**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 | c. | elasticity |
| b. | demand | 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 kind of system is the United States economy based on?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | cause and effect | c. | market |
| b. | centralized | d. | production |

\_\_\_\_ 6. *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. |

\_\_\_\_ 7. 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. |

\_\_\_\_ 8. 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. |

\_\_\_\_ 9. Which of the following is a good that might not be bought when prices rise?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | complement | c. | inferior good |
| b. | substitute | d. | luxury |

\_\_\_\_ 10. 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 |

\_\_\_\_ 11. 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 |

\_\_\_\_ 12. 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. |

\_\_\_\_ 13. 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 |

\_\_\_\_ 14. 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. |

\_\_\_\_ 15. 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. |

\_\_\_\_ 16. 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. | c. | stay the same. |
| b. | decrease. | d. | have no relation to his income. |

\_\_\_\_ 17. Demand for movie rentals is highly elastic. A video store that raises the price of a rental will

|  |  |  |  |
| --- | --- | --- | --- |
| a. | lose revenue. | c. | possibly gain or lose revenue. |
| b. | gain revenue. | d. | see no change in revenue. |

\_\_\_\_ 18. 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?

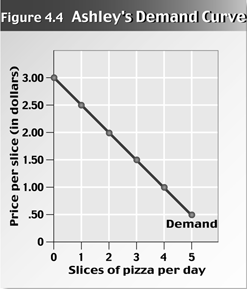
|  |  |
| --- | --- |
| a. | He bought 15 bottles a month at $1.00 and 20 bottles a month at $1.50. |
| b. | He bought 10 bottles a month at $1.00 and 8 bottles a month at $1.50. |
| c. | He bought 15 bottles a month at $1.00 and 5 bottles a month at $1.50. |
| d. | He bought 10 bottles a month at $1.00 and 5 bottles a month at $1.50. |

\_\_\_\_ 19. 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. |

\_\_\_\_ 20. What term describes demand with an elasticity of less than 1?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | unitary elastic | c. | low |
| b. | inelastic | d. | elastic |



\_\_\_\_ 21. According to Figure 4.4, how many slices of pizza will Ashley buy if the price is $1.00 per slice?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | one | c. | three |
| b. | two | d. | four |

\_\_\_\_ 22. According to Figure 4.4, at what price will Ashley’s quantity demanded of pizza be three slices?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | $ .50 | c. | $1.50 |
| b. | $1.00 | d. | $3.00 |

\_\_\_\_ 23. 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?

|  |  |
| --- | --- |
| a. | Ashley will buy two fewer slices of pizza. |
| b. | Ashley will buy four slices of pizza. |
| c. | Ashley’s quantity demanded is unchanged. |
| d. | Ashley will not buy any pizza. |

\_\_\_\_ 24. 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?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | 5.0 | c. | 2.0 |
| b. | 1.0 | d. | 4.0 |

\_\_\_\_ 25. 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?

|  |  |
| --- | --- |
| a. | one |
| b. | zero |
| c. | five |
| d. | 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. | *ceteris paribus* |

\_\_\_\_ 26. a graphic representation of a demand schedule

\_\_\_\_ 27. a good that replaces another demanded good

\_\_\_\_ 28. a good that consumers will demand more of when their incomes increase

\_\_\_\_ 29. a good that is always used with another good

\_\_\_\_ 30. the amount of money a company receives by selling goods or services

\_\_\_\_ 31. what happens when consumers react to an increase in a good’s price by consuming less of that good and more of other goods

\_\_\_\_ 32. a measure of how people change their buying patterns when prices change

\_\_\_\_ 33. 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. | *ceteris paribus* |
| e. | normal good | j. | complement |

\_\_\_\_ 34. the change in consumption resulting from a change in real income

\_\_\_\_ 35. a good consumed instead of one whose price has risen

\_\_\_\_ 36. a good that is bought and used along with another good

\_\_\_\_ 37. the assumption that nothing but the price of a good will change

\_\_\_\_ 38. a measure of how consumers react to a change in the price of a good

\_\_\_\_ 39. demand that is very sensitive to a change in price

\_\_\_\_ 40. a graphic representation of the quantities of a good that will be bought at each price

\_\_\_\_ 41. a good for which the demand falls when income rises

**Short Answer**

**Reading a Market Demand Schedule**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Number of Teens** | | | **Number of Adults** | | |
| **Product** | $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**

42. According to Figure 4.1, which product is least appealing to adults at any price?

43. According to Figure 4.1, how many teens and adults combined would buy a candy bar at $1?

44. According to Figure 4.1, which product is least appealing to teens at any price?

45. According to Figure 4.1, which would teens rather have, a video game or a candy bar? Explain.