

Chapter 4 review

Multiple Choice

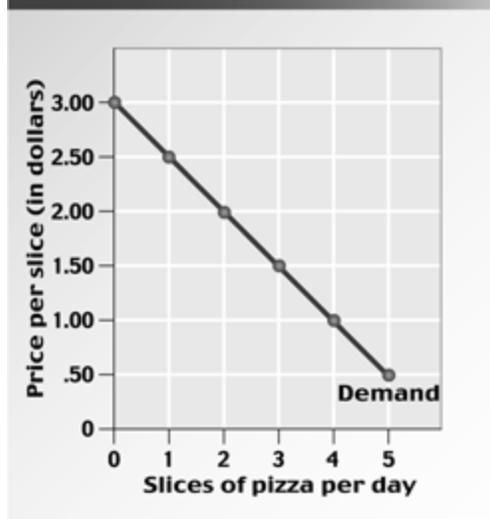
Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. When a consumer is able and willing to buy a good or service, he or she creates which of the following?
- a. consumption
 - b. demand
 - c. elasticity
 - d. allocation
- _____ 2. What determines the price and the quantity produced of most goods?
- a. the consumer's perception of necessity
 - b. the interaction of supply and demand
 - c. the availability of substitutes for the goods
 - d. the quality of the goods that are produced
- _____ 3. What are inferior goods?
- a. goods that are not well produced
 - b. goods that no one wants to buy
 - c. goods for which the demand rises when income falls
 - d. goods for which the demand falls when income rises
- _____ 4. How is future price related to current demand?
- a. If the price is expected to rise, current demand will drop.
 - b. If the price is expected to fall, current demand will rise.
 - c. If the price is expected to rise, current demand will rise.
 - d. Future price is not related to current demand.
- _____ 5. What determines how a change in prices will affect total revenue for a company?
- a. elasticity of demand
 - b. the company's pricing policy
 - c. values of elasticity
 - d. the consumers' incomes
- _____ 6. What kind of system is the United States economy based on?
- a. cause and effect
 - b. centralized
 - c. market
 - d. production
- _____ 7. *Ceteris paribus*, or "all other things held constant," is an assumption that has which of the following effects on a demand schedule?
- a. It takes only prices into account.
 - b. It considers the effects of all possible changes on demand.
 - c. It is accurate no matter what changes occur.
 - d. It is accurate only at one price level.
- _____ 8. What shows the quantities of products demanded at each price by all consumers in a market?
- a. an elasticity and consumption list
 - b. a schedule of consumer prices
 - c. a market pricing list
 - d. a market demand schedule
- _____ 9. How did the existence of the baby boom generation change demand in the United States?
- a. Demand was raised for different goods with each age the baby boomers reached.
 - b. After they reached the teenage years, the baby boomers were integrated into the society and no longer affected demand.
 - c. People were poorer because they had so many children, so demand was lowered.
 - d. The baby boomers did not raise demand until they became adults, when they had their own money to spend.
- _____ 10. What does it mean when the demand for a product is inelastic?
- a. People will not buy any of the product when the price goes up.
 - b. A price increase does not have a significant impact on buying habits.

- c. Customers are sensitive to the price of the product.
 - d. There are very few satisfactory substitutes for the product.
- ___ 11. What kind of table lists the quantity of a good that a person will buy at different prices?
- a. demand schedule
 - b. demand curve
 - c. market demand schedule
 - d. market demand curve
- ___ 12. What is a basic principle of the law of demand?
- a. The higher the price, the more people will want the good.
 - b. Everyone has a limited income that they will spend.
 - c. When a good's price is lower, people will buy more of it.
 - d. Services are of interest in the same way that goods are.
- ___ 13. How is the current demand for a good related to its future price?
- a. If the price is expected to drop, current demand will fall.
 - b. If the price is expected to drop, current demand will rise.
 - c. If the price is expected to rise, current demand will fall.
 - d. Current demand is not related to future price.
- ___ 14. Which of the following is a good that might not be bought when prices rise?
- a. complement
 - b. substitute
 - c. inferior good
 - d. luxury
- ___ 15. What kind of changes would be expected in the demand of a country that has a growing population?
- a. a rise in the demand for recreation
 - b. a shift in the demand for high-quality food
 - c. a rise in the demand for shelter
 - d. a lowering in the demand for automobiles
- ___ 16. A shift in the demand curve means which of the following?
- a. a change in demand at every price
 - b. a rise in prices
 - c. a decrease in both price and quantity demanded
 - d. a change in consumer income
- ___ 17. What does unitary elastic demand mean?
- a. The elasticity of demand is mathematically determined.
 - b. The elasticity of demand is different at each unit on the price range.
 - c. The demand is inelastic at a low price but becomes elastic as the price rises.
 - d. The percentage change in quantity demanded is exactly equal to the percentage change in price.
- ___ 18. What is a company's total revenue?
- a. the price of a company's goods
 - b. the amount a company receives for selling its goods
 - c. the amount of goods a company can expect to sell
 - d. the amount of profit a company can expect to make
- ___ 19. When prices rise, which of the following happens to income?
- a. It goes down.
 - b. It buys less.
 - c. It rises to meet prices.
 - d. It is used to buy different things.
- ___ 20. Which of the following goods would be likely to be bought in the same quantity even if it doubled in price?
- a. shoes
 - b. telephones
 - c. pencils
 - d. computers
- ___ 21. Which of the following events could cause the demand curve for sports magazines to shift to the right?
- a. The publisher cuts the price of an issue from \$3.95 to \$2.50.
 - b. The price of an issue of a popular computer game magazine rises from \$2.95 to \$3.95.

- c. A star basketball player interests thousands of people in professional sports for the first time.
 - d. A local library buys a subscription to the sports magazine for its reading room.
- ___ 22. The price of movie tickets in a town has risen from \$7 to \$9. What is the most likely effect of the change in price?
- a. The demand curve for movie tickets will move right.
 - b. The quantity demanded of movie tickets will increase.
 - c. The demand curve for movie tickets will move left.
 - d. The quantity demanded of movie tickets will decrease.
- ___ 23. Alex receives a raise at work and continues to work the same number of hours each week. His demand for \$3 t-shirts, which he considers an inferior good, will
- a. increase.
 - b. decrease.
 - c. stay the same.
 - d. have no relation to his income.
- ___ 24. Demand for movie rentals is highly elastic. A video store that raises the price of a rental will
- a. lose revenue.
 - b. gain revenue.
 - c. possibly gain or lose revenue.
 - d. see no change in revenue.
- ___ 25. When movie rentals were \$2.95, Sara rented ten movies a month. The price of a rental increased by fifty cents and Sara decided to rent two fewer movies a month. When the price increased by one more dollar, Sarah decided to cut the number of movies she rented in half. What is her quantity demanded by month at the current price?
- a. five
 - b. one
 - c. four
 - d. two
- ___ 26. Will, a sprinter on the track team, has inelastic demand for sports drinks. The local store has raised the price of a sports drink from \$1.00 to \$1.50. Which of the following could describe Will's response to the price change?
- a. He bought 15 bottles a month at \$1.00 and 20 bottles a month at \$1.50.
 - b. He bought 10 bottles a month at \$1.00 and 8 bottles a month at \$1.50.
 - c. He bought 15 bottles a month at \$1.00 and 5 bottles a month at \$1.50.
 - d. He bought 10 bottles a month at \$1.00 and 5 bottles a month at \$1.50.
- ___ 27. Which of these events could permanently shift a individual's demand curve for umbrellas to the right?
- a. He buys a car so he no longer needs to walk to and wait at a bus stop every morning to get to work.
 - b. He moves from a desert community to a rainy city by the ocean.
 - c. The price of umbrellas decreases significantly as inexpensive umbrellas are imported from China.
 - d. Weather forecasters predict that a major hurricane will hit his city the following week.
- ___ 28. Jasmine is willing to buy 40 pencils at 25 cents apiece. When the price is ten cents apiece, she is willing to buy 100 pencils. Which of the following statements could be true about Jasmine's demand for pencils?
- a. She will buy 80 pencils at 15 cents apiece.
 - b. She will buy 20 pencils at 20 cents apiece.
 - c. She will buy 100 pencils at 5 cents apiece.
 - d. None of these statements is likely to be true.
- ___ 29. What term describes demand with an elasticity of less than 1?
- a. unitary elastic
 - b. inelastic
 - c. low
 - d. elastic

Figure 4.4 Ashley's Demand Curve



- ___ 30. According to Figure 4.4, how many slices of pizza will Ashley buy if the price is \$1.00 per slice?
- one
 - two
 - three
 - four
- ___ 31. According to Figure 4.4, at what price will Ashley's quantity demanded of pizza be three slices?
- \$.50
 - \$1.00
 - \$1.50
 - \$3.00
- ___ 32. The price of a slice of pizza has just increased by \$1 from an earlier, low price. Based on Ashley's demand curve in Figure 4.4, which of the following statements is true?
- Ashley will buy two fewer slices of pizza.
 - Ashley will buy four slices of pizza.
 - Ashley's quantity demanded is unchanged.
 - Ashley will not buy any pizza.
- ___ 33. According to Figure 4.4, what is Ashley's elasticity of demand as the price of a slice of pizza decreases from \$2.00 to \$1.00?
- 5.0
 - 1.0
 - 2.0
 - 4.0
- ___ 34. A new restaurant has opened. Ashley's demand for pizza has decreased and her demand curve has shifted. Based on Figure 4.4, which combination of price and quantity demanded would you expect to find on her new demand curve?
- \$1.50, three slices
 - \$2.00, three slices
 - \$2.00, one slice
 - \$1.00, five slices
- ___ 35. A slice of pizza costs \$4.00. Based on Ashley's demand curve in Figure 4.4, what is her quantity demanded of pizza at this price?
- one
 - zero
 - five
 - There is not enough information to answer the question.

Matching

Identifying Key Terms

Match each term with the correct statement below.

- | | |
|-------------------------|---------------------------|
| a. elasticity of demand | f. total revenue |
| b. substitution effect | g. normal good |
| c. law of demand | h. inferior good |
| d. complement | i. demand curve |
| e. substitute | j. <i>ceteris paribus</i> |

- ___ 36. a graphic representation of a demand schedule
- ___ 37. a good that replaces another demanded good
- ___ 38. a good that consumers will demand more of when their incomes increase
- ___ 39. a good that is always used with another good
- ___ 40. the amount of money a company receives by selling goods or services
- ___ 41. what happens when consumers react to an increase in a good's price by consuming less of that good and more of other goods
- ___ 42. a measure of how people change their buying patterns when prices change
- ___ 43. the way that a change in price determines whether or not consumers buy goods

Identifying Key Terms

Match each term with the correct statement below.

- | | |
|------------------|---------------------------|
| a. total revenue | f. elasticity of demand |
| b. income effect | g. demand curve |
| c. elastic | h. substitute |
| d. inferior good | i. <i>ceteris paribus</i> |
| e. normal good | j. complement |

- ___ 44. the change in consumption resulting from a change in real income
- ___ 45. a good consumed instead of one whose price has risen
- ___ 46. a good that is bought and used along with another good
- ___ 47. the assumption that nothing but the price of a good will change
- ___ 48. a measure of how consumers react to a change in the price of a good
- ___ 49. demand that is very sensitive to a change in price
- ___ 50. a graphic representation of the quantities of a good that will be bought at each price
- ___ 51. a good for which the demand falls when income rises

Short Answer

Reading a Market Demand Schedule

Product	Number of Teens			Number of Adults		
	\$1	\$2	\$3	\$1	\$2	\$3
Magazine	20	15	5	50	35	20
Candy Bar	50	25	5	50	40	20
Video Game	50	40	10	15	10	5

Figure 4.1

52. According to Figure 4.1, how many teenagers would buy a candy bar for \$2?

53. According to Figure 4.1, which product is least appealing to adults at any price?
54. According to Figure 4.1, is the elasticity of demand for any of the products, at any of the prices, unitary?
55. According to Figure 4.1, how many teens and adults combined would buy a candy bar at \$1?
56. According to Figure 4.1, which product is least appealing to teens at any price?
57. According to Figure 4.1, which would teens rather have, a video game or a candy bar? Explain.

Essay

Critical Thinking

58. Give an example of how a consumer's expectation that price will go down in the future can affect his or her desire to buy something today. Does this always have the same effect on present buying patterns?
59. How does the budget percentage that a person spends on a certain good affect the elasticity of demand for that good? Give a specific example.
60. How can a change in population cause a change in the type of clothing that is in demand?
61. What is the difference between a change in quantity demanded and a shift in the demand curve?
62. Give an example of a good or service that may change in elasticity over time rather than immediately, and discuss why this happens.
63. What role can advertising play in a shift in demand? Give a specific example.