e. ______________________________

f. ______________________________

16. If quantity demanded is greater than quantity supplied, price is (above, below) ______________ the equilibrium price; and the (shortage, surplus) ______________ will cause the price to (rise, fall) ______________. If quantity demanded is less than the quantity supplied, price is (above, below) ______________ the equilibrium price, and the (shortage, surplus) ______________ will cause the price to (rise, fall) ______________.

17. The equilibrium price of a product is the price at which quantity demanded is (greater than, equal to) ______________ quantity supplied, and there (is, is not) ______________ a surplus or a shortage at that price.

18. In the space next to **a–h,** indicate the effect [*increase* (+), *decrease* (−), or *indeterminate* (?)] on equilibrium price (***P***) and equilibrium quantity (***Q***) of each of these changes in demand and/or supply.

| | ***P*** | ***Q*** |
|---|---|---|
| **a.** Increase in demand, supply constant | ____ | ____ |
| **b.** Increase in supply, demand constant | ____ | ____ |
| **c.** Decrease in demand, supply constant | ____ | ____ |
| **d.** Decrease in supply, demand constant | ____ | ____ |
| **e.** Increase in demand, increase in supply | ____ | ____ |
| **f.** Increase in demand, decrease in supply | ____ | ____ |
| **g.** Decrease in demand, decrease in supply | ____ | ____ |
| **h.** Decrease in demand, increase in supply | ____ | ____ |

19. If supply and demand establish a price for a good so that there is no shortage or surplus of the product, then price is successfully performing its (utility, rationing) ______________ function. The price that is set is a market-(changing, clearing) ______________ price.

20. To assume that all the determinants of demand and supply do not change is to employ the (marginal utility, other-things-equal) ______________ assumption.

## ■ TRUE–FALSE QUESTIONS

*Circle T if the statement is true, F if it is false.*

**1.** A market is any arrangement that brings together the buyers and sellers of a particular good or service. **T F**

**2.** Demand is the amount of a good or service that a buyer will purchase at a particular price. **T F**

**3.** The law of demand states that as price increases, other things being equal, the quantity of the product demanded increases. **T F**

**4.** The law of diminishing marginal utility is one explanation of why there is an inverse relationship between price and quantity demanded. **T F**

**5.** The substitution effect suggests that, at a lower price, you have the incentive to substitute the more expensive product for similar products which are relatively less expensive. **T F**

**6.** There is no difference between individual demand schedules and the market demand schedule for a product. **T F**

**7.** In graphing supply and demand schedules, supply is put on the horizontal axis and demand on the vertical axis. **T F**

**8.** If price falls, there will be an increase in demand. **T F**

**9.** If consumer tastes or preferences for a product decrease, the demand for the product will tend to decrease. **T F**

**10.** An increase in income will tend to increase the demand for a product. **T F**

**11.** When two products are substitute goods, the price of one and the demand for the other will tend to move in the same direction. **T F**

**12.** If two goods are complementary, an increase in the price of one will tend to increase the demand for the other. **T F**

**13.** A change in the quantity demanded means that there has been a change in demand. **T F**

**14.** Supply is a schedule that shows the amounts of a product a producer can make in a limited time period. **T F**

**15.** An increase in resource prices will tend to decrease supply. **T F**

**16.** A government subsidy for the production of a product will tend to decrease supply. **T F**

**17.** An increase in the prices of other goods that could be made by producers will tend to decrease the supply of the current good that the producer is making. **T F**

**18.** A change in supply means that there is a movement along an existing supply curve. **T F**

**19.** A surplus indicates that the quantity demanded is less than the quantity supplied at that price. **T F**

**20.** If the market price of a product is below its equilibrium price, the market price will tend to rise because demand will decrease and supply will increase. **T F**

21. The equilibrium price of a good is the price at which the demand and the supply of the good are equal. **T F**

22. The rationing function of prices is the elimination of shortages and surpluses. **T F**

23. If the supply of a product increases and demand decreases, the equilibrium price and quantity will increase. **T F**

24. If the demand for a product increases and the supply of the product decreases, the equilibrium price will increase and equilibrium quantity will be indeterminant. **T F**

25. Economists often make the assumption of other things equal to hold constant the effects of other factors when examining the relationship between prices and quantities demanded and supplied. **T F**

## ■ MULTIPLE-CHOICE QUESTIONS

*Circle the letter that corresponds to the best answer.*

**1.** The markets examined in this chapter
**(a)** sell nonstandard or differentiated products
**(b)** have buyers cooperating to determine prices
**(c)** are controlled by a single producer
**(d)** are highly competitive

**2.** A schedule that shows the various amounts of a product consumers are willing and able to purchase at each price in a series of possible prices during a specified period of time is called
**(a)** supply
**(b)** demand
**(c)** quantity supplied
**(d)** quantity demanded

**3.** The reason for the law of demand can best be explained in terms of
**(a)** supply
**(b)** complementary goods
**(c)** the rationing function of prices
**(d)** diminishing marginal utility

**4.** Assume that the price of video game players falls. What will most likely happen to the equilibrium price and quantity of video games, assuming this market is competitive?
**(a)** Price will increase; quantity will decrease.
**(b)** Price will decrease; quantity will increase.
**(c)** Price will decrease; quantity will decrease.
**(d)** Price will increase; quantity will increase.

**5.** Given the following individuals' demand schedules for product X, and assuming these are the only three consumers of X, which set of prices and output levels below will be on the market demand curve for this product?

| Price X | Consumer 1 $Q_{dx}$ | Consumer 2 $Q_{dx}$ | Consumer 3 $Q_{dx}$ |
|---|---|---|---|
| $5 | 1 | 2 | 0 |
| 4 | 2 | 4 | 0 |
| 3 | 3 | 6 | 1 |
| 2 | 4 | 8 | 2 |
| 1 | 5 | 10 | 3 |

**(a)** ($5, 2); ($1, 10)
**(b)** ($5, 3); ($1, 18)
**(c)** ($4, 6); ($2, 12)
**(d)** ($4, 0); ($1, 3)

**6.** Which factor will decrease the demand for a product?
**(a)** a favorable change in consumer tastes
**(b)** an increase in the price of a substitute good
**(c)** a decrease in the price of a complementary good
**(d)** a decrease in the number of buyers

**7.** The income of a consumer decreases and the consumer's demand for a particular good increases. It can be concluded that the good is
**(a)** normal
**(b)** inferior
**(c)** a substitute
**(d)** a complement

**8.** Which of the following could cause a decrease in consumer demand for product X?
**(a)** a decrease in consumer income
**(b)** an increase in the prices of goods that are good substitutes for product X
**(c)** an increase in the price that consumers expect will prevail for product X in the future
**(d)** a decrease in the supply of product X

**9.** If two goods are substitutes for each other, an increase in the price of one will necessarily
**(a)** decrease the demand for the other
**(b)** increase the demand for the other
**(c)** decrease the quantity demanded of the other
**(d)** increase the quantity demanded of the other

**10.** If two products, A and B, are complements, then
**(a)** an increase in the price of A will decrease the demand for B
**(b)** an increase in the price of A will increase the demand for B
**(c)** an increase in the price of A will have no significant effect on the price of B
**(d)** a decrease in the price of A will decrease the demand for B

**11.** If two products, X and Y, are independent goods, then
**(a)** an increase in the price of X will significantly increase the demand for Y
**(b)** an increase in the price of Y will significantly increase the demand for X
**(c)** an increase in the price of Y will have no significant effect on the demand for X
**(d)** a decrease in the price of X will significantly increase the demand for Y