Section 1: Guided Reading and Review

Combining Supply and Demand

CHAPTER 6

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 ______.

NAME ______________________ CLASS ______________ DATE ______________

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

NAME ______ CLASS ______ DATE ______

Section 2: Guided Reading and Review

Changes in Market Equilibrium

CHAPTER 6

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. *In the market:* *On the equilibrium point:*
7. Demand curve of a good suddenly shifts right.	7.
8. Signs of excess demand for the good continue over time.	8. *On suppliers:*
9. Demand for a good falls.	9. *On the demand curve:*

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.

______

______

NAME ______________________ CLASS ____________ DATE ____________

Section 2: Quiz

Changes in Market Equilibrium

CHAPTER 6

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

NAME ______ CLASS ______ DATE ______

Section 3: Guided Reading and Review

The Role of Prices

CHAPTER 6

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 ______

NAME ______________________ CLASS ______________ DATE ______________

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.