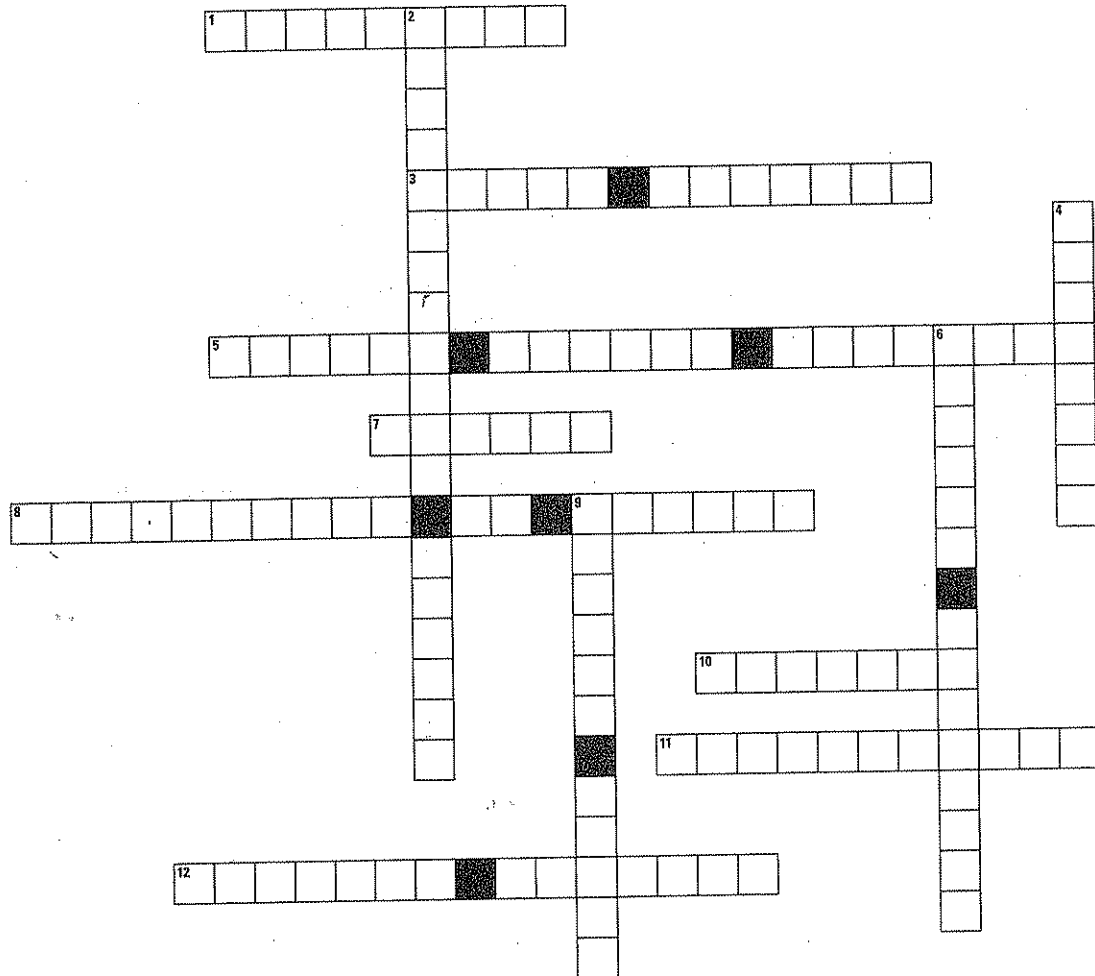
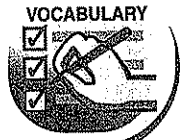


Vocabulary Practice



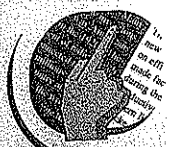
Use the following clues to complete the crossword puzzle.

Across

1. type of demand in which consumers keep buying a good despite a price increase
3. amount of money a company receives by selling its goods
5. lists the quantities of a good demanded by all consumers at each price that may be offered in the market
7. type of good whose demand increases when income increases
8. the way that consumers respond to price changes
10. type of demand in which consumers buy much less of a good after a small price increase
11. two goods that are bought and used together
12. "all other things held constant"

Down

2. when consumers react to a price rise of one good by consuming less of that good and more of another good in its place
4. type of good whose demand falls when income increases
6. lists the quantities of a good demanded by a person at each price that may be offered in the market
9. graphically represents the quantities of a good demanded at each price that may be offered in the market



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

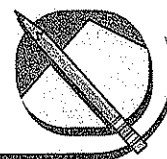
B. Reviewing Key Terms

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.

Section 1: Quiz

Understanding Demand

**A. Key Terms**

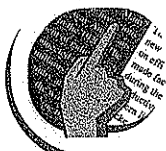
Briefly define or identify each of the following.

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.



Section 2: Guided Reading and Review

Shifts of the Demand Curve

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

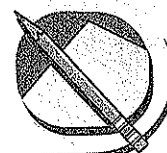
- _____ 9. all other things held constant
- _____ 10. goods whose demand increases as consumer income increases
- _____ 11. goods whose demand falls as consumer income increases
- _____ 12. goods that are bought and used together
- _____ 13. goods that are used in place of one another

Column II

- a. normal goods
- b. substitutes
- c. *ceteris paribus*
- d. inferior goods
- e. complements

Section 2: Quiz

Shifts of the Demand Curve

**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



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.)

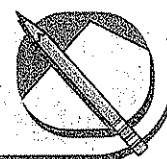
8. Total revenue: _____

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 _____

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.

**Skills for
LIFE**
**Graphs and Charts
Analyzing Tables**

Brian works part-time at Pete's Pizza Place. Pete has recently raised pizza prices at all four stores—one in the business district of their small suburb, one a block from Brian's high school, one near several retirement communities, and one in a residential area of the city near which Brian lives. Pete knows that Brian is interested in working full-time during the summer managing one of his stores, and he has asked Brian to help him analyze the effect of the price increase on pizza sales. Review the Economic Skills feature on page 84 of your textbook. Then study the table below. Finally, help Brian by answering the questions that follow.

Pete's Pizza Store Effect of Price Increase on Sales				
Number of Large Pizzas Sold per Week	Store 1 Elmgrove Business District	Store 2 Near Elmgrove High School	Store 3 Near Retirement Communities	Store 4 Residential Elmgrove
Before increase	75	150	50	90
After increase	60	145	20	75

1. Which store had the highest demand both before and after the price increase?

2. Which store showed the greatest loss in demand after the price increase?

3. Which two stores showed the same difference in demand after the price increase?

4. Which store was least affected by the price increase?

5. What conclusion can you draw about the importance of pizza to the customers of these four stores from the information in this table?

Section 1: Guided Reading and Review

Understanding Supply



A. As You Read

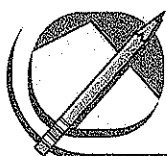
As you read Section 1, supply the missing causes or effects on the lines provided in the chart.

Cause	Effect
1. The price of pizza increases.	1. <i>On pizzerias:</i> _____ _____
2. The cost of tomato sauce increases along with the price of pizza.	2. <i>On pizza supply schedule:</i> _____ _____
3. _____ _____ _____	3. <i>On market supply curve:</i> Prices will remain the same as on a single pizzeria's supply curve.
4. _____ _____ _____	4. <i>On supply curve:</i> The curve always rises from left to right.
5. The supply of a good is not very responsive to price changes.	5. <i>On the value of elasticity of supply:</i> _____ _____
6. A supplier, such as an orange grower, has a long time to respond to a price change.	6. <i>On supply:</i> _____ _____

B. Reviewing Key Terms

Read the statements below. In the space provided, write *T* if the statement is true or *F* if it is false.

- ____ 7. Price and quantity supplied are variables on a supply schedule.
- ____ 8. A supply curve shows price and quantity in a table.
- ____ 9. Elasticity of supply states that the output of a good increases as the price of the good increases.
- ____ 10. To create a market supply schedule, an economist needs to know the total output of all suppliers in a given market.



Section 1: Quiz

Understanding 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. 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

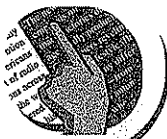
B. Main Ideas

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.

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: _____

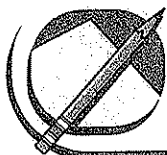
9. How marginal revenue and marginal cost can help set the most profitable output level: _____

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

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

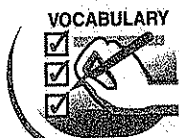
Column II

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

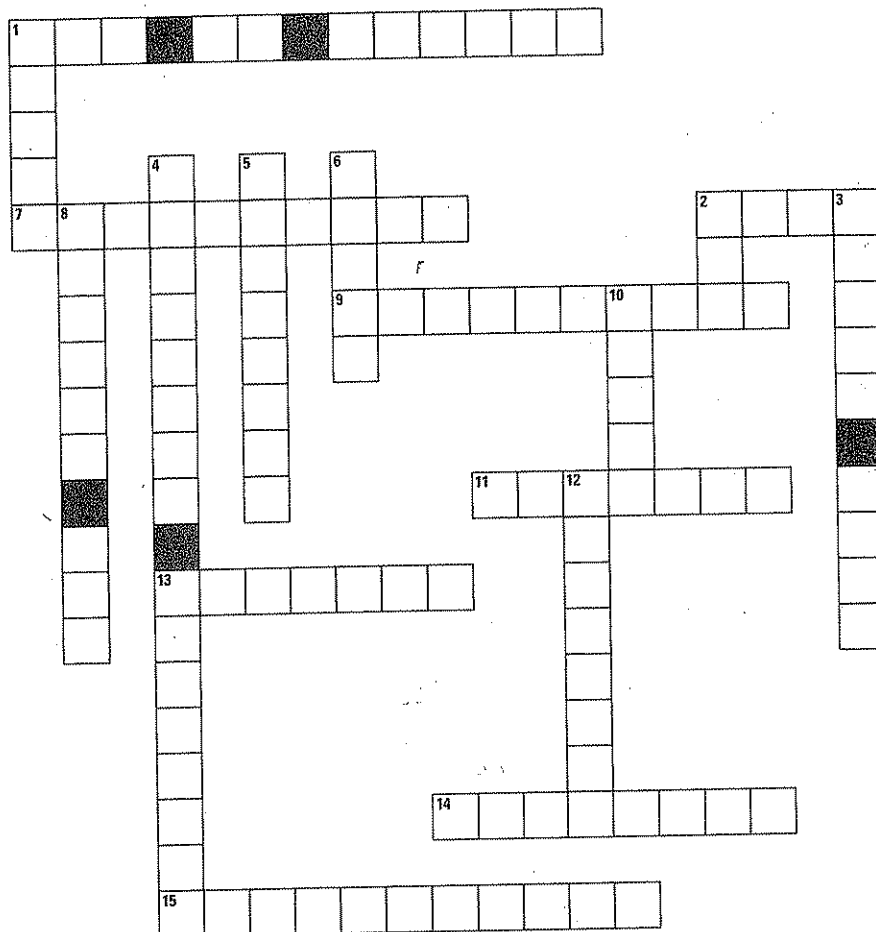
B. Main Ideas

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.



Vocabulary Practice



Use the following clues to complete the crossword puzzle.

Across

1. Quantity of a good produced increases as the price rises, according to the ____.
2. Any expense that rises or falls is a variable ____.
7. Government intervention that affects price, supply, or quality is called ____.
9. How suppliers respond to a price change is a measure of the supply's ____.
11. When price is not under company control, the market price equals the marginal ____.
13. Government can provide support for a market in the form of a(n) ____.
14. The relationship between price and quantity supplied is shown in a supply ____.
15. If adding workers increases total output at a decreasing rate, marginal returns are ____.

Down

1. Output change from adding one more worker is the marginal product of ____.
2. The amount of money it takes to keep a factory open is the operating ____.
3. Variable and fixed expenses make up the ____.
4. The amount of a good offered at a specific price is the ____.
5. The ____ cost is the additional cost of producing one more unit.
6. Costs that do not change are ____.
8. Government may tax the sale or manufacture of a good with a(n) ____.
10. A graph of the data points in a supply schedule creates a supply ____.
12. A factor that can change is a(n) ____.

Economic Detective Elmo Entrepreneur



Problem

Elmo Entrepreneur has a basement wood shop where he enjoys making model cars. He sells his cars to hobby shops, but lately orders have been falling off and Elmo's income is suffering. Reluctantly, Elmo decides he must look for a new business.



Investigation 1

While delivering an order of model cars at the mall, Elmo stops to buy a new pair of running shoes. To his surprise, the price of his favorite shoes has increased \$15. The next day, Elmo goes to the library and studies the market supply and sales data for the city's running shoes. He soon decides that this is a good time to enter the shoe manufacturing business. He will make his favorite style and sell his shoes directly to customers for \$60 a pair, or the price charged by all suppliers.

1. What sort of data did Elmo's library search probably reveal to prompt his decision?

2. How will Elmo's new business affect the market supply for running shoes? _____
3. What amount of income can Elmo expect in his new business? _____
4. How does Elmo's decision illustrate the law of supply? _____



Investigation 2

Elmo starts small. He uses his garage as a factory, with his property taxes costing \$50 a month and his utilities \$40 a month. He buys a cutting-and-stitching machine, hires a worker, and finds that he can produce 5 pairs of shoes an hour. Encouraged, Elmo hires another worker, doubling his labor costs but increasing output to 12 pairs per hour. He continues to hire more workers, increasing output to 21 pairs with three workers, 34 pairs with four workers, and 45 pairs with five workers. In the meantime, the cost of leather for shoe tops and soles has risen twice, but the cost of fabric for linings has fallen enough to offset the rising cost of leather.

1. What factors make up Elmo's variable costs?

2. What is Elmo's total revenue per hour after he hires three workers? _____
3. What is Elmo's marginal product of labor after he hires a second worker? _____
4. When does Elmo reach a diminishing marginal return of labor? _____
5. What does Elmo pay in fixed costs? _____



Investigation 3

Elmo's shoe business does so well that he adds another room to his garage and buys another cutting-and-stitching machine. Unwelcome news comes in the mail, however. The federal government, deciding that running shoes are harmful to the foot, places a tax on all running shoe producers. Seeing his profits shrink, Elmo lays off a worker and cuts his output. After further research, the federal government reverses its position and removes the tax, but the running shoe industry remains depressed. To revive it, the city council votes to pay running shoe producers \$1 a pair but requires them to insert heel cups in the shoes to ensure foot health.

1. How does Elmo try to increase his production?

2. a. What kind of tax does the federal government impose? _____
b. How does it influence quantity supplied?

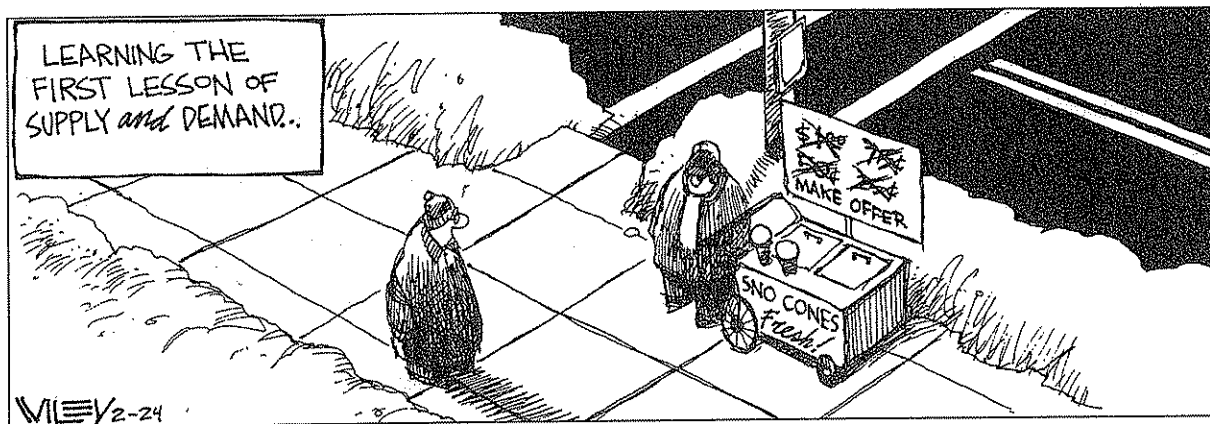
3. What regulation does Elmo have to follow?

4. a. What subsidy does Elmo receive? _____
b. What is the source of the subsidy? _____

Economic Cartoons



Study this cartoon and review the section entitled "Understanding Supply" beginning on page 101 before answering the questions below.



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1. (a) What is the street vendor selling? _____

(b) What is the asking price for his product? _____

(c) What season of the year is it? _____

2. Suppose you were trying to create a supply schedule for sno cones. Which variable has the vendor been changing? _____

3. **Synthesizing Information** According to the law of supply, will the seller increase or decrease the supply of his product in the near future? Explain your answer. _____

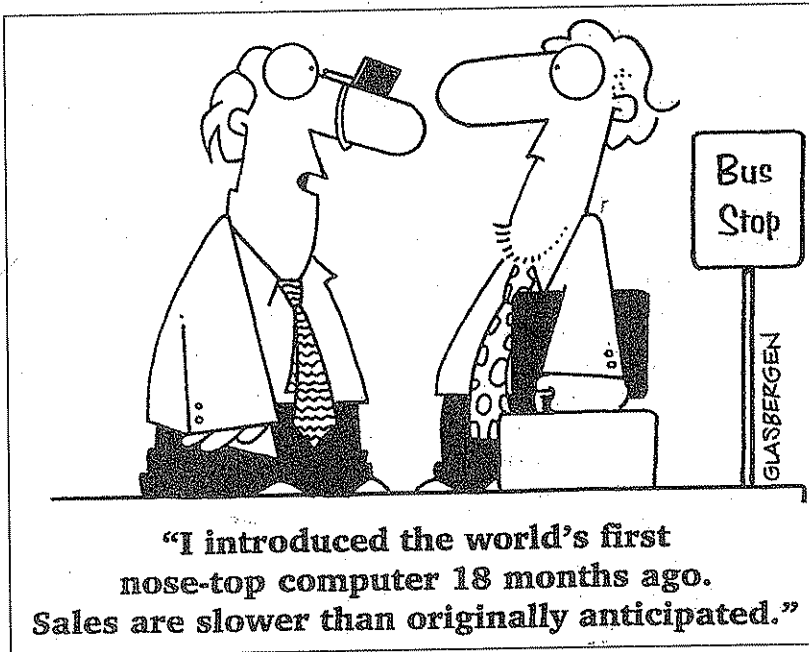
4. **Drawing Conclusions** If changing the price of sno cones does not work, what might the vendor do? _____

5. **Evaluating Information** Is the supply of sno cones elastic or inelastic? Explain your answer. _____



Economic Cartoons

Study this cartoon and review the sections entitled "Understanding Demand" and "Shifts of the Demand Curve" beginning on page 79 before answering the questions below.



Copyright © Randy Glasbergen. Reprinted with permission from www.glasbergen.com.

1. (a) Which of the men is selling a new product? _____

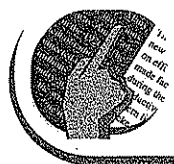
 (b) What is his product? _____

2. What problem does the seller have with his new product? _____

3. **Analyzing Information** According to the law of demand, what effect might lowering the price of the product have on sales? _____

4. **Identifying Alternatives** What effect might an advertising campaign have on sales of the product? _____

5. **Synthesizing Information** Is a portable laptop or notebook computer a product that would be a complement to or a substitute for the nose-top computer? Explain your answer.



Section 1: Guided Reading and Review

Combining Supply and Demand**A. As You Read**

As you read Section 1, supply the requested information in the spaces provided.

In the Case of the Pizzerias

1. The market equilibrium price: _____
2. The market supply level: _____
3. The market demand level: _____

In Any Market Environment

4. How equilibrium is shown on a supply and demand graph: _____

5. Two possible outcomes of disequilibrium: _____

6. Supplier price response to excess demand: _____

7. Condition under which market forces will push market toward the equilibrium: _____

In the Case of Government Intervention

8. Purpose(s) of rent control: _____

9. Negative results of ending rent control: _____

10. Effect on labor when minimum wage exceeds equilibrium: _____
11. Purpose of Northeast Dairy Compact: _____

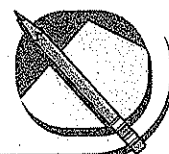
B. Reviewing Key Terms

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

12. When government wants to ensure that "essential" goods or services are within the reach of all consumers, it may impose a(n) _____.
13. If prices rise too high, a market may face the problem of _____.
14. The one and only price at which quantities supplied equal quantities demanded indicates the market _____.
15. Minimum wage is an example of a government-imposed _____.
16. If car manufacturers produce more or fewer cars than customers will buy, the car market will be in _____.

Section 1: Quiz

Combining Supply and Demand



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. point at which supply and demand come together
- _____ 2. when quantity supplied is not equal to quantity demanded
- _____ 3. when quantity demanded is more than quantity supplied
- _____ 4. legal maximum that can be charged for a good

Column II

- a. price ceiling
- b. excess demand
- c. equilibrium
- d. disequilibrium

B. Main Ideas

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

- _____ 5. When the quantity supplied is greater than the quantity demanded, what is the condition known as?
 - a. abundant supply
 - b. disequilibrium
 - c. excess availability
 - d. excess supply
- _____ 6. What is the government-controlled price ceiling on apartment prices called?
 - a. floor pricing
 - b. rent control
 - c. equilibrium level
 - d. rent monitoring
- _____ 7. When the government sets a price floor on earnings, it is called which of the following?
 - a. market equilibrium rate
 - b. base-level wage
 - c. minimum wage
 - d. employment guarantee
- _____ 8. Until 1996, the United States used price supports in agriculture by doing what to create demand?
 - a. setting legal price floors
 - b. buying excess crops
 - c. setting legal price ceilings
 - d. raising prices
- _____ 9. What happens when any market is in disequilibrium and prices are flexible?
 - a. Market forces push toward equilibrium.
 - b. Sellers waste their resources.
 - c. Excess demand is created.
 - d. Unsold perishable goods are thrown out.
- _____ 10. Why does a government place price ceilings on some "essential" goods?
 - a. to prevent inflation during boom times
 - b. to keep business people from making large profits
 - c. to keep the goods from becoming too expensive
 - d. to reduce demand for these goods



Section 2: Guided Reading and Review

Changes in Market Equilibrium

A. As You Read

As you read Section 2, complete the chart by supplying an effect for each cause.

Cause	Effect
1. Entire supply curve shifts.	1.
2. Technology for making compact disc (CD) players improved.	2.
3. After a drop in production cost, CD player suppliers become willing to offer 1,200,000 units at the original price, but demand remains at 1,000,000.	3.
4. Price of CD players continues to fall.	4.
5. Production cost of CD players continues to fall.	5.
6. Market's supply curve shifts to the left.	6. <i>In the market:</i> <i>On the equilibrium point:</i>
7. Demand curve of a good suddenly shifts right.	7.
8. Signs of excess demand for the good continue over time.	8. <i>On suppliers:</i>
9. Demand for a good falls.	9. <i>On the demand curve:</i>

B. Reviewing Key Terms

Rewrite each sentence so that the italicized term is used correctly.

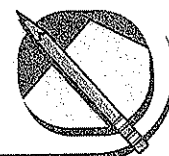
10. *Shortage* occurs when the quantity demanded falls below the quantity supplied.

11. Excess demand for a good indicates a market *surplus* of that good.

12. Suppliers pay *search costs* in the form of financial and opportunity costs as they search for a good.

Section 2: Quiz

Changes in Market Equilibrium



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. when quantity supplied exceeds quantity demanded at a certain price
- _____ 2. when quantity demanded exceeds quantity supplied at a certain price
- _____ 3. the financial and opportunity costs consumers pay in looking for a good or service
- _____ 4. a product that reflects the impact of advertising and consumer taste on consumer behavior

Column II

- a. shortage
- b. fad
- c. search costs
- d. surplus

B. Main Ideas

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

- _____ 5. How does a firm generally respond to a higher demand for its goods?
 - a. It rations goods.
 - b. It raises prices.
 - c. It cuts prices.
 - d. There is no set response to this situation.
- _____ 6. How do falling prices affect supply?
 - a. The supply curve moves to the left.
 - b. The supply curve moves to the right.
 - c. The quantity demanded rises.
 - d. The quantity supplied rises.
- _____ 7. Advances in production, such as new technology, can do which of the following to a good?
 - a. transform it from an expensive luxury to a mid-priced good
 - b. change it from a necessity to an expensive nonessential
 - c. raise the price as more features become available
 - d. make the production so simple that it becomes unnecessary
- _____ 8. What happens first when the demand for a fad peaks and falls?
 - a. The quantity supplied goes down, and the price goes up.
 - b. The quantity supplied and the price both go up.
 - c. The price goes down, and the quantity supplied goes up.
 - d. Excess supply makes the good easy to obtain.
- _____ 9. Which of the following is an example of search costs?
 - a. paying a premium cost for goods
 - b. buying goods in some special way that is outside the normal channels
 - c. driving to a faraway place to find available goods
 - d. selling extra goods for a discount price
- _____ 10. Equilibrium in a market means which of the following?
 - a. the point at which quantity supplied and quantity demanded are the same
 - b. the point at which unsold goods begin to pile up
 - c. the point at which suppliers begin to reduce prices
 - d. the point at which prices fall below the cost of production



Section 3: Guided Reading and Review

The Role of Prices

A. As You Read

As you read Section 3, answer the questions on the lines provided.

1. What overall, vital role do prices play in the free market? _____

2. What standard do prices set? _____
3. What signals do high prices send to producers and consumers? _____

4. Why do suppliers use price rather than production to resolve the problem of excess demand? _____

5. What drives the distribution system in the free market? _____

6. How does a price-driven economy allow for a wide diversity of goods? _____

7. What was the goal of the Soviet planned economy? _____

8. How did the Soviet economic system affect consumer goods? _____

9. How does the free market ensure an efficient allocation of resources? _____

10. What motivates suppliers to increase production in the face of high demand and high prices? _____

11. What three problems in the free market work against the efficient allocation of resources? _____

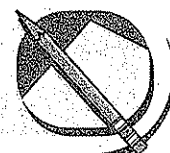
B. Reviewing Key Terms

Define the following terms.

12. supply shock _____
13. rationing _____
14. spillover costs _____

Section 3: Quiz

The Role of Prices



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 situation in which resources are distributed according to price
- _____ 2. a sudden shortage of a good
- _____ 3. dividing up goods and services without regard to price
- _____ 4. business conducted without regard for government controls

Column II

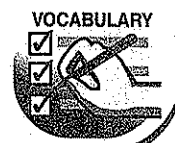
- a. rationing
- b. black market
- c. supply shock
- d. free market

B. Main Ideas

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

- _____ 5. What are spillover costs?
 - a. production costs paid by the general public
 - b. extra distribution costs paid by the manufacturer
 - c. distribution costs paid by the middle person
 - d. regular rises in price absorbed by the market
- _____ 6. What is the main principle of Adam Smith's *The Wealth of Nations*?
 - a. Profits are in what people need rather than what they want.
 - b. Business prospers by finding out what people want and providing it.
 - c. Although goods are inexpensive, people do not always get what they need.
 - d. A price-based system sets some goods, such as food or housing, out of the reach of some people.
- _____ 7. Why did the United States use rationing during World War II?
 - a. to limit production to a few varieties of each product
 - b. to create a society in which each person had an equal chance
 - c. because the needs of the armed forces created tremendous shortages
 - d. because it wanted to override the existing black market in goods
- _____ 8. What prompts efficient resource allocation in a well-functioning market system?
 - a. business operating for a profit
 - b. government regulation
 - c. the need for fair allocation of resources
 - d. the need to buy goods regardless of price
- _____ 9. How do price changes affect equilibrium?
 - a. by assisting the centrally planned economy
 - b. by serving as a tool for distributing goods and services
 - c. by limiting the market to people who have the most money
 - d. by preventing inflation or deflation from affecting the supply of goods
- _____ 10. Why did the former Soviet Union use a command economic system instead of one based on price?
 - a. It had major shortages of many goods and services.
 - b. It wanted goods and services to be less important than they are in a price-based system.
 - c. It hoped to overcome the advantages of a black market.
 - d. It hoped to create a society in which everyone had the same chance.

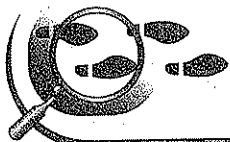
Vocabulary Practice



Complete each sentence below and use it as a clue to help you supply the missing letters in the corresponding numbered item. When you have finished, use the word formed vertically by the bracketed letters to write a true statement about prices.

1. _ [] _ _ _ _ _
2. _ _ _ _ _ [] _ _ _ _ _
3. _ [] _ _ _ _
4. _ _ [] _ _ _ _ _
5. _ _ _ _ _ [] _ _
6. _ _ [] _ _ _ _ _
7. _ _ _ _ _ [] _ _ _ _
8. _ _ _ [] _ _ _ _
9. _ _ _ [] _ _ _ _
10. _ [] _ _ _ _ _
11. _ _ [] _ _ _
12. _____

1. Government may hold down the price of apartments with _____.
2. Inequality between quantities supplied and demanded results in market _____.
3. Problem created when quantity supplied exceeds demand is excess _____.
4. Government-imposed maximum charge for a good is a(n) _____.
5. Quantities supplied in excess of quantities demanded result in a(n) _____.
6. Government-imposed minimum for a good or service is a(n) _____.
7. When supply and demand meet at a particular price, the market is said to be at _____.
8. Quantities demanded in excess of quantities supplied create a(n) _____.
9. Dividing up scarce goods and services without concern for prices defines _____.
10. Economists call a sudden shortage of goods _____.
11. Problem created when quantity demanded exceeds supply is excess _____.



Economic Detective

Hy Feshn Neckties

Problem

Hy Feshn owns and operates a necktie boutique in one of New York City's trendy neighborhoods. The spring weather is mild, his clientele is loyal, and overall, his business prospers. A friend in the garment district tells him, however, that the coming fall's new fad will be the starched turtleneck shirt worn without a tie. Hy knows that fads fade quickly, but he still worries about keeping his business going during the down season sure to come.

Investigation 1

Hy's first line of defense is to cut expenses. He calls Cap Hill, his congressional representative, to see if he is eligible for any government help. Cap says no, but his mother would let him have her nearby rent-controlled apartment for a fee of \$500 in addition to the usual rent. Hy decides to pay the \$500 and convert the cheaper second-story quarters into a boutique. Hy takes inventory before he moves and finds he has no more \$30 Speckle ties but nearly his full shipment of \$50 Spott ties in stock. He plans to make some adjustments after he moves.

1. In what way does Hy benefit from government price ceilings? _____
2. How does Hy's experience illustrate some of the problems connected with government price intervention? _____
3. What part of Hy's inventory illustrates excess supply? _____

Investigation 2

Settled in his new location, Hy stocks a new shipment of Speckle ties and raises the price to \$32.50. At the same time, he lowers the price of the Spott ties to \$45. The Speckle ties continue to sell so well that Hy runs out of them before his next shipment arrives. This time he raises their price to \$37 and does not run out until another shipment comes in. The Spott ties still sit on the shelf, however. Hy puts them on sale for \$39, at which price he just meets demand and is able to sell them steadily until he runs out of stock. He does not reorder, however, because he learns that waste dyes used in their manufacture are discoloring the waters of his favorite lake.

1. (a) What problem of excess demand does Hy face? _____
(b) How does he remedy it? _____
2. In what way is Hy's market for Spott ties in disequilibrium? _____
3. (a) What is the equilibrium price for Hy's Speckle ties? _____
(b) For his Spott ties? _____
4. To what spillover cost does Hy object? _____

Investigation 3

As the dreaded fall season approaches, a new designer offers Hy an innovative "Soopt" tie suitable for the turtleneck collar. Hy orders 500 Soopt ties, which he prices at \$75. The Soopt ties sell out in less than a week, with customers asking for more. Seeing the success of her ties, the designer offers her employees more than minimum wage to attract more workers. Before long her output rises, but she still cannot keep up with orders. Her problem eases when she starts charging Hy more for his orders, but Hy

does not mind. His customers will pay up to \$100 for a Soopt tie, even though other designers and stores have also started offering them.

1. What price floor appears in the Soopt tie story? _____
2. How does price flexibility serve the market for Soopt ties? _____
3. What role do profit incentives play in the success of Soopt ties? _____

Careers in Economics Financial Adviser



Most adults go through many stages in their lives that require financial decision making. Many marry, buy a house or rent an apartment, raise a family, put children through college, start their own business, and retire from the work force. In making decisions about these important steps, many people turn to financial advisers to help them plan for the future.

Who Employs Financial Advisers?

Many financial advisers, or planners, have their own businesses or work for firms specializing in various aspects of financial planning, such as retirement planning, the management of charitable trusts, and tax and estate planning. Increasingly, financial advisers are also employed by banks, brokerage firms, and large corporations.

What Does the Job Involve?

Financial advisers use their knowledge of tax and investment strategies, securities, insurance, pension plans, and real estate to help their clients analyze their personal finances. They review this information to help their clients make and implement financial plans. They determine their clients' financial assets and liabilities, current life and health insurance coverage, and tax status. After discussion and analysis of a client's financial goals, they develop a plan to meet these specific aims. Then they work with the client to implement the plan.

Early in their careers, financial advisers also spend time finding clients and building a customer base. Some meet clients through business or civic organizations they belong to or through social events they attend. Many financial advisers make valuable business contacts by teaching adult education courses in financial planning or giving lectures about the services they provide at libraries or social clubs.

What Are the Qualifications?

Most financial advisers have at least a bachelor's degree, with courses in accounting, business law,

economics, marketing, and finance. Many financial advisers have had previous work experience in such areas as sales, marketing, or insurance. Employers seek applicants with strong communication skills who enjoy working with people. A basic knowledge of computers is also essential.

Some states have bonding and/or licensing requirements for anyone who works with stocks, bonds, and other securities, as financial advisers often do, and certification is highly desirable for working in this field. To become a certified financial planner, a person must take a specified number of courses and be employed in the field for a minimum number of years. Most companies provide training to help employees meet various state and professional requirements. New employees usually receive classroom instruction in helping clients budget their income and keep track of expenses, analyzing insurance needs and investments, understanding tax laws, and helping clients with retirement planning. Other courses may cover estate planning, including the creation of wills or trusts.

How Do You Get Started?

Some financial planning firms offer internships or summer jobs to students interested in financial planning. Students in such jobs typically perform filing and clerical work or assist in making computer-designed graphs and charts, while observing how financial advisers do their jobs. For more information, visit *Economics: Principles in Action* within the Social Studies area of the Prentice Hall Web site. www.phschool.com

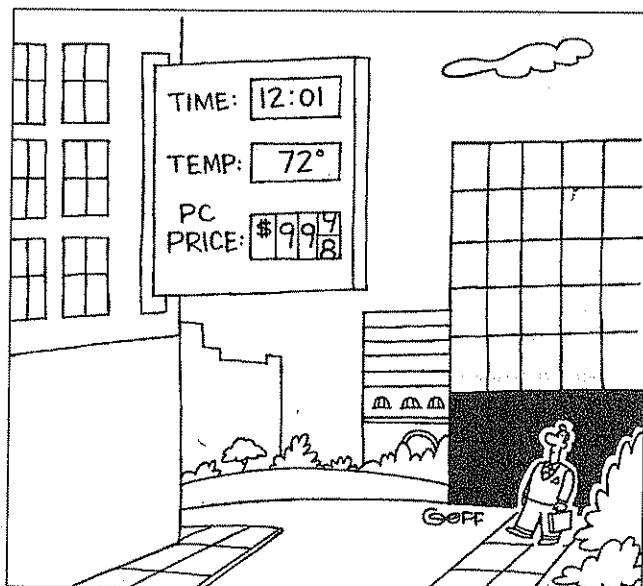
Activity

Interview a financial adviser in your area to find out how financial advice differs at various stages of a client's life. You might ask the adviser, for example, to compare the advice he or she would give to a young couple without children, a single parent saving to send a child to college, and a person nearing retirement who plans to live on a fixed income. Present your findings in a report to the class.



Economic Cartoons

Study this cartoon and review the section entitled “Changes in Market Equilibrium” beginning on page 133 before answering the questions below.



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1. What unusual information is posted on this time and temperature sign? _____

2. Drawing Inferences What does the sign suggest about the price of PCs, or personal computers?

3. Drawing Conclusions Why might PCs undergo frequent price changes? _____

4. Synthesizing Information (a) What effect might a drop in the cost of production have on the market price of PCs? _____

 (b) What factors might have the opposite effect on price? _____

5. Analyzing Information Would news of a technology that makes PCs outdated be likely to affect the supply of computers or the demand for computers first? _____

Section 1: Guided Reading and Review

Perfect Competition



A. As You Read

As you read Section 1, supply the missing cause or effect in the spaces provided.

The Perfect Market Structure

- | | |
|---|--|
| <p>1. Cause: _____
_____</p> <p>2. Cause: _____
_____</p> <p>3. Cause: Entrepreneurs are less likely to enter a market with high start-up costs.</p> <p>4. Cause: Sometimes firms cannot make enough to stay in business.</p> <p>5. Cause: _____
_____</p> <p>6. Cause: _____
_____</p> | <p>1. Effect: The market determines price without influence from suppliers or consumers.</p> <p>2. Effect: Identical products are key to perfect competition.</p> <p>3. Effect: _____
_____</p> <p>4. Effect: _____
_____</p> <p>5. Effect: Prices are forced down to the point where they just cover the seller's costs of doing business.</p> <p>6. Effect: Producers adjust their output decisions based on their most efficient use of available land, labor, and capital.</p> |
|---|--|

B. Reviewing Key Terms

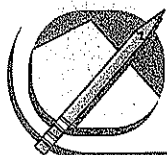
Briefly define or identify each of the following.

7. perfect competition _____

8. commodity _____

9. barrier to entry _____

10. start-up costs _____



Section 1: Quiz

Perfect Competition

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. expenses a new business must pay before the first product reaches the customer
- _____ 2. factors that make it difficult for new firms to enter a market
- _____ 3. a product that is considered the same regardless of who makes or sells it
- _____ 4. a market with many well-informed buyers and sellers, identical products, and free entry and exit

Column II

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

B. Main Ideas

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

- _____ 5. Why does a perfectly competitive market require many participants as both buyers and sellers?
 - a. because the merchandise must be uniform
 - b. so that no individual can control the price
 - c. in order to maintain quality over the goods
 - d. so that both buyer and seller have the same information
- _____ 6. Milk is considered a commodity because it is which of the following?
 - a. an inexpensive product
 - b. a product that can be bought in many different ways
 - c. the same product regardless of who sells it
 - d. an agricultural product
- _____ 7. What is the relationship between start-up costs and a competitive market?
 - a. Markets with high start-up costs are less likely to be perfectly competitive.
 - b. Markets with high start-up costs are more likely to be perfectly competitive.
 - c. Low start-up costs are likely to make a market less competitive.
 - d. There is no consistent relationship between start-up costs and the competitiveness of a market.
- _____ 8. Which of the following is characteristic of a competitive market?
 - a. high costs
 - b. low output
 - c. inexhaustible supply
 - d. efficiency
- _____ 9. How does a perfect market influence output?
 - a. Each firm adjusts its output so that its costs, including profit, are covered.
 - b. Each firm makes its output as large as possible even though some goods are not sold.
 - c. Different firms make different amounts of goods, but some make a profit and others do not.
 - d. Different firms each strive to make more goods and capture more of the market.
- _____ 10. Why are there actually relatively few markets in which there is perfect competition?
 - a. Lack of demand keeps buyers from the market.
 - b. High prices keep companies in the market longer than necessary.
 - c. Barriers keep companies from entering the market freely.
 - d. Buyers will not pay more for perfect competition.

Section 2: Guided Reading and Review

Monopoly**A. As You Read**

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

In the Monopolist Market**Natural Monopolies**

1. Why they exist _____

2. Two examples _____

3. Advantage of _____

4. Government role in _____

Government Monopolies

5. Type set up by patents _____

6. Why government grants patented monopolies _____

7. Example of an industrial monopoly _____

8. Two examples of government monopolies by license _____

Production and Pricing

9. Effect of a monopolist's price increase _____

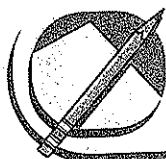
10. Relationship between price and marginal revenue when a monopolist cuts the price to sell more _____

11. How a monopolist maximizes profits _____

B. Reviewing Key Terms

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

12. In a market with only one seller, that seller has a _____.
13. Characteristics that cause a producer's average cost to drop as production rises are _____.
14. A contract issued by a local authority that gives a single firm the right to sell its goods within an exclusive market is a _____.
15. A monopoly offering targeted discounts is practicing _____.



Section 2: Quiz

Monopoly

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 single seller in a market
- _____ 2. a producer's average cost drops as production rises
- _____ 3. a company has exclusive rights to sell a new good or service for a specific time period
- _____ 4. a single seller has the rights to sell goods in an exclusive market
- _____ 5. consumers are divided into groups and each is charged differently

Column II

- a. economies of scale
- b. franchise
- c. monopoly
- d. patent
- e. price discrimination

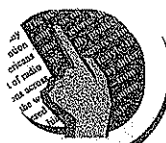
B. Main Ideas

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

- _____ 6. A natural monopoly is
 - a. any situation in which only a single seller is allowed to exist.
 - b. a monopoly in which the goods produced are agricultural resources.
 - c. an industry that runs best when one firm produces all the output.
 - d. an industry in which the government provides all the output.
- _____ 7. A government's purpose in giving an antitrust exemption to sports leagues is to
 - a. increase the league owners' profits.
 - b. prevent other cities from financing competing sports.
 - c. prevent the athletes from starting new teams.
 - d. keep team play orderly and stable.
- _____ 8. A discounted airline fare is a price discrimination that can be offered because
 - a. people do not necessarily want to go where the discounts will allow them to go.
 - b. vacationers are willing to put up with the restrictions that the airlines impose.
 - c. people who fly on business want the price discounts but do not qualify.
 - d. senior citizens qualify for discounts on certain types of flights but not on others.
- _____ 9. Patents are a form of monopoly that society allows because they
 - a. encourage firms to research and develop new products that benefit society as a whole.
 - b. maintain an orderly way for companies to make a lot of money.
 - c. give companies the right to decide who will be allowed to use their products.
 - d. set up a situation in which only a few manufacturers can control an industry.
- _____ 10. The controller of a monopoly sets the price of goods by charging
 - a. as much as possible regardless of the amount sold.
 - b. only a small amount over cost.
 - c. the price at which the profit is maximized.
 - d. less than they would charge if they did not have a monopoly.

Section 3: Guided Reading and Review

Monopolistic Competition and Oligopoly



A. As You Read

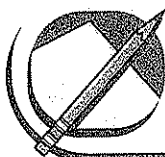
As you read Section 3, fill in the information requested on the charts.

Monopolistic Competition Market Structures	
Defining Conditions	<div style="display: flex; justify-content: space-between;"> <div>1. _____</div> <div>2. _____</div> </div> <div style="display: flex; justify-content: space-between;"> <div>3. _____</div> <div>4. _____</div> </div>
Forms of Nonprice Competition	<div style="display: flex; justify-content: space-between;"> <div>5. _____</div> <div>6. _____</div> </div> <div style="display: flex; justify-content: space-between;"> <div>7. _____</div> <div>8. _____</div> </div>
Price-Output Relationship	9. _____
Curbs on High Profits	<div style="display: flex; justify-content: space-between;"> <div>10. _____</div> <div>11. _____</div> </div>
Consumer Advantages	12. _____
Oligopoly	
Conditions Encouraging Formation	<div style="display: flex; justify-content: space-between;"> <div>13. _____</div> <div>14. _____</div> </div> <div style="text-align: center; margin-top: 10px;">15. _____</div>
Practices that Concern Government	<div style="display: flex; justify-content: space-between;"> <div>16. _____</div> <div>17. _____</div> </div> <div style="text-align: center; margin-top: 10px;">18. _____</div>

B. Reviewing Key Terms

Read the statements below. In the space provided, write T if the statement is true or F if it is false.

- ____ 19. Firms selling identical products create *monopolistic competition*.
- ____ 20. Providing better customer service, introducing a new lipstick color, and sophisticated advertising are examples of *nonprice competition*.
- ____ 21. *Price fixing* is an outcome of collusion.
- ____ 22. A *cartel* is most successful when each member produces as much product as possible.



Section 3: Quiz

Monopolistic Competition and Oligopoly

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. many companies in an open market selling similar products
- _____ 2. a market structure dominated by a few large, profitable firms
- _____ 3. an agreement among firms to sell at the same or very similar prices
- _____ 4. a formal organization of producers that agree to coordinate prices and production

Column II

- a. cartel
- b. oligopoly
- c. price fixing
- d. monopolistic competition

B. Main Ideas

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

- _____ 5. If two shops sell the same merchandise but one offers a higher level of service, the service distinction is a form of
 - a. price fixing.
 - b. nonprice competition.
 - c. choice among substitute products.
 - d. local competition.
- _____ 6. An agreement among members of an oligopoly to set prices and production levels is called
 - a. price leadership.
 - b. competition.
 - c. collusion.
 - d. imperfect monopoly.
- _____ 7. A major characteristic of monopolistic competition is that prices will be
 - a. higher than in perfect competition.
 - b. lower than in perfect competition.
 - c. higher than in a true monopoly.
 - d. unrelated to the type of competition.
- _____ 8. In monopolistic competition, profits well in excess of costs are unlikely because
 - a. nonprice competition only works for the short term.
 - b. customers always return to the product that is least expensive, even if the quality of that product is much lower.
 - c. excess output can be maintained only for short periods.
 - d. established rivals and new firms would lure customers away with slightly different and/or cheaper products.
- _____ 9. A cartel is able to survive only if
 - a. government regulations permit it.
 - b. every member keeps to the agreed output levels.
 - c. members are scrupulous about where they sell goods.
 - d. members use advertising to differentiate their goods.
- _____ 10. The main difference between perfect competition and monopolistic competition is that
 - a. in perfect competition the prices are set by the government.
 - b. in perfect competition the buyer is free to buy from any seller he or she chooses.
 - c. in monopolistic competition there are fewer sellers and more buyers.
 - d. in monopolistic competition sellers can profit from the differences between their products and other products.

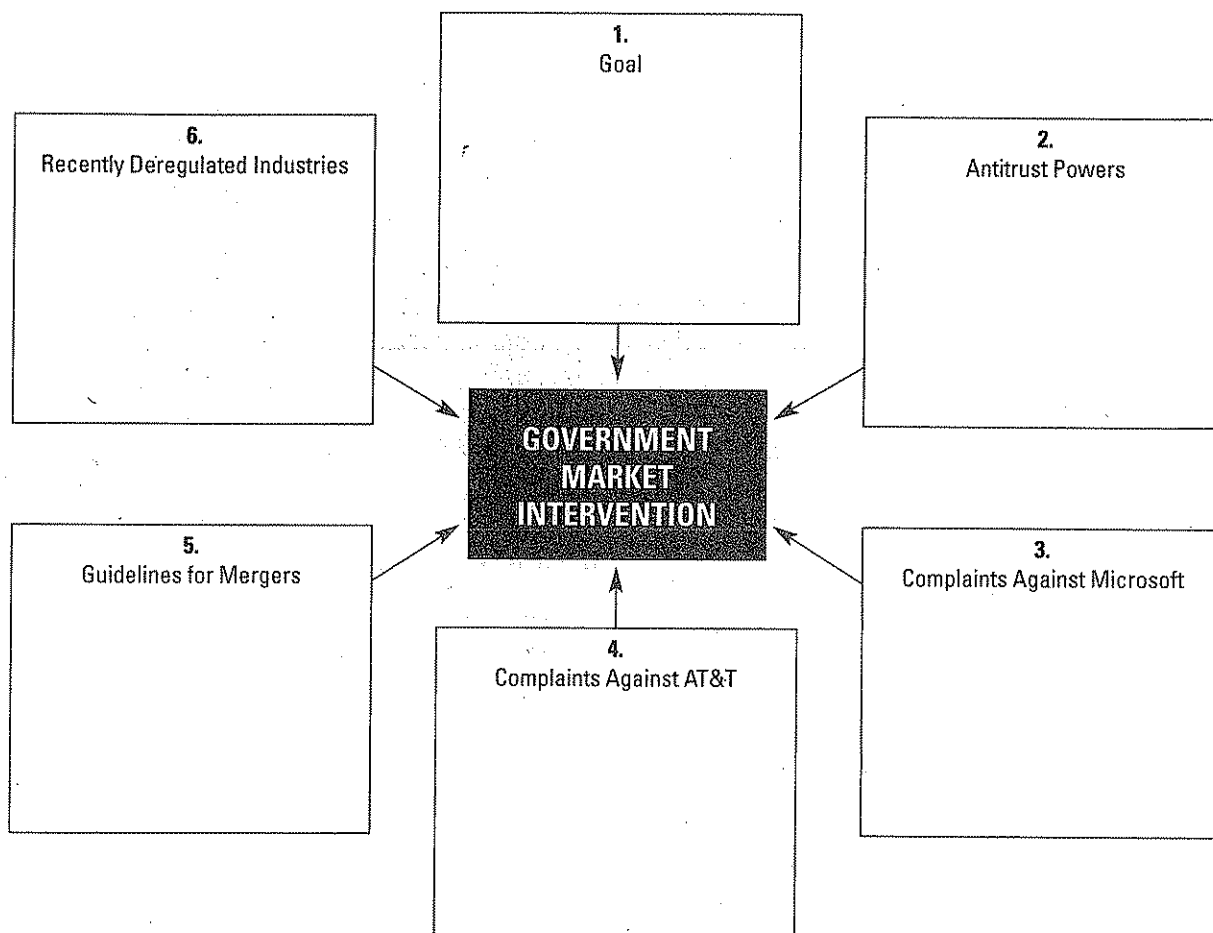
Section 4: Guided Reading and Review

Regulation and Deregulation



A. As You Read

As you read Section 4, supply the missing information about government market intervention in the numbered web boxes.



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B. Reviewing Key Terms

Use a key term to rewrite each sentence correctly.

7. *Price fixing* is the practice of setting the market price below cost for the short term to drive competitors out of business. _____
8. A *monopoly* occurs when a company joins with another company to form a single firm. _____
9. *Perfect competition* means that the government no longer decides a company's market role and pricing. _____



Section 4: Quiz

Regulation and Deregulation

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. setting the market price below cost in the short term to drive competitors out of business
- _____ 2. government policies that keep firms from controlling the price and supply of important goods
- _____ 3. the government no longer decides what role each company can play in the market and how much it can charge
- _____ 4. a company joins another company or companies to form a single firm

Column II

- a. antitrust laws
- b. predatory pricing
- c. merger
- d. deregulation

B. Main Ideas

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

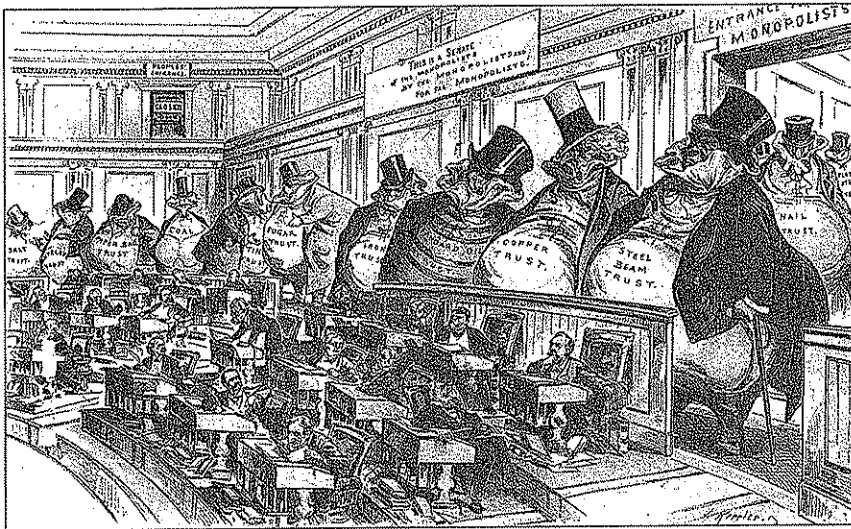
- _____ 5. Antitrust laws allow the U.S. government to do all of the following except
 - a. watch and regulate industry.
 - b. stop firms from forming monopolies.
 - c. stop firms from selling new products.
 - d. break up existing monopolies.
- _____ 6. The U.S. government's policies to deregulate the banking industry allowed savings and loan (S & L) banks to get into trouble because
 - a. too many S & L banks made large, risky loans.
 - b. S & L banks were unable to compete with other types of banks.
 - c. too many S & L banks opened too many branches.
 - d. people withdrew their money from too many S & L banks.
- _____ 7. The government claimed that, to illegally extend its control over the market, Microsoft had used
 - a. predatory pricing and mergers.
 - b. predatory pricing and forming a cartel with other companies.
 - c. predatory pricing and buying out competitors.
 - d. predatory pricing and requiring customers to buy other products.
- _____ 8. Before government approves a merger, companies must prove that the merger would
 - a. be beneficial by creating an artificial monopoly.
 - b. lower costs and consumer prices or lead to a better product.
 - c. be good for certain consumers but not others.
 - d. actually raise the number of competitors in the market.
- _____ 9. Inventions like cellular phones can affect the government's antitrust policies because
 - a. people using the technology do not want antitrust regulations.
 - b. government rules can allow higher charges than competition.
 - c. the technology causes the need for more strict regulation than before.
 - d. they can mean that the need for regulation no longer exists.
- _____ 10. The purpose of both deregulation and antitrust laws is to
 - a. promote competition.
 - b. promote government control.
 - c. prevent inefficient commerce.
 - d. prevent monopolies.

Social Studies

Analyzing Political Cartoons

**Skills for
LIFE**

This famous cartoon by Joseph Keppler was published in 1889, about two years after the passage of the first federal antitrust laws. Use the steps below to help you analyze the cartoon and discover the different techniques Keppler uses to express his observations and opinions on the effectiveness of the new antitrust laws.



Culver Pictures

1. Identify the symbols in the cartoon. (a) What is the setting for this cartoon? _____

(b) Describe the two entrances into the room. _____

(c) What has happened to the smaller entrance? _____

(d) How does Keppler represent the trusts? _____

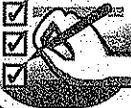
2. Analyze the meaning of the cartoon. (a) How are most of the senators reacting to the trusts? _____

(b) Where is the will of the American people in this situation? _____

3. Draw conclusions about the cartoonist's intent. (a) What point does Keppler make about the attitude of the Senate toward the trusts and the American people? _____

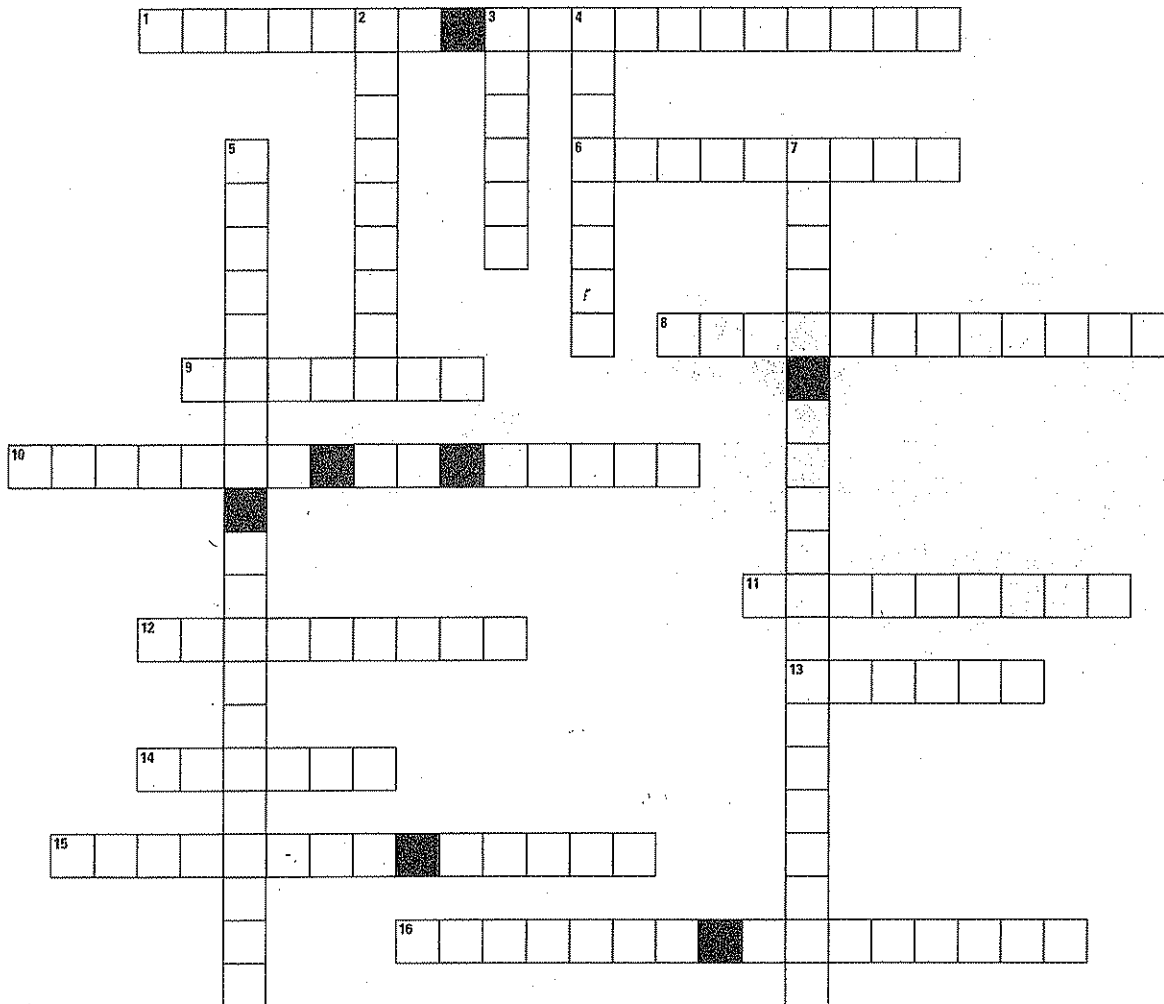
(b) What is the cartoonist saying about the success of antitrust laws in the late 1880s? _____

VOCABULARY



Vocabulary Practice

CHAPTER 7



Use the following clues to complete the crossword puzzle.

Across

1. simplest market structure
6. market structure dominated by a few large profitable firms
8. when government no longer decides each company's market role and pricing
9. grants firms control over scarce resources
10. can cause difficulties in getting into the market
11. firm's right to sell its goods within an exclusive market
12. a product that is the same regardless of who makes or sells it
13. joining of one firm with another to form a single firm
14. exclusive rights to sell a new good or service for a specific period of time

15. expenses of a new business before product reaches the customer
16. market structure that characterizes an industry run most efficiently by one large firm

Down

2. oligopoly members' agreement on price and output
3. formal organization of producers that sets price and output
4. single supplier in a given market
5. competition based on differences other than pricing among products
7. charging special groups different prices

Economic Detective

The Business of Buck Bidness



Problem

Buck Bidness has a passion for gardening. His experiments with plants and gardening products have made him a bit of an inventor. Like most folks, however, Buck has a full-time job, which takes time away from his gardening adventures. For the past five years, he has worked on the assembly line at Swoopenzoom Aircraft. Before that, he worked at Divem and Stratstream, two of the other three major aircraft manufacturers.



Investigation 1

Buck is restless in his job at Swoopenzoom. He wants more money and personal independence. He buys a few shares of stock in the company every payday and has tried to sell management an original idea to improve gearing on their planes. Managers say his idea won't work. Buck wishes he could start his own company to prove them wrong but knows he could not raise enough capital to build airplanes. If he tries to sell his idea to Divem or Stratstream, he could lose his job.

1. In what market structure does Swoopenzoom operate? _____
2. How does Buck participate in a perfect competition market structure? _____
3. What barrier to entry does Buck recognize in the aircraft market? _____



Investigation 2

Buck buries his job frustrations in his garden on the weekends. The fertilizer he created in his garage is working well, and it seems to repel garden parasites. After further tests, Buck decides he has invented a fantastic bug killer and applies to the government for a patent. While he waits for the patent on his "Surswat" formula to be approved, Buck studies gardening magazines and agricultural newsletters for marketing ideas. He decides to offer discounts to wheat farmers, whose battle with grasshoppers might create a very large market. Buck's hopes soar

until notice comes from the government that his formula is under patent for a product already on the market.

1. (a) What kind of market structure does Buck hope to enter with Surswat? _____
(b) How does he seek to enter this market? _____
2. In what way does Buck plan to use price discrimination? _____



Investigation 3

Buck's sister, Clarette, comes over to help him clean his garage after his big disappointment with Surswat. Like Buck, Clarette likes to make home formulas, and her cleaning liquid whisks away rust, oil, corrosion, and other grime throughout Buck's garage. Buck buys the formula from his sister, applies for and receives a patent, and "Clar-up" becomes his new business venture. Buck sells his Swoopenzoom stock and uses the money to buy ingredients and packaging. Two big discount chains agree to stock Clar-up, and sales soar. Other cleaning companies soon offer products similar to Clar-up, but Buck is able to keep many loyal customers through radio advertising by adding a new fragrance to his cleaning formula.

1. (a) At what point does Buck again participate in perfect competition? _____
(b) In what kind of market structure does Buck operate after Clar-up's success? _____
2. How does Buck practice nonprice competition? _____

Economic Cartoons



Study this cartoon and review the section entitled "Monopoly" beginning on page 156 before answering the questions below.



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- (a) Who is the man at the microphone? _____

(b) What is his occupation? _____
- Synthesizing Information** To whom is the man talking, and what is he talking about?

- Making Inferences** What does the cartoonist suggest is the attitude of the speaker toward the person or group he is addressing? How can you tell? _____

- Evaluating Information** How can the existence of a monopoly negatively affect the consumer? What argument does the speaker use to defend his way of doing business?

- Recognizing Points of View** Is the cartoonist sympathetic to the speaker's point of view? Explain your answer. _____
