**Unit two review**

**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?

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| --- | --- | --- | --- |
| a. | the income effect | c. | the law of demand |
| b. | the law of discounts | d. | the substitution effect |

\_\_\_\_ 2. Which of the following explains the relationship between income effect and consumption?

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| --- | --- |
| a. | When the price of goods goes up, people get less for their money, and consumption goes down. |
| b. | As incomes rise, consumption of lower-priced goods falls. |
| c. | When the price of goods goes up, people buy more, but consumption of the same amount of goods rises. |
| d. | As incomes fall, consumption of products and services stays the same, but people get less for their money. |

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| **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?

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| a. | The quantity demanded per day stays the same. |
| b. | The quantity demanded falls from 100 slices a day to 50 slices a day. |
| c. | The quantity demanded falls from 150 a day to 100 a day. |
| d. | 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

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| a. | a decreased demand for inferior goods. |
| b. | a decreased demand for tangible goods. |
| c. | an increased demand for normal goods. |
| d. | a decreased demand for expendable goods. |

\_\_\_\_ 5. Which of the following is NOT a factor affecting elasticity?

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| a. | availability of substitutes |
| b. | the good’s relative importance |
| c. | whether the good is a necessity or a luxury |
| d. | the good’s price range |

\_\_\_\_ 6. According to the law of supply, the higher the price,

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| a. | the more consumers are willing to pay. |
| b. | the larger the quantity produced. |
| c. | the smaller the quantity produced. |
| d. | 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?

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| a. | 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. |
| b. | 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. |
| c. | 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. |
| d. | 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. |

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| **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?

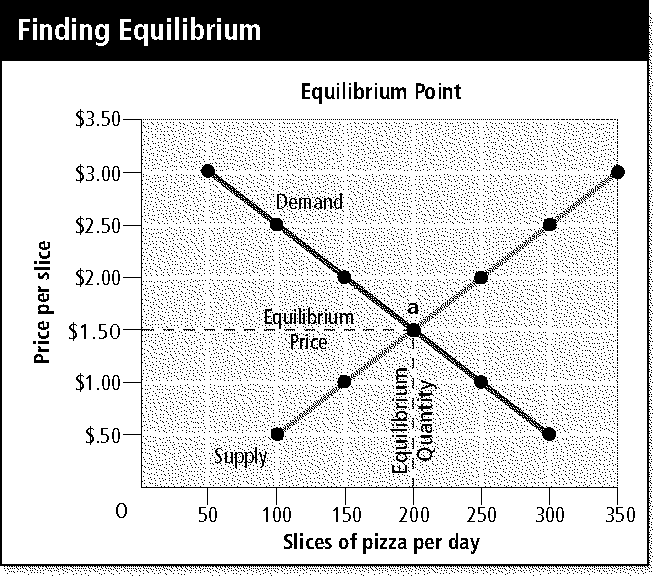
|  |  |
| --- | --- |
| a. | increasing marginal returns |
| b. | marginal product of labor specialization |
| c. | negative marginal returns |
| d. | diminishing marginal returns |

\_\_\_\_ 9. According to the graph, which of the following happens when an eighth person is hired at the beanbag company?

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| a. | A positive marginal product of labor is created. |
| b. | A negative marginal return is created. |
| c. | The output of beanbags is 28 per hour. |
| d. | The output of beanbags stays the same. |

\_\_\_\_ 10. In which category do subsidies, excise taxes, and regulation belong?

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| a. | effects of rising costs |
| b. | limitations on imports |
| c. | government’s influence on supply |
| d. | 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?

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| a. | The quantity supplied and the quantity demanded are equal at 200 slices per day. |
| b. | The quantity demanded and the quantity supplied are equal at $2.00 per slice. |
| c. | The quantity supplied is not equal to the quantity demanded in this market, which should be at 200 per day. |
| d. | 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?

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| a. | Rent controls; high-income families are denied rental housing. |
| b. | Price ceilings; few renters with the greatest need benefit from the program. |
| c. | Rent ceilings; landlords can no longer discriminate. |
| d. | 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.

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| a. | increases | c. | levels |
| b. | decreases | d. | reverses |

\_\_\_\_ 14. The economic impact of a holiday fad is illustrated by

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| a. | a negative result on the change in demand graph. |
| b. | a flattening of the demand curve. |
| c. | a sharp drop in the marginal product demand ratio. |
| d. | 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?

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| a. | Rationing restricted production to a few products during World War II so that suppliers and manufacturers could concentrate on supporting the war effort. |
| b. | With rationing, consumers were able to control the distribution of food and goods while the government determined which products would be sold. |
| c. | 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. |
| d. | 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

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| a. | start-up costs. | c. | perfect competition. |
| b. | barriers to entry. | d. | commodities. |

\_\_\_\_ 17. Why can an industry that enjoys economies of scale easily become a natural monopoly?

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| a. | because average costs drop as production rises |
| b. | because the market taxes less as production rises |
| c. | because consumers tend to appreciate monopolies |
| d. | 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?

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| a. | oligopoly | c. | differentiation |
| b. | monopoly | d. | price discrimination |

\_\_\_\_ 19. What is an oligopoly?

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| a. | an agreement by a formal organization of producers to coordinate prices and production |
| b. | a market structure in which a few large firms dominate the market |
| c. | a market structure in which two firms have a price war |
| d. | 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?

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| a. | The firm would become an oligopolistic firm because it has effectively eliminated the competition and now dominates the market alone. |
| b. | The firm would try to lure 100 percent of customers by flooding the market with defective products. |
| c. | Fierce competition would encourage rivals to create new ways to differentiate their products and lure customers to them. |
| d. | The firm would eventually go out of business because demand would decrease. |