

Unit Test Two

Multiple Choice

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

- _____ 1. When shoes at a local shoe store went on sale at 50 percent off the regular price, the store sold almost every pair of shoes it had in less than a day. By the time the stock was replenished, the sale was over and very few shoes were purchased. Which of the following does this illustrate?
- the income effect
 - the law of discounts
 - the law of demand
 - the substitution effect
- _____ 2. Which of the following explains the relationship between income effect and consumption?
- When the price of goods goes up, people get less for their money, and consumption goes down.
 - As incomes rise, consumption of lower-priced goods falls.
 - When the price of goods goes up, people buy more, but consumption of the same amount of goods rises.
 - As incomes fall, consumption of products and services stays the same, but people get less for their money.

Market Demand Schedule	
Price of a slice of pizza	Quantity demanded per day
\$.50	300
\$1.00	250
\$1.50	200
\$2.00	150
\$2.50	100
\$3.00	50

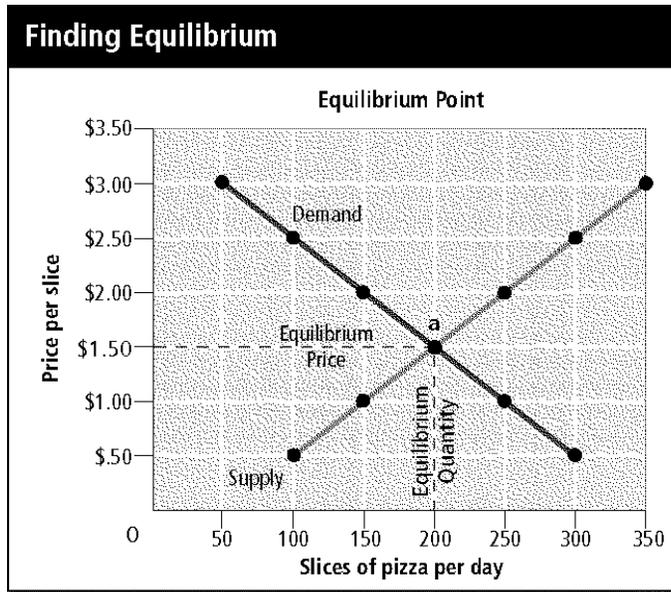
- _____ 3. Franco's Pizzeria sells slices of pizza for \$2.00. According to the market demand schedule and assuming *ceteris paribus*, what happens when Franco's raises the price to \$2.50 a slice?
- The quantity demanded per day stays the same.
 - The quantity demanded falls from 100 slices a day to 50 slices a day.
 - The quantity demanded falls from 150 a day to 100 a day.
 - The quantity demanded increases to 250 a day.
- _____ 4. Mariah is buying fewer boxes of macaroni and cheese, used cars, fast-food dinners, and generic products because her income rose. This shift in the demand curve caused by Mariah's income has resulted in
- a decreased demand for inferior goods.
 - a decreased demand for tangible goods.
 - an increased demand for normal goods.
 - a decreased demand for expendable goods.
- _____ 5. Which of the following is NOT a factor affecting elasticity?
- availability of substitutes
 - the good's relative importance
 - whether the good is a necessity or a luxury
 - the good's price range

- _____ 6. According to the law of supply, the higher the price,
- the more consumers are willing to pay.
 - the larger the quantity produced.
 - the smaller the quantity produced.
 - the more the availability of a good is reduced.
- _____ 7. Lily is opening a new coffee shop and is having trouble deciding on the price to charge for a cup of cappuccino. How will determining all the supply schedules of coffee shops in her market help Lily?
- The market supply schedule would help Lily determine the total supply of cappuccino at a certain price, based on relationships between prices and the total quantity supplied by all coffee shops in her market.
 - The sales supply schedule would help Lily determine the minimum and maximum prices she should charge for cappuccino, based on comparisons between larger and smaller coffee shops in her market.
 - The sales supply schedule would help Lily determine the maximum price for cappuccino in her market, based on relationships between consumers' spending habits and current cappuccino prices.
 - The market supply schedule would help Lily determine the lowest possible price she should ask for a cappuccino, based on the current year-end sales at the top-selling coffee shops in her area.

Marginal Product of Labor		
Labor (number of workers)	Output (beanbags per hour)	Marginal product of labor
0	0	—
1	4	4
2	10	6
3	17	7
4	23	6
5	28	5
6	31	3
7	32	1
8	31	-1

- _____ 8. According to the graph of marginal product of labor for a company that makes beanbags, which of the following situations is created when the fourth through seventh workers are hired?
- increasing marginal returns
 - marginal product of labor specialization
 - negative marginal returns
 - diminishing marginal returns
- _____ 9. According to the graph, which of the following happens when an eighth person is hired at the beanbag company?
- A positive marginal product of labor is created.
 - A negative marginal return is created.
 - The output of beanbags is 28 per hour.
 - The output of beanbags stays the same.

10. In which category do subsidies, excise taxes, and regulation belong?
- effects of rising costs
 - limitations on imports
 - government's influence on supply
 - benefits of marginal costs



11. Study the graph showing the equilibrium point for a pizzeria. Which of the following can be said about the equilibrium price and the equilibrium quantity?
- The quantity supplied and the quantity demanded are equal at 200 slices per day.
 - The quantity demanded and the quantity supplied are equal at \$2.00 per slice.
 - The quantity supplied is not equal to the quantity demanded in this market, which should be at 200 per day.
 - The maximum quantity demanded, 350 per day, is more than the quantity supplied.
12. Which of the following government actions is an attempt to control the high cost of rent for lower-income families, and what has been the result of this action?
- Rent controls; high-income families are denied rental housing.
 - Price ceilings; few renters with the greatest need benefit from the program.
 - Rent ceilings; landlords can no longer discriminate.
 - Price floors; the supply of apartments rose.
13. Which word can be used twice to BEST complete this sentence? When supply _____, prices fall, and quantity demanded _____ to reach a new equilibrium.
- increases
 - decreases
 - levels
 - reverses
14. The economic impact of a holiday fad is illustrated by
- a negative result on the change in demand graph.
 - a flattening of the demand curve.
 - a sharp drop in the marginal product demand ratio.
 - a rapid shift to the right in a market demand curve.

- _____ 15. Which of the following BEST explains why rationing, not a price-based system, was used during World War II?
- Rationing restricted production to a few products during World War II so that suppliers and manufacturers could concentrate on supporting the war effort.
 - With rationing, consumers were able to control the distribution of food and goods while the government determined which products would be sold.
 - Unlike a price-based system, the temporary price controls of World War II rationing helped ease shortages and guaranteed every American a minimum standard of living.
 - Unlike price-based systems, rationing more severely restricted consumers' buying habits, and it temporarily shifted distribution of food and goods to the military.
- _____ 16. Factors that make it difficult for new firms to enter a market are called
- start-up costs.
 - barriers to entry.
 - perfect competition.
 - commodities.
- _____ 17. Why can an industry that enjoys economies of scale easily become a natural monopoly?
- because average costs drop as production rises
 - because the market taxes less as production rises
 - because consumers tend to appreciate monopolies
 - because our government traditionally supports monopolies
- _____ 18. A firm sells natural gas to a city for one price and sells the same gas to an outlying village at another price. What is this practice called?
- oligopoly
 - monopoly
 - differentiation
 - price discrimination
- _____ 19. What is an oligopoly?
- an agreement by a formal organization of producers to coordinate prices and production
 - a market structure in which a few large firms dominate the market
 - a market structure in which two firms have a price war
 - a market structure in which a single firm dominates the market
- _____ 20. Which of the following is one market trend that results when a monopolistically competitive firm starts earning profits well above its costs?
- The firm would become an oligopolistic firm because it has effectively eliminated the competition and now dominates the market alone.
 - The firm would try to lure 100 percent of customers by flooding the market with defective products.
 - Fierce competition would encourage rivals to create new ways to differentiate their products and lure customers to them.
 - The firm would eventually go out of business because demand would decrease.