revenue from the goods being manufactured exceeds the operating cost
- ___ 10. How is the total cost of a factory or other production site determined?
 - a. marginal cost plus fixed cost
 - b. fixed cost plus variable cost
 - c. marginal cost plus variable cost
 - d. marginal cost plus output cost

Section 3: Guided Reading and Review

Changes in Supply



A. As You Read

As you read Section 3, supply information to complete each statement in the spaces provided.

1. Unable to control price, a profitable producer faced with rising labor and/or materials costs will _____

2. New technology affects supply by _____

3. European governments' reasons for subsidizing food producers include _____

4. In the past, Western European governments subsidized banks and airlines by _____

5. The United States government subsidizes such industries as _____

6. An excise tax increases production costs by _____

7. Consumers may be unaware of excise taxes because _____

8. Government regulations often reduce supply because _____

9. During periods of inflation, suppliers may temporarily withhold goods that can be stored for long periods because _____

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B. Reviewing Key Terms

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

10. Government can increase supply by granting producers a(n) _____.
11. To reduce supply, a government might levy a(n) _____.
12. Requiring pollution control on automobiles exemplifies government _____.



Section 3: Quiz

Changes in Supply

A. Key Terms

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

Column I

- _____ 1. government intervention in a market that affects price, quantity, or quality
- _____ 2. payment to the government on the production or sale of a good
- _____ 3. a condition of rising prices
- _____ 4. a government payment that supports a business or market

Column II

- a. subsidy
- b. excise tax
- c. regulation
- d. inflation

B. Main Ideas

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

- _____ 5. What effect does a rise in the cost of machinery or raw materials have on the cost of a good?
 - a. A rise in the cost of raw materials (but not machinery) raises the cost.
 - b. The good becomes cheaper to produce.
 - c. The good becomes more expensive to produce.
 - d. It does not have any effect on the cost of the good.
- _____ 6. What does new technology generally do to production?
 - a. It lowers cost and decreases supply.
 - b. It lowers cost and increases supply.
 - c. It increases cost and decreases supply.
 - d. It has very little effect on production.
- _____ 7. What is one reason European governments protect the growing of food with subsidies even though imported food would be cheaper?
 - a. to have food in case imports are ever cut off
 - b. to allow the food producers to be able to pay their debts
 - c. to protect cattle growers because they like to see the cattle
 - d. to help the population forget the food shortages after World War II
- _____ 8. Why does the United States regulate automobile manufacturing in so many ways?
 - a. to protect the consumer from Japanese and European automobiles
 - b. to keep the price of U.S. automobiles competitive with others.
 - c. to keep the manufacturers of U.S. automobiles from gaining too much of the market
 - d. to offset the air pollution caused by automobiles
- _____ 9. When any effort by government causes the supply of a good to rise, what happens to the supply curve for that good?
 - a. It shifts to the left.
 - b. It shifts to the right.
 - c. It reverses direction.
 - d. The supply curve is not affected.
- _____ 10. How do future expectations about the price of a good affect the present supply?
 - a. If the price is expected to increase, many producers will hold onto their supply.
 - b. If the price is expected to decrease, many producers will hold onto their supply.
 - c. If the price of a related good is expected to increase, only a few sellers will hold onto their supply until the increase occurs.
 - d. If the price is expected to increase and then decrease, most sellers will hold onto their supply until the decrease has occurred.