

## Chapter 6 Review

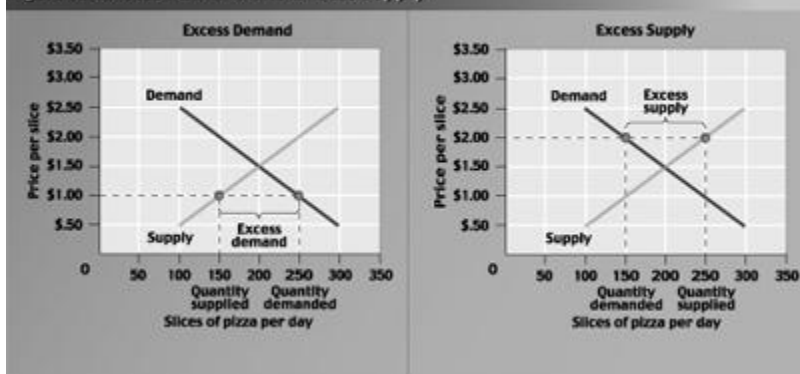
### Multiple Choice

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

- \_\_\_\_ 1. What happens when wages are set above the equilibrium level by law?
  - a. Firms tend to try to break the law and hire people at the equilibrium level.
  - b. Firms employ more workers than they would at the equilibrium wage.
  - c. Firms employ fewer workers than they would at the equilibrium wage.
  - d. Firms hire more workers but for fewer hours than they would at the equilibrium wage.
- \_\_\_\_ 2. On which kinds of goods do governments generally place price ceilings?
  - a. those that are cheap but could become more expensive without the ceiling
  - b. those that are not necessary but have become customary
  - c. those that are essential and cheap
  - d. those that are essential but too expensive for some consumers
- \_\_\_\_ 3. When buyers will purchase exactly as much as sellers are willing to sell, what is the condition that has been reached?
  - a. supply and demand
  - b. excess demand
  - c. equilibrium
  - d. price floor
- \_\_\_\_ 4. Which of the following is an example of a good whose price goes down because of improvements in technology?
  - a. computer printers
  - b. running shoes
  - c. hard-bound books
  - d. typewriters
- \_\_\_\_ 5. What happens when the supply of a nonperishable good is greater than the consumer wants to buy?
  - a. the good is discarded
  - b. the good becomes a luxury and the price rises
  - c. either the good remains unsold or the price drops
  - d. either the good is saved for later sale or the price is raised
- \_\_\_\_ 6. Why did Communist governments use a command economic system for many years?
  - a. as a way to avoid the expense and difficulties of a free market
  - b. in an attempt to create a society in which everyone was equal
  - c. to limit the costs of production of many goods
  - d. as a method of keeping the consumer from getting what he or she wanted
- \_\_\_\_ 7. Why did the U.S. government use rationing for some foods and consumer goods during World War II?
  - a. to guarantee each civilian a minimum standard of living in wartime
  - b. to keep sellers from raising prices on necessary goods
  - c. because the English government had also decided on rationing
  - d. to earn more money to support the military
- \_\_\_\_ 8. Which of the following is a situation that makes the market behave inefficiently?
  - a. when consumers do not have enough information to make good choices
  - b. when producers have the power to find out exactly what to produce
  - c. when both consumers and producers are fully informed about a product
  - d. when the market is in perfect competition and prices are high
- \_\_\_\_ 9. What happens to a market in equilibrium when there is an increase in supply?
  - a. Excess supply means that producers will make less of the good.
  - b. Quantity demanded will exceed quantity supplied, so the price will drop.
  - c. Quantity supplied will exceed quantity demanded, so the price will drop.
  - d. Undersupply means that the good will become very expensive.

- \_\_\_ 10. What is it called when the government uses some tool other than money to allocate goods?
- supply management
  - rationing
  - disequilibrium
  - resource allocation
- \_\_\_ 11. What is the name of the smallest amount that can legally be paid to most workers for an hour of work?
- equilibrium price
  - supply cost
  - price floor
  - minimum wage
- \_\_\_ 12. The price ceiling that was used to control the price of housing in New York City and other cities was called which of the following?
- rent control
  - rent abatement
  - housing control
  - equilibrium price
- \_\_\_ 13. In response to rising car traffic, demand for bicycles has increased. The new equilibrium point will show
- more bicycles sold, but at a higher price.
  - fewer bicycles sold, but at a higher price.
  - more bicycles sold, but at a lower price.
  - fewer bicycles sold, but at a higher price.
- \_\_\_ 14. Which of these is most likely to lead directly to a black market?
- a supply shock
  - a price floor
  - rationing
  - equilibrium
- \_\_\_ 15. Rent control is a type of
- price ceiling.
  - price floor.
  - rationing.
  - surplus.
- \_\_\_ 16. Elena is looking for an apartment. Which of the following is an example of her search costs?
- Elena must pay the first and last months' rent before she can move into a new apartment.
  - Elena pays movers \$400 to help her transfer her belongings to the new apartment.
  - Elena misses two days of work at the supermarket to visit several different apartments available for rent.
  - Elena pays \$300 to stay at a hotel for four nights before the apartment is ready.
- \_\_\_ 17. A shortage will develop when
- the quantity supplied of a good is greater than the quantity demanded of that good.
  - the equilibrium quantity supplied is lower than the actual quantity supplied.
  - the government provides subsidies to producers.
  - the market price is below the equilibrium price.
- \_\_\_ 18. In a free market, prices lead to an efficient allocation of resources. In other words,
- consumers can buy unlimited amounts of any good they like at a price of their choice.
  - resources are used in the most valuable and productive way according to the needs of consumers and producers.
  - the government decides who controls natural resources.
  - people who own resources are unable to bargain with people who wish to buy resources.
- \_\_\_ 19. Why do fads often lead to shortages, at least in the short term?
- Buyers and sellers are unable to agree on a price for the good.
  - Laws prevent stores from responding to excess demand in time to prevent a shortage.
  - Manufacturers charge extremely high prices for the goods that stores are unwilling to pay.
  - Demand increases so quickly and unexpectedly that time is needed for the quantity supplied and price to increase to reach a new equilibrium point.
- \_\_\_ 20. Technological process has reduced the cost of manufacturing MP3 players. If demand is unchanged,
- more MP3 players will be sold at a higher price.
  - fewer MP3 players will be sold at a higher price.
  - more MP3 players will be sold at a lower price.
  - fewer MP3 players will be sold at a higher price.

Figure 6.2 Excess Demand and Excess Supply



- \_\_\_\_ 21. According to Figure 6.2, in this market, a price of \$1.00 would be
- the equilibrium price.
  - a price floor.
  - a price ceiling.
  - a subsidy.
- \_\_\_\_ 22. According to Figure 6.2, in this market, a price of \$1.50 would be
- the equilibrium price.
  - a price floor.
  - a price ceiling.
  - a subsidy.
- \_\_\_\_ 23. According to Figure 6.2, at the equilibrium price, how many slices of pizza will be sold?
- 150
  - 200
  - 250
  - 300
- \_\_\_\_ 24. If the government set a price of \$2.00 a slice, how many slices of pizza will be sold each day, according to Figure 6.2?
- none
  - 150
  - 200
  - 250
- \_\_\_\_ 25. The price of a slice of pizza is \$2.50. At the end of the day, how many unsold slices of pizza will be left, according to Figure 6.2?
- none
  - 50
  - 100
  - 200
- \_\_\_\_ 26. A new office building has opened and the demand for pizza has increased. The new demand curve states that consumers will buy 200 slices at \$2.50 each and 300 slices at \$1.50 each. Based on Figure 6.2, if the slope of the curve has not changed, what is the new equilibrium price and quantity supplied?
- \$1.00, 300 slices
  - \$1.50, 200 slices
  - \$2.00, 250 slices
  - \$2.00, 150 slices
- \_\_\_\_ 27. Based on Figure 6.2, what is a possible equilibrium point in this market after it has been affected by a supply shock?
- \$1.00, 100 slices
  - \$1.50, 100 slices
  - \$1.50, 200 slices
  - \$2.00, 150 slices

## Matching

### Identifying Key Terms

Match each term with the correct statement below.

- |                    |                   |
|--------------------|-------------------|
| a. supply shock    | f. disequilibrium |
| b. shortage        | g. minimum wage   |
| c. excess supply   | h. price floor    |
| d. spillover costs | i. price ceiling  |

e. search costs

j. rent control

- \_\_\_\_\_ 28. the smallest amount, by law, that can be paid to a worker for an hour of labor
- \_\_\_\_\_ 29. a maximum amount that can be legally charged for a good or service
- \_\_\_\_\_ 30. a sudden lack of goods
- \_\_\_\_\_ 31. when quantity supplied is more than quantity demanded
- \_\_\_\_\_ 32. situation in which quantity demanded is greater than quantity supplied
- \_\_\_\_\_ 33. a price ceiling placed on the amount people pay for housing
- \_\_\_\_\_ 34. the financial and opportunity costs consumers pay when looking for a good or service
- \_\_\_\_\_ 35. when quantity supplied and quantity demanded are not the same in a market

### ***Identifying Key Terms***

*Match each term with the correct statement below.*

- |                  |                    |
|------------------|--------------------|
| a. rationing     | f. disequilibrium  |
| b. price ceiling | g. search costs    |
| c. excess demand | h. supply shock    |
| d. surplus       | i. spillover costs |
| e. equilibrium   | j. price floor     |

- \_\_\_\_\_ 36. a sudden lack of availability of a good
- \_\_\_\_\_ 37. costs of production that affect people who have no control over how much of a good is produced
- \_\_\_\_\_ 38. when quantity demanded is more than quantity supplied
- \_\_\_\_\_ 39. situation in which quantity supplied is greater than quantity demanded
- \_\_\_\_\_ 40. a minimum price for a good or service
- \_\_\_\_\_ 41. a system of allocating scarce goods and services using some criteria other than price
- \_\_\_\_\_ 42. the point at which quantity supplied and quantity demanded are the same
- \_\_\_\_\_ 43. the financial and opportunity costs consumers pay when looking for a good or service

## **Short Answer**

### **Reading a Chart**

Combined Supply and Demand Schedule		
Price of a slice of pizza	Quantity demanded	Quantity supplied
\$.50	300	100
\$1.00	250	150
\$1.50	200	200
\$2.00	150	250
\$2.50	100	300
\$3.00	50	350

**Figure 6.1**

44. In Figure 6.1, when the price of a slice of pizza is \$2.50, how many slices are sold?
45. In Figure 6.1, what is the equilibrium price?
46. In Figure 6.1, when the price of a slice of pizza is \$.50, what happens to the market?
47. In Figure 6.1, when the price of a slice of pizza is \$3.00, how many slices are sold?

## Essay

### Critical Thinking

48. **Recognizing Ideologies** Other than rent control, what could a town or city do to help people who cannot afford rents at the market equilibrium to find a place to live?
49. **Drawing Inferences** What are the advantages and disadvantages of the minimum wage for workers?
50. **Identifying Central Issues** What are the major advantages of a distribution system based on price?
51. **Making Comparisons** How does rent control work to help some people and hurt others?
52. **Drawing Inferences** Give an example of a spillover cost of the production of large, expensive houses.
53. **Analyzing Information** How does the flexibility of prices overcome the fact that some goods do not have flexible production levels?