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Chapter 02

Economic Systems, Resource Allocation, and Social Well-Being

Multiple Choice Questions

1. Which of the following descriptions fits the American economy best?

   A. A pure market economy
   B. A mixed economy
   C. Purely competitive economy
   D. A command economy
   E. A monopoly economy

2. In a market economy,

   A. resources are allocated by the private parties who own the resources.
   B. resources are allocated by the various local, state, and federal planning committees and zoning commissions.
   C. shortages never exist.
   D. surpluses never exist.
   E. both c) and d).

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3. In 1978, the Chinese economy

A. opened ties to the noncommunist world.
B. became a strictly centralized economy under Joseph Stalin.
C. became communist under Mao Zedong.
D. moved to the island of Taiwan.
E. became a purely market-oriented economy.

4. In both the U.S. and Canada, most, but not all, of economic resources are owned and controlled by private parties who make decisions as to how to use those resources with somewhat limited interference from government. As such, these economies are examples of

A. the pure command economy.
B. mixed economies, though closer to the market end of the spectrum.
C. mixed economies, though closer to the command end of the spectrum.
D. the pure market economy.
E. the communist economy.

5. In the market economy, markets serve the function of

A. coordinating resource use decisions made by individual owners of resources.
B. bringing about resource allocation changes desired by resource owners.
C. determining prices.
D. all of the above.
E. both (a) and (b).

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6. Which of the following is least consistent with the pure market economy?

A. An established legal system that arbitrates contract disputes
B. An individual accepting a job for $1 per hour
C. The institution of private property rights
D. The existence of a minimum wage
E. Private property rights

7. Which of the following is not a characteristic of a purely competitive market?

A. Enough sellers and buyers so that no one of them acting alone can influence the price of this product
B. The ability of a single seller to block potential competitors out of the market
C. Freedom of the price to move up or down, that is, no price fixing
D. Mobility of buyers and sellers
E. A standardized product

8. In a command economy, prices

A. determine how much of the good is produced.
B. do not determine production levels.
C. are set by the interaction of demand and supply.
D. are always low.
E. are determined by monopolies.

9. A market with only one seller of a product that has no good substitutes is called

A. a pure monopoly.
B. a pure command economy.
C. purely competitive.
D. imperfectly competitive.
E. an oligopoly.

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10. Which of the following is true of monopoly firms? They

A. can manipulate the price of their product.
B. beat their competitors' prices.
C. must constantly deal with the entry of new firms.
D. never receive government help blocking entry into the market.
E. do all of the above.

11. Markets that fall between pure competition and monopoly are called:

A. anti-competitive.
B. imperfectly competitive.
C. command markets.
D. tweener markets.
E. monopsonistic.

12. In a monopoly market, firms

A. always make little or no profit.
B. can enter easily.
C. are blocked from entry.
D. must answer to the demands of government.
E. frequently exit the market due to low demand.

13. If a consumer always eats cheese with macaroni, then for that consumer macaroni and cheese are examples of:

A. substitutes.
B. complements.
C. normal goods.
D. inferior goods.
E. standardized products.

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14. If an increase in the price of cookies leads to a decrease in the demand for ice cream, then ice cream and cookies must be

A. substitutes.
B. complements.
C. normal goods.
D. inferior goods.
E. standardized products.

15. If an increase in the price of bicycles leads to an increase in the demand for bus transportation, the bicycles and bus rides must be

A. substitutes.
B. complements.
C. normal goods.
D. inferior goods.
E. standardized products.

16. If the price of digital cameras drops sharply, the demand for memory sticks

A. is likely to decline.
B. is unaffected by the events in the digital camera market.
C. falls due to a drop in the supply.
D. increases, resulting in higher prices for memory sticks.
E. causes camera manufacturers to advertise more.

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17. A student graduates from college and gets a high-paying job. As a result of the increase in income, the student buys more frozen pizzas. For the student, frozen pizzas must be a(n)

A. substitute.
B. complement.
C. normal good.
D. inferior good.
E. standardized product.

18. You receive a big raise at work. As a result of your now higher income, you stop bringing your lunch from home and start eating lunch at a nearby restaurant. Your homemade lunches must be

A. a substitute.
B. a complement.
C. normal goods.
D. inferior goods.
E. standardized products.

19. The Law of Demand states that price and

A. demand are positively related.
B. quantity demanded are positively related.
C. demand are negatively related.
D. quantity demanded are negatively related.
E. none of the above.

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20. The Law of Supply states that price and

A. supply are positively related.
B. quantity supplied are positively related.
C. supply are negatively related.
D. quantity supplied are negatively related.
E. quantity demanded are negatively related.

21. An increase in the price of a good will cause which of the following?

A. Quantity demanded to demand to rise
B. Demand to fall
C. Quantity supplied to fall
D. Supply to rise
E. None of the above

22. Which of the following will cause demand to rise?

A. A decrease in price
B. A decrease in the price of a substitute good
C. A decrease in the price of a complementary good
D. An increase in supply
E. An increase in the cost of production

23. Given a downward-sloping demand curve and an upward-sloping supply curve, an increase in supply together with an increase in demand will cause the

A. equilibrium quantity purchased to increase, but the effect on price will be indeterminate.
B. equilibrium quantity purchased to decrease, but the effect on price will be indeterminate.
C. price to rise, but the effect on the equilibrium quantity purchased will be indeterminate.
D. price to fall, but the effect on the quantity bought and sold will be indeterminate.
E. equilibrium price to rise and the equilibrium quantity purchased will rise.

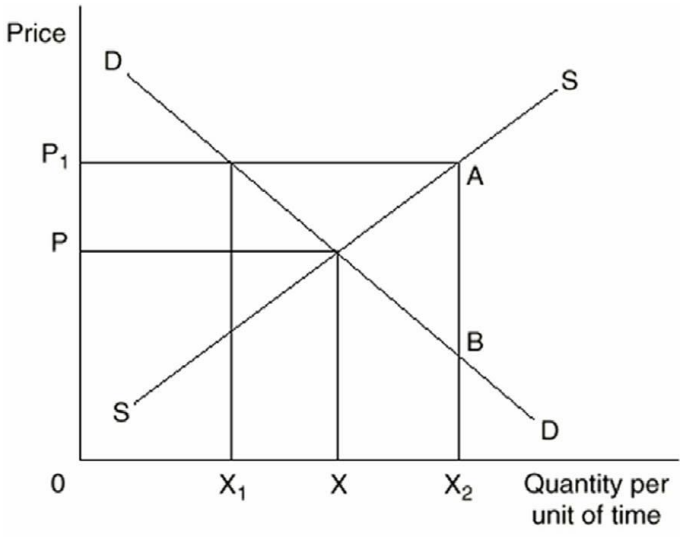
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24. A situation in which the demand for a product is decreasing while the price is simultaneously increasing can be explained by

A. a decrease in supply.
B. an increase in supply.
C. unchanged supply.
D. all of the above.
E. none of the above.

25. Refer to the graph below:



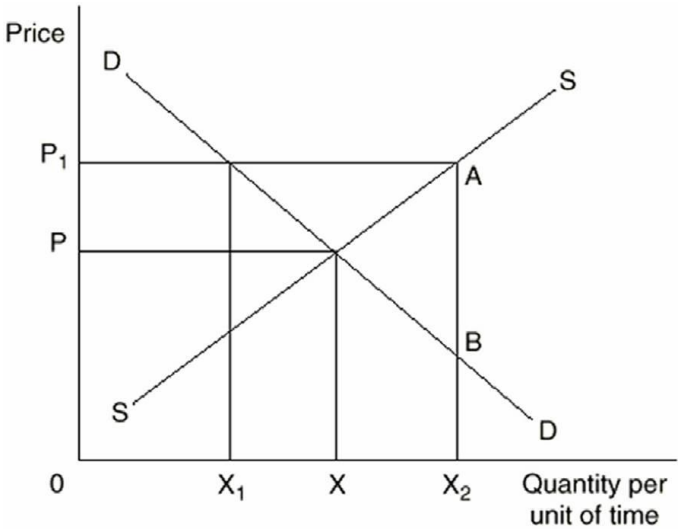
At price P_1 there is a

A. surplus of X_1X_2.
B. shortage of X_1X_2.
C. surplus of XX_2.
D. surplus of AB.
E. shortage of X_1X.

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26. Refer to the graph below:



At a price of P1, what quantity will be sold in the market?

A. 0

B. X

C. X_1

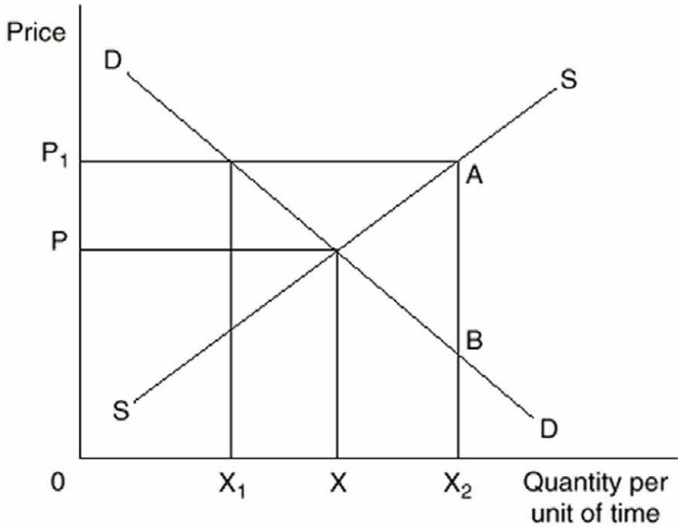
D. X_2

E. X_1X_2

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27. Refer to the graph below:



If the market is in equilibrium, the price and quantity will be

A. P_1 and X_1.

B. P and X_1.

C. P_1 and X.

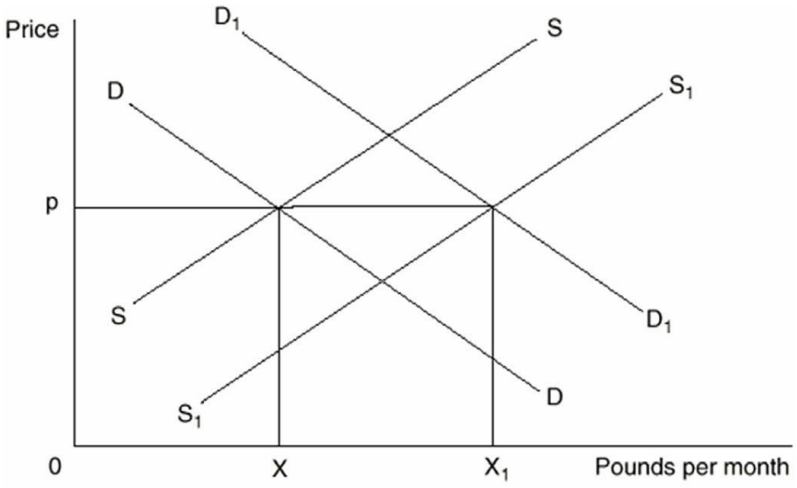
D. P and X.

E. P and X_2.

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28. Refer to the graph below:



The demand curve and supply curve for beef are DD and SS. The demand curve shifts to D_1D_1 and a price ceiling is placed on beef at price p. The result will be

A. a surplus equal to X_1X.

B. a shift in the supply curve to S_1S_1.

C. an increase in the quantity placed on the market to X_1.

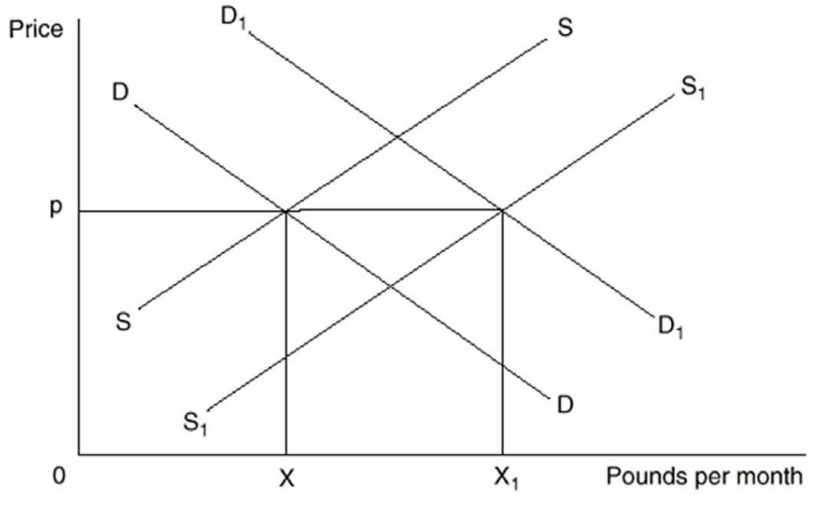
D. both (b) and (c) above.

E. a shortage equal to X_1X.

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29. Refer to the graph below:



The demand curve and supply curve for beef are DD and SS. Which of the following could NOT cause demand to shift to D_1D_1?

A. An increase in the price of a substitute good

B. An increase in the price of a complementary good

C. An increase in consumer income

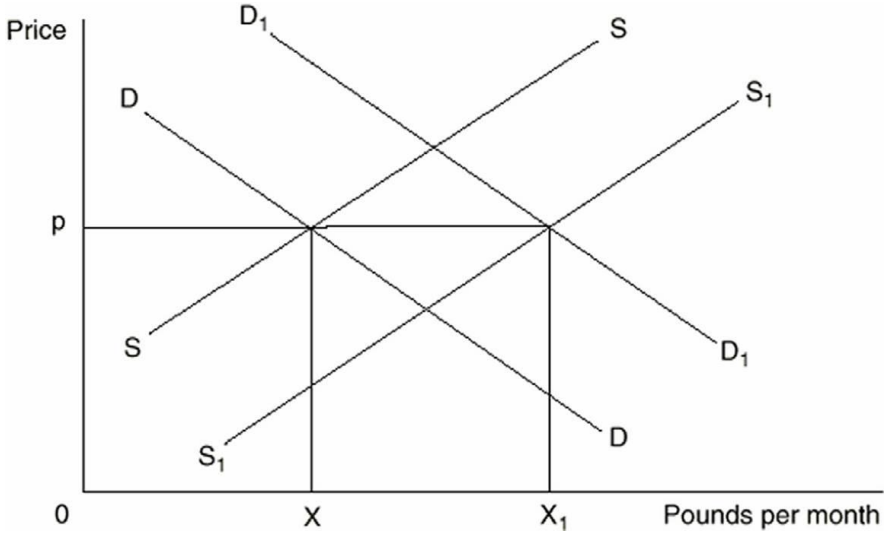
D. A change in consumer tastes

E. A change in consumer expectations

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30. Refer to the graph below:



The demand curve and supply curve for beef are DD and SS. Which of the following could cause supply to shift to S_1S_1?

A. An increase in the cost of production

B. A decrease in the cost of production

C. An increase in the price of a substitute in production

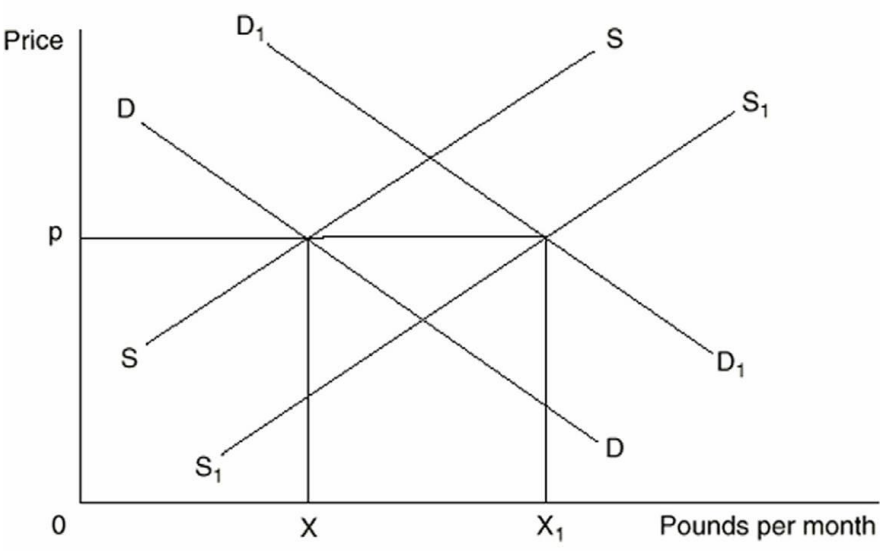
D. An increase in income

E. All of the above

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31. Refer to the graph below:



Which of the following statements is incorrect?

A. If supply decreases and demand remains constant, equilibrium price will rise

B. If demand decreases and supply increases, equilibrium price will rise

C. If supply increases and demand decreases, equilibrium price will fall

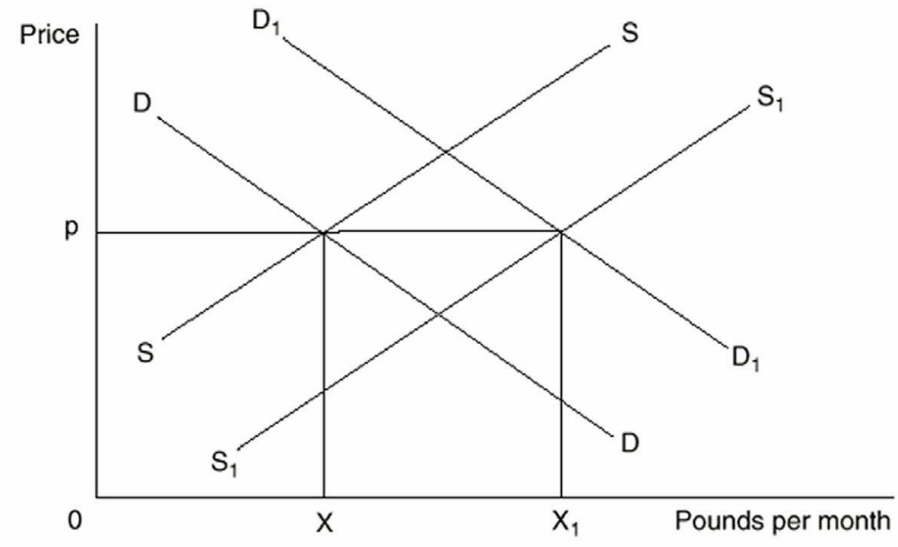
D. If demand increases and supply decreases, equilibrium price will rise

E. If supply is constant and demand increases, price will rise

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32. Refer to the graph below:



If demand and supply shift to D_1D_1 and S_1S_1, market price will be

A. p.

B. above p.

C. below p.

D. indeterminate.

E. the price that goes with the quantity X.

33. Which of the following will cause a change in the demand for beer?

A. A change in the average income in the economy

B. A change in the price of hops (used to make beer)

C. A change in the price of beer

D. All of the above

E. None of the above

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34. The Law of Demand suggests that

A. higher prices automatically result in higher profits.
B. demand determines supply.
C. the lower the price of a product, the more consumers will wish to purchase, other things equal.
D. without laws, markets would not reach equilibrium.
E. both (a) and (c).

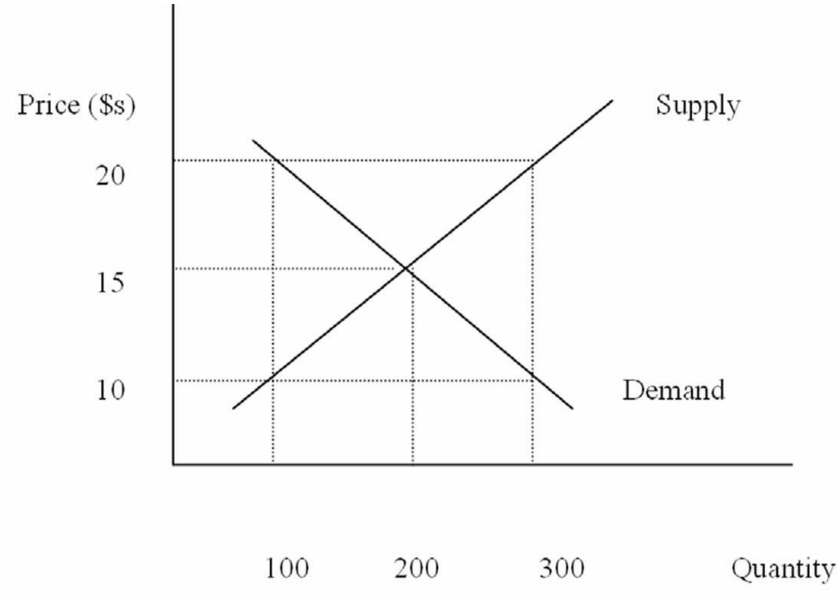
35. A change in the quantity supplied of a good may be caused by

A. a change in technology.
B. a change in the number of firms selling the good.
C. a change in the price of the good.
D. a change in the demand for the good.
E. either (c) or (d).

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36. Refer to the graph below:



Equilibrium price and quantity are

A. 20 and 100.

B. 20 and 200.

C. 15 and 300.

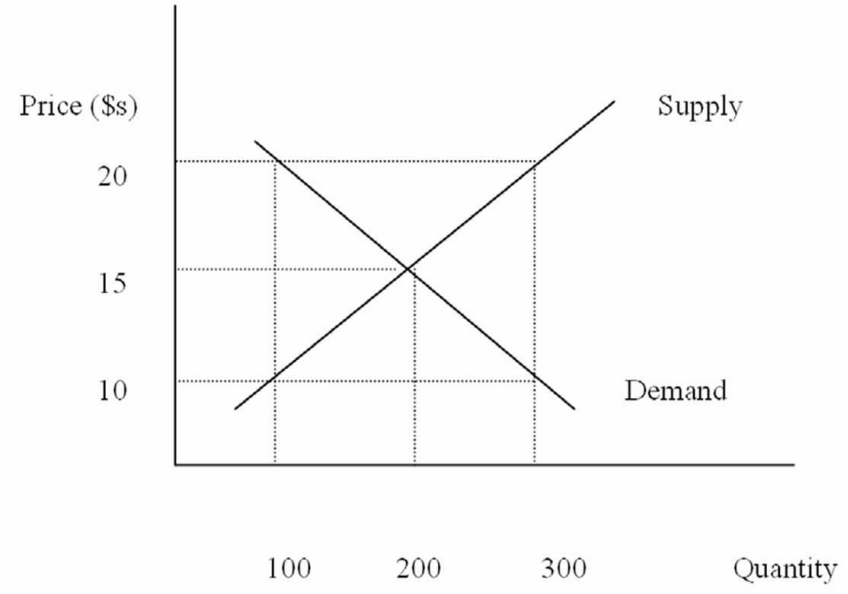
D. 15 and 200.

E. 10 and 200.

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37. Refer to the graph below:



A price of $10 will lead to a

A. shortage of 200.

B. surplus of 200.

C. shortage of 100.

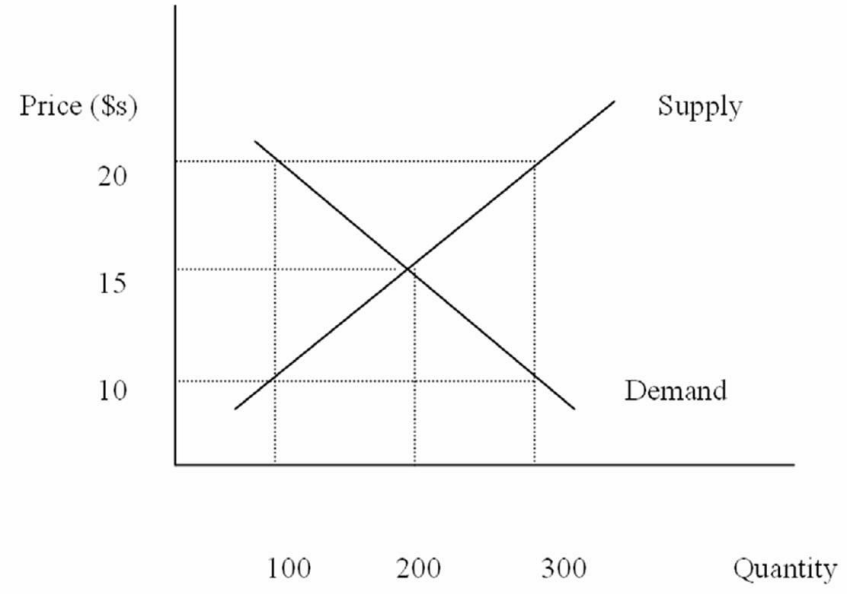
D. surplus of 100.

E. surplus of 300.

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38. Refer to the graph below:



A price of $20 will lead to a

A. shortage of 200.

B. surplus of 200.

C. shortage of 100.

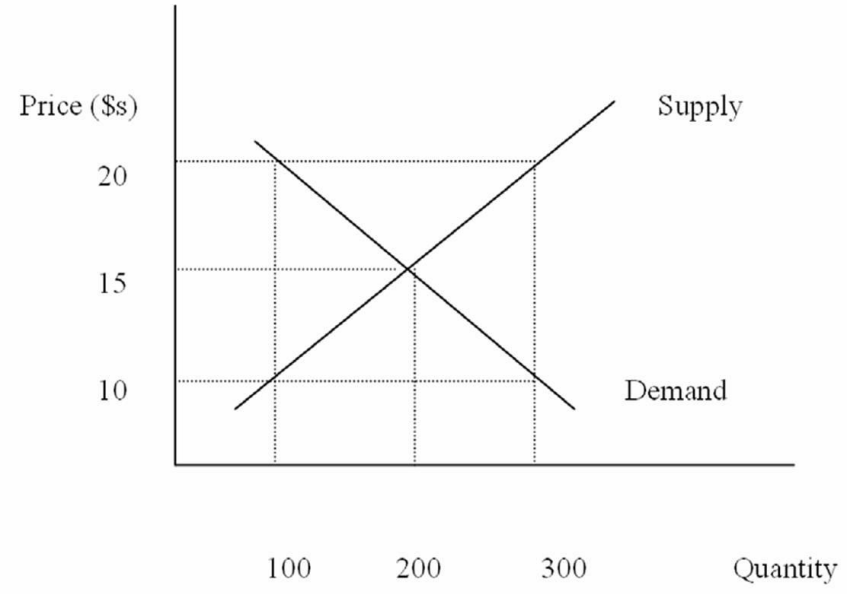
D. surplus of 100.

E. surplus of 300.

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39. Refer to the graph below:



When price is $10, how much will be sold in the market?

A. 0

B. 100

C. 200

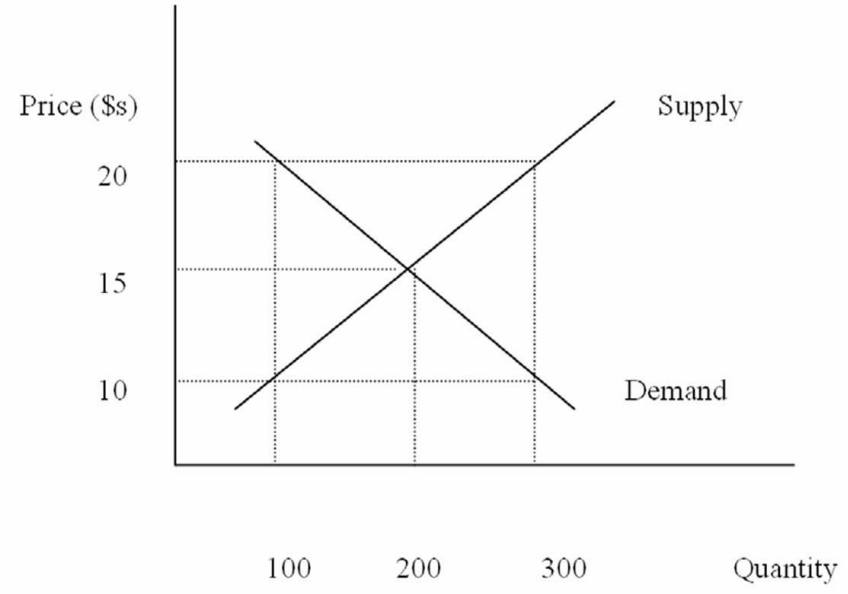
D. 300

E. It can not be determined

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40. Refer to the graph below:



Which of the following could lead to a price of $20 in the market?

A. An increase in supply

B. A decrease in supply

C. A decrease in demand

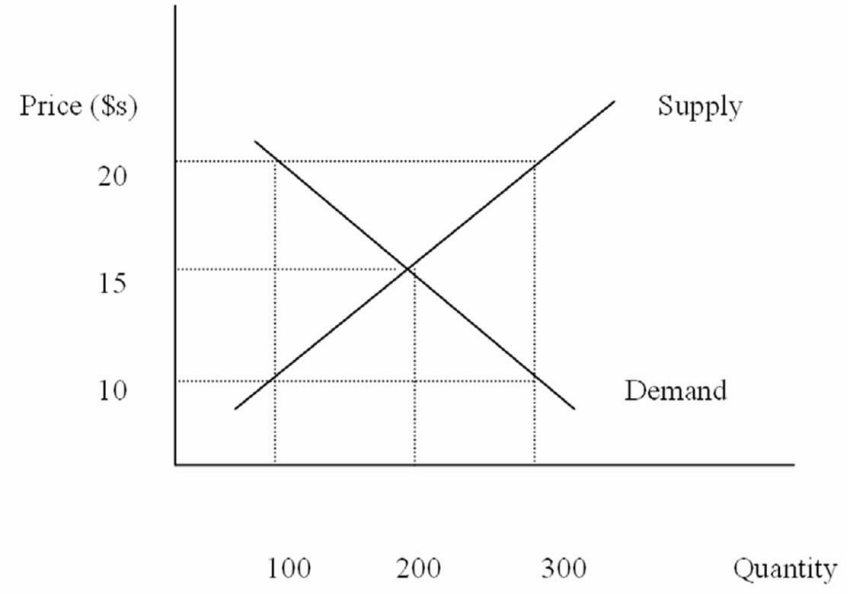
D. A decrease in both supply and demand

E. An increase in both supply and demand

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41. Refer to the graph below:



If the price is $10 in the market, consumers

A. will choose to buy 200 units.

B. will always be able to purchase the good.

C. will note that there is a surplus of the good in the market.

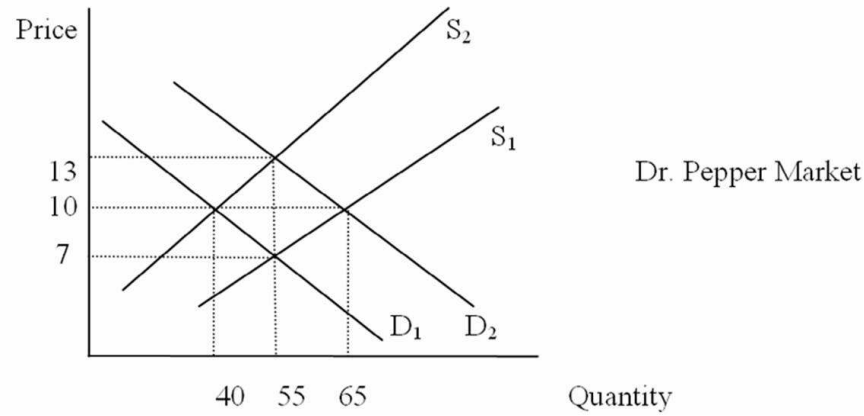
D. will offer sellers a lower price for the good.

E. will not all be able to buy the good at this price.

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42. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, price and quantity are

A. 13 and 55.

B. 10 and 40.

C. 10 and 65.

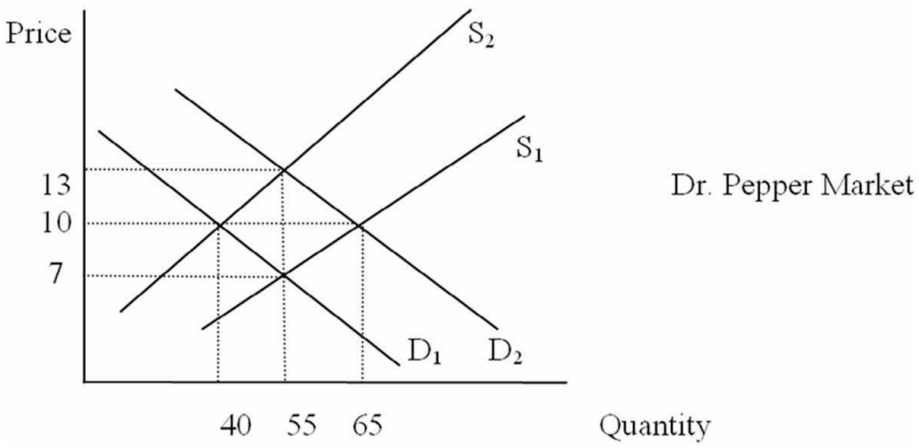
D. 7 and 55.

E. 10 and 55.

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43. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and the price of Pepsi increases, the new equilibrium price and quantity are

A. 13 and 55.

B. 10 and 40.

C. 10 and 65.

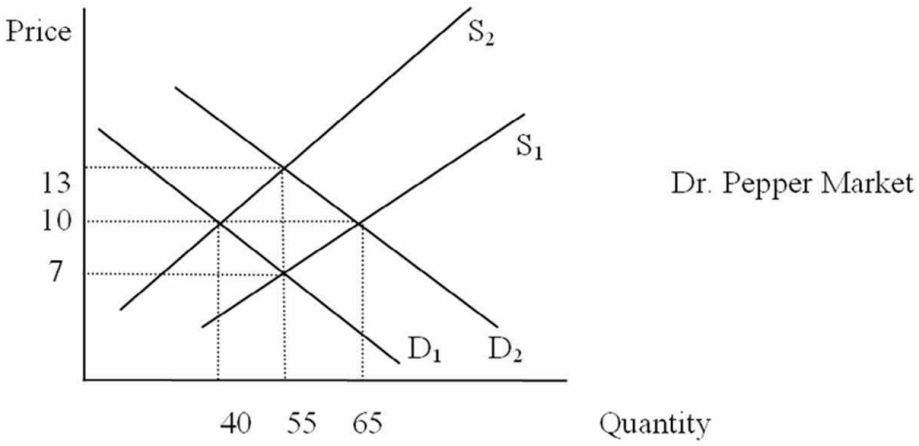
D. 7 and 55.

E. 10 and 55.

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44. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and the price of carbonated water (the main ingredient in Dr. Pepper) increases, the new equilibrium price and quantity are

A. 13 and 55.

B. 10 and 40.

C. 10 and 65.

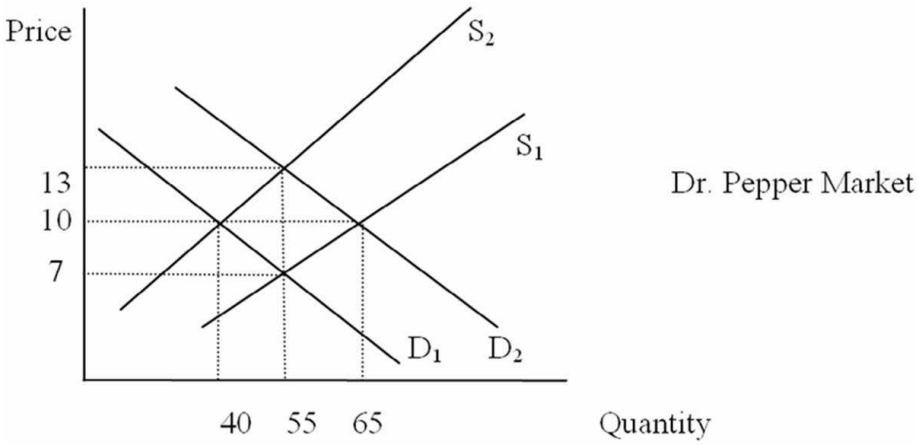
D. 7 and 55.

E. 10 and 55.

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45. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and more consumers develop a preference for Dr. Pepper, the new equilibrium price and quantity are

A. 13 and 55.

B. 10 and 40.

C. 10 and 65.

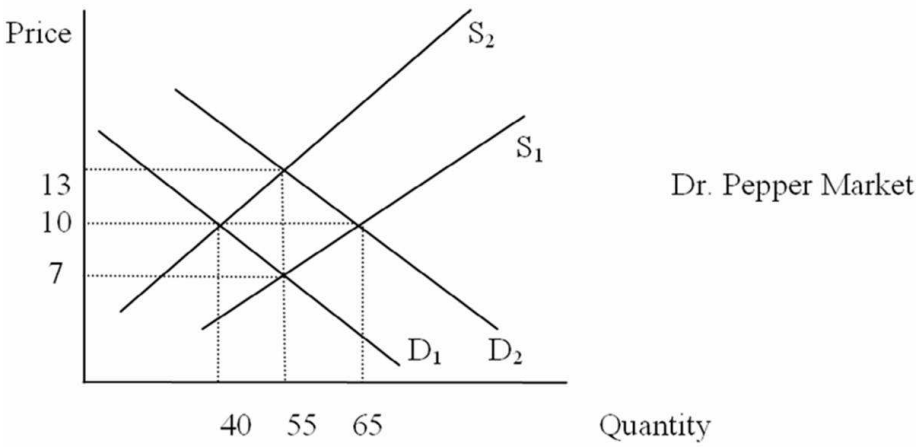
D. 7 and 55.

E. 10 and 55.

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46. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and equilibrium price and quantity increase to $10 and 65, which of the following could have caused the change?

A. An increase in consumer income
B. An increase in production costs
C. The discovery that Dr. Pepper causes health problems
D. A technological advance in Dr. Pepper production
E. All of the above

47. Which of the following is NOT one of the "other things equal" underlying the demand curve?

A. Prices of resources
B. Purchasing power of buyers
C. Buyers' tastes and preferences
D. Numbers of buyers
E. Buyers' expectations

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48. A change in the quantity demanded

A. results whenever one of the "other things equal" underlying the demand curve changes.
B. results when the price of the product increases or decreases.
C. means a shift in the position of the demand curve.
D. means movement along a given demand curve.
E. is both (b) and (d).

49. Suppose that all workers receive a wage reduction. What would the impact on the market for autos be?

A. The supply of autos would decrease
B. The demand for autos would increase
C. The supply of autos would increase and the demand for autos would fall
D. Both a) and b)
E. It can not be determined

50. There is an increase in the quantity of pizza purchased but no change in the price of pizza. Which of the following is most likely to have occurred?

A. Supply increased while demand remained unchanged
B. Both supply and demand increased
C. Supply increased while the quantity demanded increased
D. Demand increased while supply remained unchanged
E. Both supply and demand decreased

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51. Two goods are said to be substitutes in consumption if

A. an increase in the price of one leads to a fall in the demand for the other.
B. an increase in the price of one leads to an increase in the demand for the other.
C. an increase in the price of one leads to an increase in the supply of the other.
D. a fall in the price of one leads to an increase in the demand for the other.
E. a decrease in the price of one leads to a decrease in the supply of the other.

52. Assume lettuce and salad dressing are complements in consumption. An increase in the price of lettuce will

A. lead to a fall in the demand for salad dressing.
B. lead to a fall in the quantity demanded of salad dressing.
C. have no impact on the demand for salad dressing.
D. lead to a fall in the supply of salad dressing.
E. lead to a rise in the supply of salad dressing.

53. Which of the following is true for inferior goods?

A. The law of demand does not hold
B. They are of low quality
C. The demand for them falls as consumer income rises
D. All of the above
E. None of the above

54. An increase in the wages of orange pickers will have what effect in the market for oranges?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

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55. An increase in consumer income will have what effect on the equilibrium price and quantity of hot dogs?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

56. An increase in the price of cars will have what effect on the equilibrium price and quantity of gasoline?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

57. A technological advance in the production of computers will have what effect on the equilibrium price and quantity in the computer market?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

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58. A publicized report that finds orange juice prevents certain diseases will have what effect on the equilibrium price and quantity of orange juice?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

59. As the baby boom generation continues to age, what will happen to the equilibrium price and quantity of homes in retirement communities?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

60. If consumers expect an increase in the price of coffee next month, what will happen to the equilibrium price and quantity of coffee this month?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

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61. The entry of new firms into a market, all other things equal, will have what effect on equilibrium price and quantity?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

62. An increase in the price of flashlights will have what effect on the equilibrium price and quantity of batteries?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

63. If the price of film increases at the same time the cost of camera production increases, what will happen to the equilibrium price and quantity in the camera market?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

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64. If there is a technological advance in the production of paper at the same time consumer income increases (assume paper is a normal good), what will happen in the market for paper?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

65. Suppose the United Auto Workers union successfully lobbies Congress to enact an import quota on all foreign cars imported into the U.S. Which of the following is most likely to occur in the U.S.?

A. A fall in the price of imported cars and increase in the price of domestics
B. An increase in the demand for domestic cars
C. A decrease in American autoworker wages
D. Higher unemployment among American autoworkers
E. A fall in the demand for imports

66. As consumer incomes rise, the demand curve for Good X shifts to the right. Given this, Good X must be

A. produced by a competitive firm.
B. a high quality product.
C. a substitute good.
D. a normal good.
E. an inferior good.

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67. From a standpoint of resource allocation, a surplus of corn implies

A. consumers would prefer some of the resources used to produce corn be used to produce something else.
B. the market for agricultural products is failing.
C. government should purchase the surplus to protect the farmers.
D. the price of corn is too low and should be increased.
E. the quantity demanded of corn exceeds the quantity supplied.

68. Since 1990, China's growth has been

A. roughly equal to that of the United States.
B. declining.
C. in the double digits.
D. about 3% per year.
E. none of the above.

69. China's growth has been a result of

A. increased domestic demand.
B. rapidly increasing inflation.
C. investment in other economies.
D. trade deficits.
E. trade surpluses.

70. Since 1990, foreign investment in China has

A. Increased slightly.
B. Increased significantly.
C. Been unchanged.
D. Decreased slightly.
E. Decreased significantly.

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71. China can be best described as a

A. market economy.
B. mixed economy.
C. transitional economy.
D. competitive economy.
E. monopoly economy.

72. After establishing the Republic of China in 1949, Mao's Communist Party patterned the Chinese economy after

A. Japan.
B. Taiwan.
C. The USSR.
D. The United States.
E. Europe.

73. Following the establishment of a Soviet style society in 1949, the State Planning Commission was created by

A. Chiang Kai-Shek.
B. Deng Xiaoping.
C. Mao Zedong.
D. Joseph Stalin.
E. Wen Jiabao.

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74. The State Planning Commission in China has the task of

A. determining what goods and services should be produced.
B. determining what quantities of goods and services are produced.
C. determining the allocation of resources used in the production of goods and services.
D. how the goods and services are to be distributed.
E. performing all of the tasks listed above.

75. The economy of the People's Republic of China operated as a command economy

A. from 1917 until 1949.
B. from 1949 until 1978.
C. since 1990.
D. from 1949 until 1962.
E. which started China's transition to a market economy.

76. China's transition to a market-oriented economy

A. was completed by around 2004.
B. was abandoned in 2010 and the country has returned to command economy.
C. has resulted in relatively low rates of economic growth.
D. did not lead to any problems with inflation or unemployment.
E. did not lead to any problems with corruption.

77. Which of the following was NOT a problem for China's centralized economy?

A. Informational requirements
B. Incentives for efficiency
C. The emphasis on heavy machinery production
D. Low quality products
E. None of the above (they were all problems)

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78. In a market economy, a shortage of wheat will cause the

A. price of bread to rise.
B. price of bread to fall.
C. price of wheat to fall.
D. supply of bread to increase.
E. supply of wheat to fall.

79. If the demand curve for bran muffins has shifted out due to a medical study that indicates that regular consumption of bran lowers cholesterol, then we can conclude that there has been

A. a response to the increase demand for a complementary good.
B. a change in consumer tastes.
C. a reduction in the production costs of bran.
D. an increase in consumer expectations.
E. an improvement in the economy, resulting in higher incomes.

80. Consumer purchases of hybrid cars have risen sharply in recent years. One important factor in this increased demand for these vehicles is

A. it's cool to be "green" and drive a hybrid.
B. decreasing prices of a complementary good.
C. change in expectations based upon the belief that energy prices will rise in the future.
D. reduced availability of a substitute.
E. government fuel mandates.

True / False Questions

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81. Mao Zedong started China's transition to a market economy.

True False

82. Private ownership of an economy's resources is a defining feature of the pure market economy.

True False

83. The institution of private property rights is an essential feature of the market economy.

True False

84. The U.S. is best described as a pure market economy.

True False

85. In the pure command economy, most resource use decisions are made by government.

True False

86. In a market economy, price fluctuations indicate there is a lack of effective competition.

True False

87. For a market to be considered purely competitive, new rivals must be free to enter if they feel they can effectively compete.

True False

88. Blocked entry is essential for a purely competitive market.

True False

89. Entry is blocked in monopoly markets.

True False

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90. In response to an increase in the price of beer, Bob reduces his consumption from 3 to 2 beers per day. This reflects a reduction in Bob's demand for beer.

True False

91. Surpluses tend to drive competitive prices downward toward equilibrium, and shortages tend to drive competitive prices upward toward equilibrium.

True False

92. When the entire demand curve shifts out to the right, we say there has been an increase in demand.

True False

93. A change in supply occurs when one of the other things equal changes and is represented as movement along the supply curve.

True False

94. A change in the price of automobiles will cause a change in the demand for automobiles.

True False

95. Demand is the quantity of a product per time period that buyers will buy at the prevailing price, other things equal.

True False

96. The Law of Demand states that consumers will buy less at lower prices, but only if a number of other things are held constant.

True False

97. The Law of Supply states that sellers will sell more at high prices than at low prices.

True False

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98. When an economist says that the demand for a product has increased, this means that consumers are now willing to purchase more of the product at each alternative price.

True False

99. An increase in the price of a good will decrease demand for the good.

True False

100. An increase in the supply of a good will increase demand for the good.

True False

101. An increase in consumer income can either increase or decrease demand for a good.

True False

102. During December each year, the number of Christmas trees sold increases, as does the price of the trees. This clearly violates the Law of Demand.

True False

103. An increase in the demand for gasoline accompanied by a decrease in the supply of gasoline will cause the price to rise, but may cause the quantity purchased to increase, decrease, or remain the same.

True False

104. Fluctuating prices tend to confuse consumers, so prices should be government controlled whenever possible.

True False

105. An increase in the price of gas will cause an increase in the supply of gas since it will be more profitable to sell.

True False

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106. The demand curve for an inferior good is upward sloping, like a typical supply curve.

True False

107. When there is an increase in both supply and demand, it is impossible to determine what happens to the equilibrium price unless the magnitudes of the supply and demand changes are known.

True False

108. During the 1992 presidential campaign, Ross Perot recommended a 50-cents-per-gallon increase in the tax on gasoline. Such an increase would have little or no effect on the quantity of gas sold since we have few options to driving.

True False

109. If you buy more of a good as a result of an increase in income, the good is known as a consumer good.

True False

110. Appliances and electricity are an example of complementary goods.

True False

111. An increase in the supply of a good will increase the price of the good, other things being equal.

True False

112. When both supply and demand increase, price and quantity will increase.

True False

113. Shortages of a particular good can be expected to lead to rising prices and increased production for that good in a market economy.

True False

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114. Shortages of a particular good can be expected to lead to decreasing prices and lower production for that good in a market economy.

True False

115. In the short run, an increase in demand for a good will result in higher prices in a market economy.

True False

116. In the short run, an increase in demand for a good will result in long lines in a command economy.

True False

117. In the long run, an increase in the demand for a good will result in an increase in supply of the good in a market economy.

True False

118. In the long run, an increase in the demand for a good will result in an increase in supply of the good in a command economy.

True False

119. If the demand for a good increases in a monopoly market, price will rise and firms will enter the industry in the long run.

True False

120. China's transition to a market economy began in 1990.

True False

121. Command economies introduce incentives for efficient production.

True False

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122. Under the Great Leap Forward, the task of determining how much to produce fell on the State Planning Commission.

True False

123. The Chinese Communist Party favored production in the heavy industry sectors of the economy.

True False

124. In 1978, Deng Xiaoping started the process of transitioning China to a "socialist market economy."

True False

125. While the superiority of the market orientation seems clear, it is equally clear that the transition from a command to a market economy is very difficult.

True False

126. China's transition to a market orientation has been relatively problem-free.

True False

127. China's transition to a market orientation began with agricultural reform.

True False

128. China's transitional economy is free of unemployment and inflation.

True False

129. 16 of the 20 cities with the highest levels of air pollution are in China.

True False

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Chapter 02 Economic Systems, Resource Allocation, and Social Well-Being

Answer Key

Multiple Choice Questions

1. Which of the following descriptions fits the American economy best?

A. A pure market economy
B. A mixed economy
C. Purely competitive economy
D. A command economy
E. A monopoly economy

Difficulty: 1 Easy

2. In a market economy,

A. resources are allocated by the private parties who own the resources.
B. resources are allocated by the various local, state, and federal planning committees and zoning commissions.
C. shortages never exist.
D. surpluses never exist.
E. both c) and d).

Difficulty: 1 Easy

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3. In 1978, the Chinese economy

A. opened ties to the noncommunist world.
B. became a strictly centralized economy under Joseph Stalin.
C. became communist under Mao Zedong.
D. moved to the island of Taiwan.
E. became a purely market-oriented economy.

Difficulty: 1 Easy

4. In both the U.S. and Canada, most, but not all, of economic resources are owned and controlled by private parties who make decisions as to how to use those resources with somewhat limited interference from government. As such, these economies are examples of

A. the pure command economy.
B. mixed economies, though closer to the market end of the spectrum.
C. mixed economies, though closer to the command end of the spectrum.
D. the pure market economy.
E. the communist economy.

Difficulty: 2 Medium

5. In the market economy, markets serve the function of

A. coordinating resource use decisions made by individual owners of resources.
B. bringing about resource allocation changes desired by resource owners.
C. determining prices.
D. all of the above.
E. both (a) and (b).

Difficulty: 1 Easy

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6. Which of the following is least consistent with the pure market economy?

A. An established legal system that arbitrates contract disputes
B. An individual accepting a job for $1 per hour
C. The institution of private property rights
D. The existence of a minimum wage
E. Private property rights

Difficulty: 2 Medium

7. Which of the following is not a characteristic of a purely competitive market?

A. Enough sellers and buyers so that no one of them acting alone can influence the price of this product
B. The ability of a single seller to block potential competitors out of the market
C. Freedom of the price to move up or down, that is, no price fixing
D. Mobility of buyers and sellers
E. A standardized product

Difficulty: 2 Medium

8. In a command economy, prices

A. determine how much of the good is produced.
B. do not determine production levels.
C. are set by the interaction of demand and supply.
D. are always low.
E. are determined by monopolies.

Difficulty: 2 Medium

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9. A market with only one seller of a product that has no good substitutes is called

A. a pure monopoly.
B. a pure command economy.
C. purely competitive.
D. imperfectly competitive.
E. an oligopoly.

Difficulty: 1 Easy

10. Which of the following is true of monopoly firms? They

A. can manipulate the price of their product.
B. beat their competitors' prices.
C. must constantly deal with the entry of new firms.
D. never receive government help blocking entry into the market.
E. do all of the above.

Difficulty: 1 Easy

11. Markets that fall between pure competition and monopoly are called:

A. anti-competitive.
B. imperfectly competitive.
C. command markets.
D. tweener markets.
E. monopsonistic.

Difficulty: 1 Easy

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12. In a monopoly market, firms

A. always make little or no profit.
B. can enter easily.
C. are blocked from entry.
D. must answer to the demands of government.
E. frequently exit the market due to low demand.

Difficulty: 2 Medium

13. If a consumer always eats cheese with macaroni, then for that consumer macaroni and cheese are examples of:

A. substitutes.
B. complements.
C. normal goods.
D. inferior goods.
E. standardized products.

Difficulty: 2 Medium

14. If an increase in the price of cookies leads to a decrease in the demand for ice cream, then ice cream and cookies must be

A. substitutes.
B. complements.
C. normal goods.
D. inferior goods.
E. standardized products.

Difficulty: 2 Medium

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15. If an increase in the price of bicycles leads to an increase in the demand for bus transportation, the bicycles and bus rides must be

A. substitutes.
B. complements.
C. normal goods.
D. inferior goods.
E. standardized products.

Difficulty: 2 Medium

16. If the price of digital cameras drops sharply, the demand for memory sticks

A. is likely to decline.
B. is unaffected by the events in the digital camera market.
C. falls due to a drop in the supply.
D. increases, resulting in higher prices for memory sticks.
E. causes camera manufacturers to advertise more.

Difficulty: 2 Medium

17. A student graduates from college and gets a high-paying job. As a result of the increase in income, the student buys more frozen pizzas. For the student, frozen pizzas must be a(n)

A. substitute.
B. complement.
C. normal good.
D. inferior good.
E. standardized product.

Difficulty: 2 Medium

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18. You receive a big raise at work. As a result of your now higher income, you stop bringing your lunch from home and start eating lunch at a nearby restaurant. Your homemade lunches must be

A. a substitute.
B. a complement.
C. normal goods.
D. inferior goods.
E. standardized products.

Difficulty: 2 Medium

19. The Law of Demand states that price and

A. demand are positively related.
B. quantity demanded are positively related.
C. demand are negatively related.
D. quantity demanded are negatively related.
E. none of the above.

Difficulty: 1 Easy

20. The Law of Supply states that price and

A. supply are positively related.
B. quantity supplied are positively related.
C. supply are negatively related.
D. quantity supplied are negatively related.
E. quantity demanded are negatively related.

Difficulty: 1 Easy

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21. An increase in the price of a good will cause which of the following?

A. Quantity demanded to demand to rise
B. Demand to fall
C. Quantity supplied to fall
D. Supply to rise
E. None of the above

Difficulty: 2 Medium

22. Which of the following will cause demand to rise?

A. A decrease in price
B. A decrease in the price of a substitute good
C. A decrease in the price of a complementary good
D. An increase in supply
E. An increase in the cost of production

Difficulty: 2 Medium

23. Given a downward-sloping demand curve and an upward-sloping supply curve, an increase in supply together with an increase in demand will cause the

A. equilibrium quantity purchased to increase, but the effect on price will be indeterminate.
B. equilibrium quantity purchased to decrease, but the effect on price will be indeterminate.
C. price to rise, but the effect on the equilibrium quantity purchased will be indeterminate.
D. price to fall, but the effect on the quantity bought and sold will be indeterminate.
E. equilibrium price to rise and the equilibrium quantity purchased will rise.

Difficulty: 3 Hard

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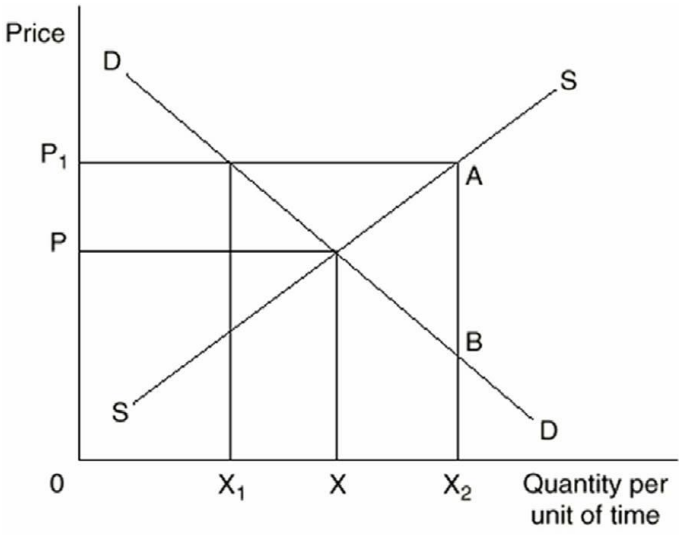
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24. A situation in which the demand for a product is decreasing while the price is simultaneously increasing can be explained by

A. a decrease in supply.
B. an increase in supply.
C. unchanged supply.
D. all of the above.
E. none of the above.

Difficulty: 3 Hard

25. Refer to the graph below:



At price P_1 there is a

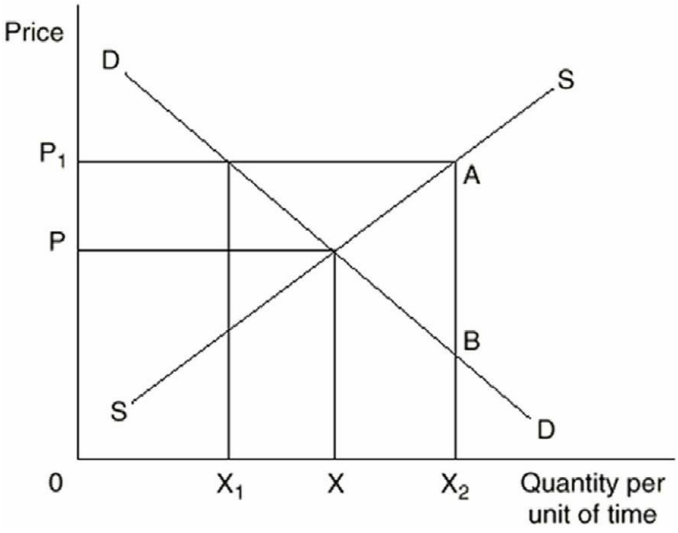
A. surplus of X_1X_2.
B. shortage of X_1X_2.
C. surplus of XX_2.
D. surplus of AB.
E. shortage of X_1X.

Difficulty: 2 Medium

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26. Refer to the graph below:



At a price of P1, what quantity will be sold in the market?

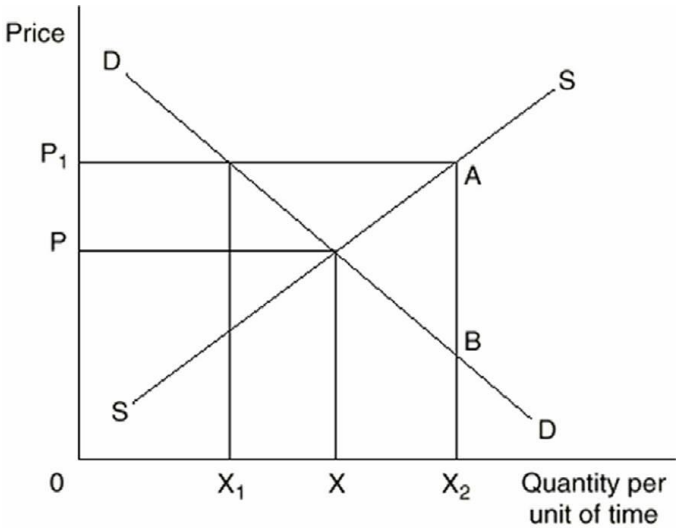
A. 0
B. X
C. X_1
D. X_2
E. X_1X_2

Difficulty: 2 Medium

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27. Refer to the graph below:



If the market is in equilibrium, the price and quantity will be

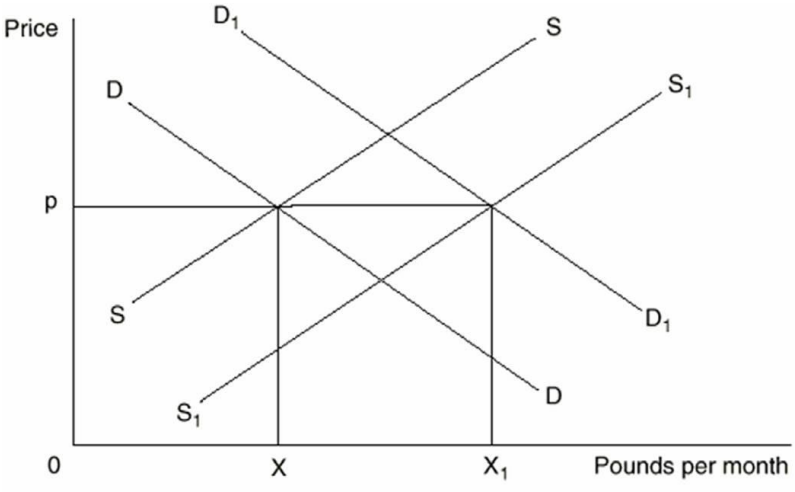
A. P_1 and X_1.
B. P and X_1.
C. P_1 and X.
D. P and X.
E. P and X_2.

Difficulty: 1 Easy

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28. Refer to the graph below:



The demand curve and supply curve for beef are DD and SS. The demand curve shifts to D_1D_1 and a price ceiling is placed on beef at price p. The result will be

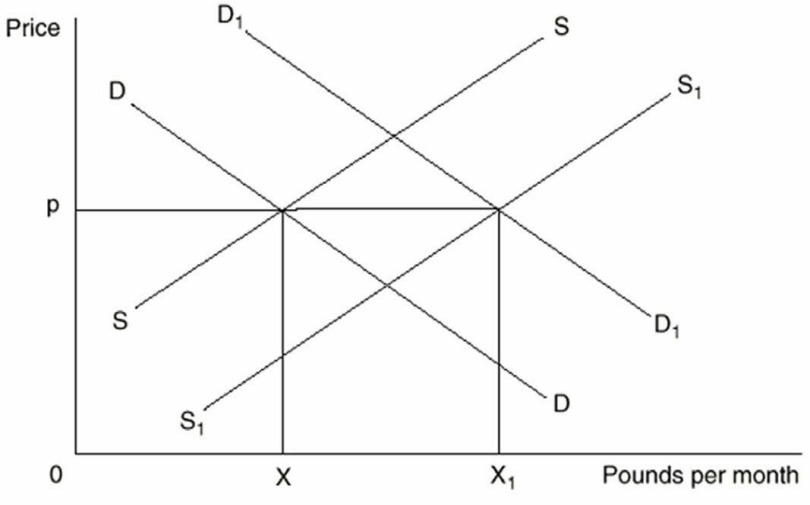
A. a surplus equal to X_1X.
B. a shift in the supply curve to S_1S_1.
C. an increase in the quantity placed on the market to X_1.
D. both (b) and (c) above.
E. a shortage equal to X_1X.

Difficulty: 3 Hard

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29. Refer to the graph below:



The demand curve and supply curve for beef are DD and SS. Which of the following could NOT cause demand to shift to D_1D_1?

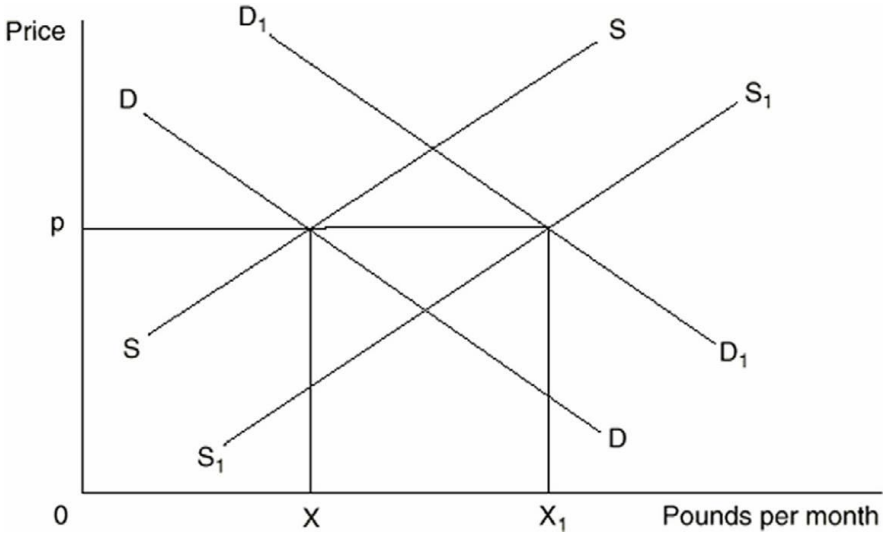
A. An increase in the price of a substitute good
B. An increase in the price of a complementary good
C. An increase in consumer income
D. A change in consumer tastes
E. A change in consumer expectations

Difficulty: 2 Medium

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30. Refer to the graph below:



The demand curve and supply curve for beef are DD and SS. Which of the following could cause supply to shift to S_1S_1?

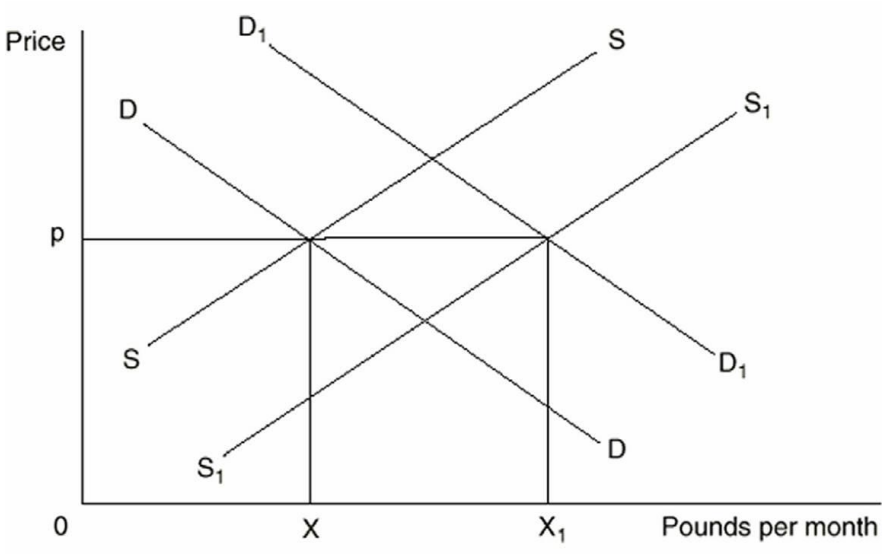
A. An increase in the cost of production
B. A decrease in the cost of production
C. An increase in the price of a substitute in production
D. An increase in income
E. All of the above

Difficulty: 2 Medium

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31. Refer to the graph below:



Which of the following statements is incorrect?

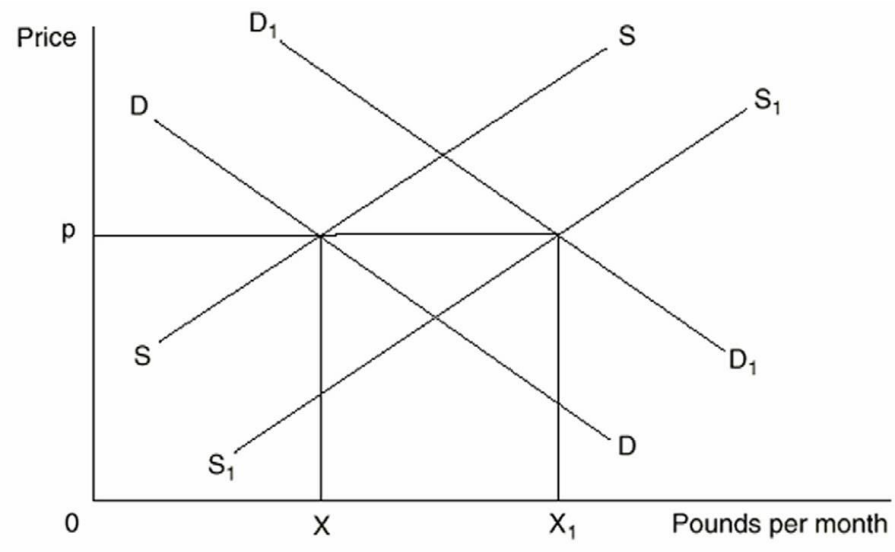
A. If supply decreases and demand remains constant, equilibrium price will rise
B. If demand decreases and supply increases, equilibrium price will rise
C. If supply increases and demand decreases, equilibrium price will fall
D. If demand increases and supply decreases, equilibrium price will rise
E. If supply is constant and demand increases, price will rise

Difficulty: 2 Medium

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32. Refer to the graph below:



If demand and supply shift to D_1D_1 and S_1S_1, market price will be

A. p.
B. above p.
C. below p.
D. indeterminate.
E. the price that goes with the quantity X.

Difficulty: 2 Medium

33. Which of the following will cause a change in the demand for beer?

A. A change in the average income in the economy
B. A change in the price of hops (used to make beer)
C. A change in the price of beer
D. All of the above
E. None of the above

Difficulty: 2 Medium

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34. The Law of Demand suggests that

A. higher prices automatically result in higher profits.
B. demand determines supply.
C. the lower the price of a product, the more consumers will wish to purchase, other things equal.
D. without laws, markets would not reach equilibrium.
E. both (a) and (c).

Difficulty: 2 Medium

35. A change in the quantity supplied of a good may be caused by

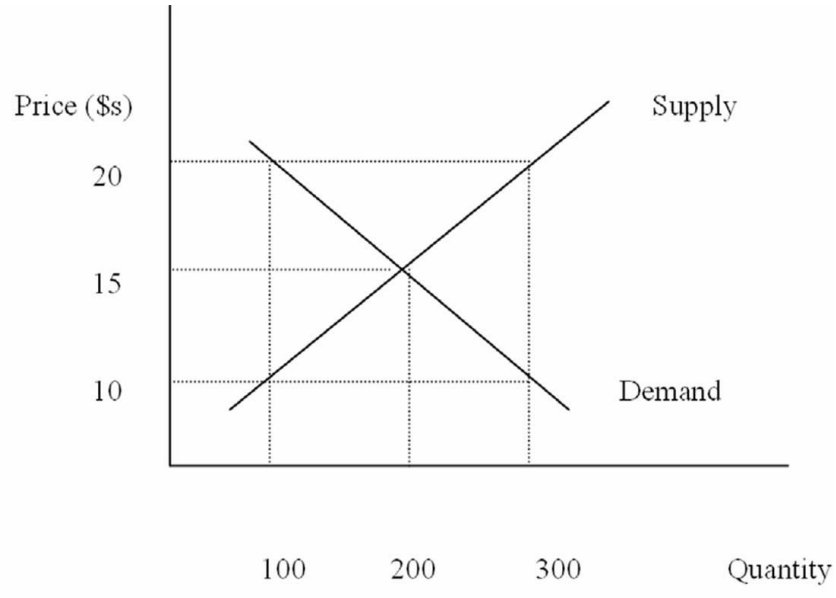
A. a change in technology.
B. a change in the number of firms selling the good.
C. a change in the price of the good.
D. a change in the demand for the good.
E. either (c) or (d).

Difficulty: 2 Medium

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36. Refer to the graph below:



Equilibrium price and quantity are

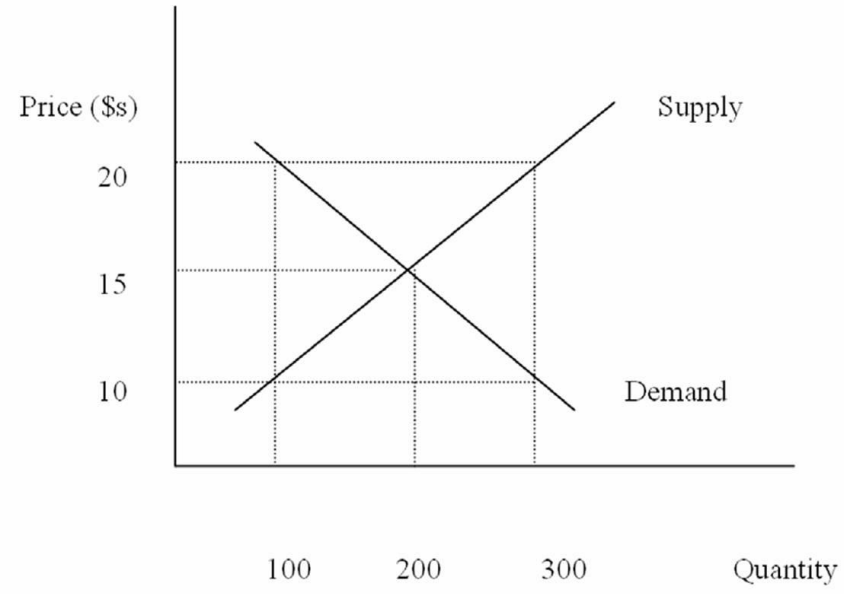
A. 20 and 100.
B. 20 and 200.
C. 15 and 300.
D. 15 and 200.
E. 10 and 200.

Difficulty: 1 Easy

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37. Refer to the graph below:



A price of $10 will lead to a

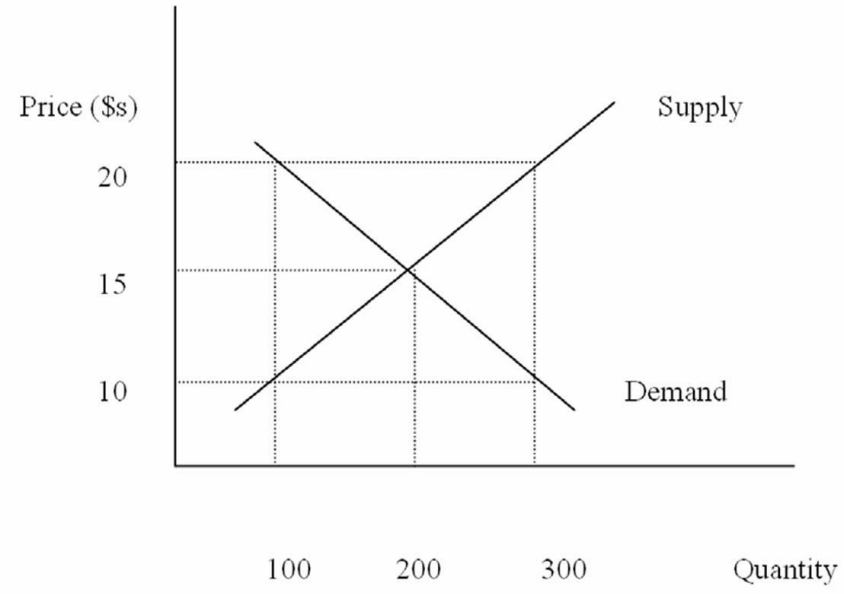
A. shortage of 200.
B. surplus of 200.
C. shortage of 100.
D. surplus of 100.
E. surplus of 300.

Difficulty: 2 Medium

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38. Refer to the graph below:



A price of $20 will lead to a

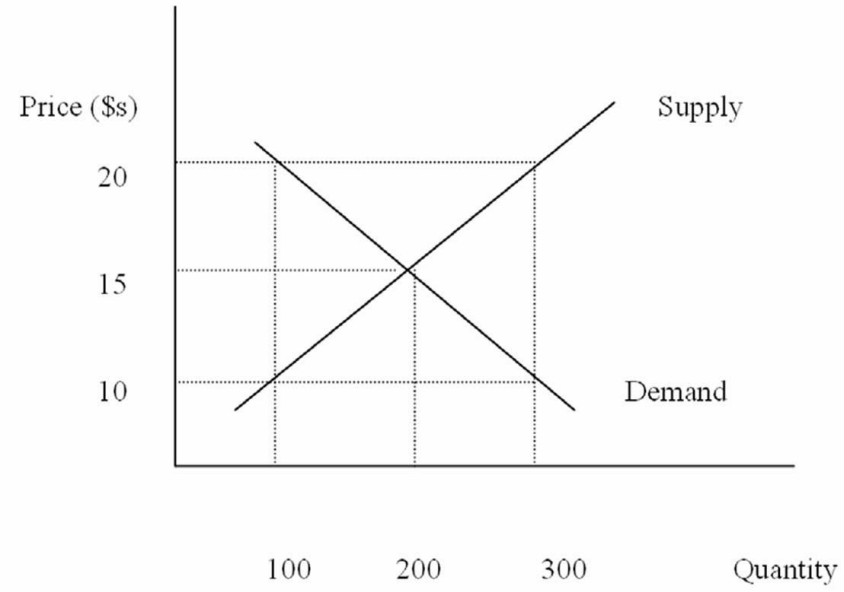
A. shortage of 200.
B. surplus of 200.
C. shortage of 100.
D. surplus of 100.
E. surplus of 300.

Difficulty: 2 Medium

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39. Refer to the graph below:



When price is $10, how much will be sold in the market?

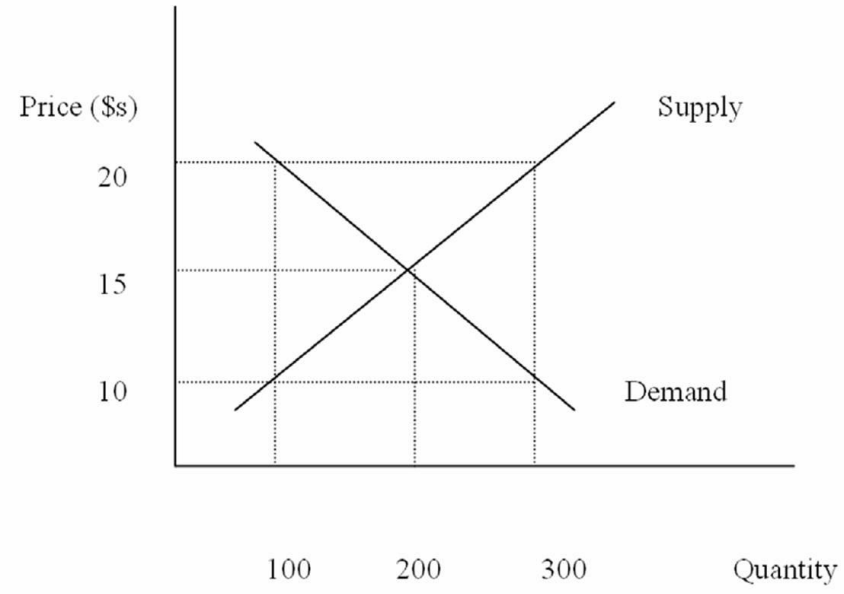
A. 0
B. 100
C. 200
D. 300
E. It can not be determined

Difficulty: 2 Medium

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40. Refer to the graph below:



Which of the following could lead to a price of $20 in the market?

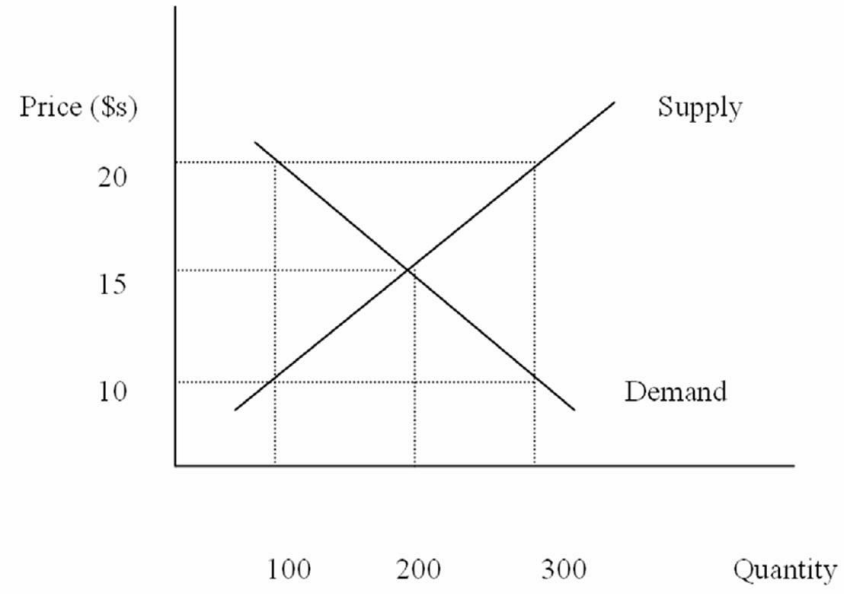
A. An increase in supply
B. A decrease in supply
C. A decrease in demand
D. A decrease in both supply and demand
E. An increase in both supply and demand

Difficulty: 2 Medium

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41. Refer to the graph below:



If the price is $10 in the market, consumers

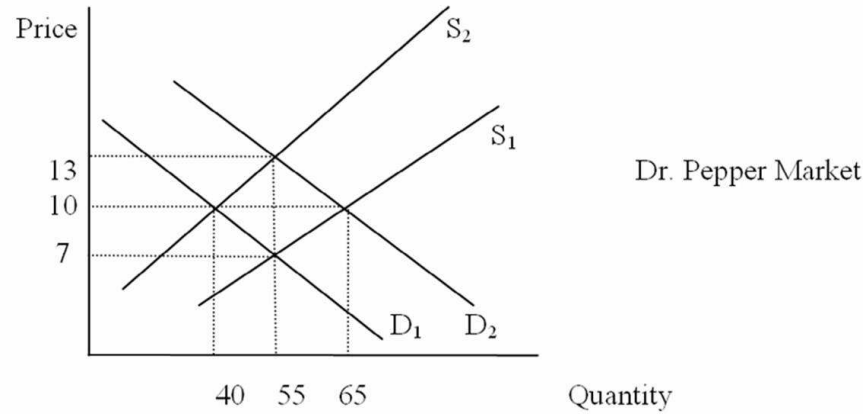
A. will choose to buy 200 units.
B. will always be able to purchase the good.
C. will note that there is a surplus of the good in the market.
D. will offer sellers a lower price for the good.
E. will not all be able to buy the good at this price.

Difficulty: 2 Medium

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42. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, price and quantity are

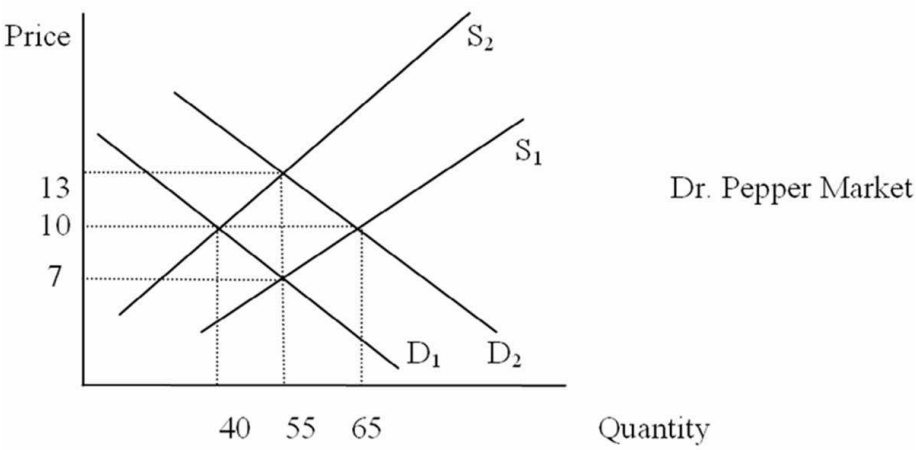
A. 13 and 55.
B. 10 and 40.
C. 10 and 65.
D. 7 and 55.
E. 10 and 55.

Difficulty: 1 Easy

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43. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and the price of Pepsi increases, the new equilibrium price and quantity are

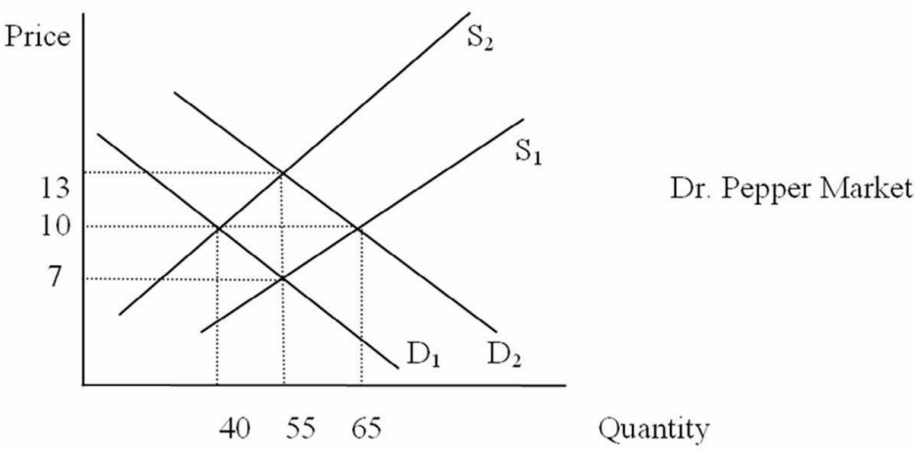
A. 13 and 55.
B. 10 and 40.
C. 10 and 65.
D. 7 and 55.
E. 10 and 55.

Difficulty: 2 Medium

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44. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and the price of carbonated water (the main ingredient in Dr. Pepper) increases, the new equilibrium price and quantity are

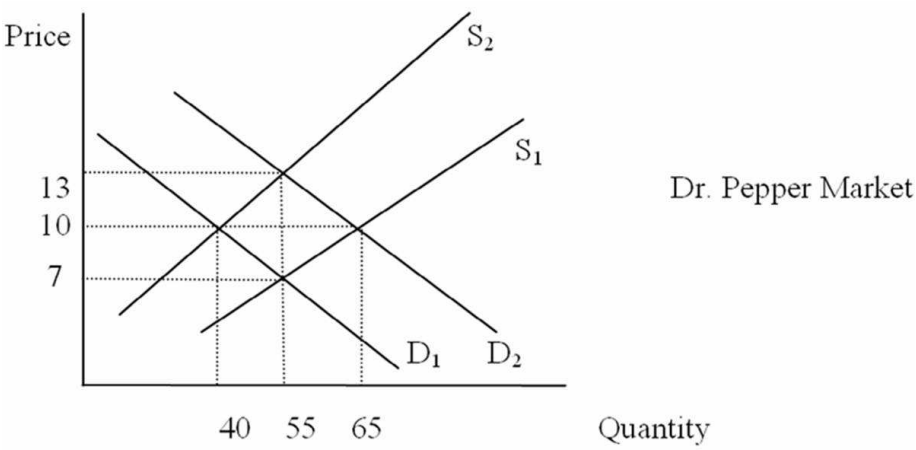
A. 13 and 55.
B. 10 and 40.
C. 10 and 65.
D. 7 and 55.
E. 10 and 55.

Difficulty: 2 Medium

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45. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and more consumers develop a preference for Dr. Pepper, the new equilibrium price and quantity are

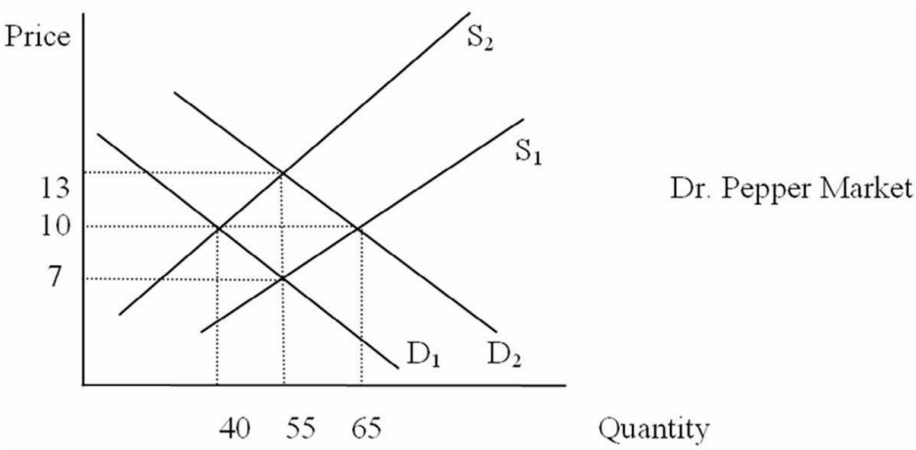
A. 13 and 55.
B. 10 and 40.
C. 10 and 65.
D. 7 and 55.
E. 10 and 55.

Difficulty: 2 Medium

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46. Refer to the graph below:



If the market starts in equilibrium with D_1 and S_1, and equilibrium price and quantity increase to $10 and 65, which of the following could have caused the change?

A. An increase in consumer income
B. An increase in production costs
C. The discovery that Dr. Pepper causes health problems
D. A technological advance in Dr. Pepper production
E. All of the above

Difficulty: 2 Medium

47. Which of the following is NOT one of the "other things equal" underlying the demand curve?

A. Prices of resources
B. Purchasing power of buyers
C. Buyers' tastes and preferences
D. Numbers of buyers
E. Buyers' expectations

Difficulty: 2 Medium

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48. A change in the quantity demanded

A. results whenever one of the "other things equal" underlying the demand curve changes.
B. results when the price of the product increases or decreases.
C. means a shift in the position of the demand curve.
D. means movement along a given demand curve.
E. is both (b) and (d).

Difficulty: 2 Medium

49. Suppose that all workers receive a wage reduction. What would the impact on the market for autos be?

A. The supply of autos would decrease
B. The demand for autos would increase
C. The supply of autos would increase and the demand for autos would fall
D. Both a) and b)
E. It can not be determined

Difficulty: 3 Hard

50. There is an increase in the quantity of pizza purchased but no change in the price of pizza. Which of the following is most likely to have occurred?

A. Supply increased while demand remained unchanged
B. Both supply and demand increased
C. Supply increased while the quantity demanded increased
D. Demand increased while supply remained unchanged
E. Both supply and demand decreased

Difficulty: 3 Hard

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51. Two goods are said to be substitutes in consumption if

A. an increase in the price of one leads to a fall in the demand for the other.
B. an increase in the price of one leads to an increase in the demand for the other.
C. an increase in the price of one leads to an increase in the supply of the other.
D. a fall in the price of one leads to an increase in the demand for the other.
E. a decrease in the price of one leads to a decrease in the supply of the other.

Difficulty: 2 Medium

52. Assume lettuce and salad dressing are complements in consumption. An increase in the price of lettuce will

A. lead to a fall in the demand for salad dressing.
B. lead to a fall in the quantity demanded of salad dressing.
C. have no impact on the demand for salad dressing.
D. lead to a fall in the supply of salad dressing.
E. lead to a rise in the supply of salad dressing.

Difficulty: 2 Medium

53. Which of the following is true for inferior goods?

A. The law of demand does not hold
B. They are of low quality
C. The demand for them falls as consumer income rises
D. All of the above
E. None of the above

Difficulty: 2 Medium

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54. An increase in the wages of orange pickers will have what effect in the market for oranges?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

55. An increase in consumer income will have what effect on the equilibrium price and quantity of hot dogs?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

56. An increase in the price of cars will have what effect on the equilibrium price and quantity of gasoline?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

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57. A technological advance in the production of computers will have what effect on the equilibrium price and quantity in the computer market?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

58. A publicized report that finds orange juice prevents certain diseases will have what effect on the equilibrium price and quantity of orange juice?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

59. As the baby boom generation continues to age, what will happen to the equilibrium price and quantity of homes in retirement communities?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

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60. If consumers expect an increase in the price of coffee next month, what will happen to the equilibrium price and quantity of coffee this month?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

61. The entry of new firms into a market, all other things equal, will have what effect on equilibrium price and quantity?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

62. An increase in the price of flashlights will have what effect on the equilibrium price and quantity of batteries?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 2 Medium

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63. If the price of film increases at the same time the cost of camera production increases, what will happen to the equilibrium price and quantity in the camera market?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 3 Hard

64. If there is a technological advance in the production of paper at the same time consumer income increases (assume paper is a normal good), what will happen in the market for paper?

A. Price will increase, quantity will decrease
B. Price will increase, quantity will increase
C. Price will decrease, quantity will decrease
D. Price will decrease, quantity will increase
E. The new equilibrium price and quantity can not be determined

Difficulty: 3 Hard

65. Suppose the United Auto Workers union successfully lobbies Congress to enact an import quota on all foreign cars imported into the U.S. Which of the following is most likely to occur in the U.S.?

A. A fall in the price of imported cars and increase in the price of domestics
B. An increase in the demand for domestic cars
C. A decrease in American autoworker wages
D. Higher unemployment among American autoworkers
E. A fall in the demand for imports

Difficulty: 3 Hard

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66. As consumer incomes rise, the demand curve for Good X shifts to the right. Given this, Good X must be

A. produced by a competitive firm.
B. a high quality product.
C. a substitute good.
D. a normal good.
E. an inferior good.

Difficulty: 2 Medium

67. From a standpoint of resource allocation, a surplus of corn implies

A. consumers would prefer some of the resources used to produce corn be used to produce something else.
B. the market for agricultural products is failing.
C. government should purchase the surplus to protect the farmers.
D. the price of corn is too low and should be increased.
E. the quantity demanded of corn exceeds the quantity supplied.

Difficulty: 2 Medium

68. Since 1990, China's growth has been

A. roughly equal to that of the United States.
B. declining.
C. in the double digits.
D. about 3% per year.
E. none of the above.

Difficulty: 1 Easy

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69. China's growth has been a result of

A. increased domestic demand.
B. rapidly increasing inflation.
C. investment in other economies.
D. trade deficits.
E. trade surpluses.

Difficulty: 1 Easy

70. Since 1990, foreign investment in China has

A. Increased slightly.
B. Increased significantly.
C. Been unchanged.
D. Decreased slightly.
E. Decreased significantly.

Difficulty: 1 Easy

71. China can be best described as a

A. market economy.
B. mixed economy.
C. transitional economy.
D. competitive economy.
E. monopoly economy.

Difficulty: 1 Easy

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72. After establishing the Republic of China in 1949, Mao's Communist Party patterned the Chinese economy after

A. Japan.
B. Taiwan.
C. The USSR.
D. The United States.
E. Europe.

Difficulty: 1 Easy

73. Following the establishment of a Soviet style society in 1949, the State Planning Commission was created by

A. Chiang Kai-Shek.
B. Deng Xiaoping.
C. Mao Zedong.
D. Joseph Stalin.
E. Wen Jiabao.

Difficulty: 1 Easy

74. The State Planning Commission in China has the task of

A. determining what goods and services should be produced.
B. determining what quantities of goods and services are produced.
C. determining the allocation of resources used in the production of goods and services.
D. how the goods and services are to be distributed.
E. performing all of the tasks listed above.

Difficulty: 1 Easy

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75. The economy of the People's Republic of China operated as a command economy

A. from 1917 until 1949.
B. from 1949 until 1978.
C. since 1990.
D. from 1949 until 1962.
E. which started China's transition to a market economy.

Difficulty: 1 Easy

76. China's transition to a market-oriented economy

A. was completed by around 2004.
B. was abandoned in 2010 and the country has returned to command economy.
C. has resulted in relatively low rates of economic growth.
D. did not lead to any problems with inflation or unemployment.
E. did not lead to any problems with corruption.

Difficulty: 1 Easy

77. Which of the following was NOT a problem for China's centralized economy?

A. Informational requirements
B. Incentives for efficiency
C. The emphasis on heavy machinery production
D. Low quality products
E. None of the above (they were all problems)

Difficulty: 2 Medium

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78. In a market economy, a shortage of wheat will cause the

A. price of bread to rise.
B. price of bread to fall.
C. price of wheat to fall.
D. supply of bread to increase.
E. supply of wheat to fall.

Difficulty: 2 Medium

79. If the demand curve for bran muffins has shifted out due to a medical study that indicates that regular consumption of bran lowers cholesterol, then we can conclude that there has been

A. a response to the increase demand for a complementary good.
B. a change in consumer tastes.
C. a reduction in the production costs of bran.
D. an increase in consumer expectations.
E. an improvement in the economy, resulting in higher incomes.

Difficulty: 3 Hard

80. Consumer purchases of hybrid cars have risen sharply in recent years. One important factor in this increased demand for these vehicles is

A. it's cool to be "green" and drive a hybrid.
B. decreasing prices of a complementary good.
C. change in expectations based upon the belief that energy prices will rise in the future.
D. reduced availability of a substitute.
E. government fuel mandates.

Difficulty: 3 Hard

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True / False Questions

81. Mao Zedong started China's transition to a market economy.

FALSE

Difficulty: 1 Easy

82. Private ownership of an economy's resources is a defining feature of the pure market economy.

TRUE

Difficulty: 1 Easy

83. The institution of private property rights is an essential feature of the market economy.

TRUE

Difficulty: 1 Easy

84. The U.S. is best described as a pure market economy.

FALSE

Difficulty: 1 Easy

85. In the pure command economy, most resource use decisions are made by government.

TRUE

Difficulty: 1 Easy

86. In a market economy, price fluctuations indicate there is a lack of effective competition.

FALSE

Difficulty: 2 Medium

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87. For a market to be considered purely competitive, new rivals must be free to enter if they feel they can effectively compete.

TRUE

Difficulty: 1 Easy

88. Blocked entry is essential for a purely competitive market.

FALSE

Difficulty: 1 Easy

89. Entry is blocked in monopoly markets.

TRUE

Difficulty: 1 Easy

90. In response to an increase in the price of beer, Bob reduces his consumption from 3 to 2 beers per day. This reflects a reduction in Bob's demand for beer.

FALSE

Difficulty: 2 Medium

91. Surpluses tend to drive competitive prices downward toward equilibrium, and shortages tend to drive competitive prices upward toward equilibrium.

TRUE

Difficulty: 2 Medium

92. When the entire demand curve shifts out to the right, we say there has been an increase in demand.

TRUE

Difficulty: 1 Easy

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93. A change in supply occurs when one of the other things equal changes and is represented as movement along the supply curve.

FALSE

Difficulty: 2 Medium

94. A change in the price of automobiles will cause a change in the demand for automobiles.

FALSE

Difficulty: 2 Medium

95. Demand is the quantity of a product per time period that buyers will buy at the prevailing price, other things equal.

FALSE

Difficulty: 2 Medium

96. The Law of Demand states that consumers will buy less at lower prices, but only if a number of other things are held constant.

FALSE

Difficulty: 2 Medium

97. The Law of Supply states that sellers will sell more at high prices than at low prices.

FALSE

Difficulty: 1 Easy

98. When an economist says that the demand for a product has increased, this means that consumers are now willing to purchase more of the product at each alternative price.

TRUE

Difficulty: 1 Easy

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99. An increase in the price of a good will decrease demand for the good.

FALSE

Difficulty: 1 Easy

100. An increase in the supply of a good will increase demand for the good.

FALSE

Difficulty: 1 Easy

101. An increase in consumer income can either increase or decrease demand for a good.

TRUE

Difficulty: 1 Easy

102. During December each year, the number of Christmas trees sold increases, as does the price of the trees. This clearly violates the Law of Demand.

FALSE

Difficulty: 2 Medium

103. An increase in the demand for gasoline accompanied by a decrease in the supply of gasoline will cause the price to rise, but may cause the quantity purchased to increase, decrease, or remain the same.

TRUE

Difficulty: 3 Hard

104. Fluctuating prices tend to confuse consumers, so prices should be government controlled whenever possible.

FALSE

Difficulty: 2 Medium

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105. An increase in the price of gas will cause an increase in the supply of gas since it will be more profitable to sell.

FALSE

Difficulty: 2 Medium

106. The demand curve for an inferior good is upward sloping, like a typical supply curve.

FALSE

Difficulty: 2 Medium

107. When there is an increase in both supply and demand, it is impossible to determine what happens to the equilibrium price unless the magnitudes of the supply and demand changes are known.

TRUE

Difficulty: 3 Hard

108. During the 1992 presidential campaign, Ross Perot recommended a 50-cents-per-gallon increase in the tax on gasoline. Such an increase would have little or no effect on the quantity of gas sold since we have few options to driving.

FALSE

Difficulty: 2 Medium

109. If you buy more of a good as a result of an increase in income, the good is known as a consumer good.

FALSE

Difficulty: 1 Easy

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110. Appliances and electricity are an example of complementary goods.

TRUE

Difficulty: 1 Easy

111. An increase in the supply of a good will increase the price of the good, other things being equal.

FALSE

Difficulty: 1 Easy

112. When both supply and demand increase, price and quantity will increase.

FALSE

Difficulty: 2 Medium

113. Shortages of a particular good can be expected to lead to rising prices and increased production for that good in a market economy.

TRUE

Difficulty: 2 Medium

114. Shortages of a particular good can be expected to lead to decreasing prices and lower production for that good in a market economy.

FALSE

Difficulty: 2 Medium

115. In the short run, an increase in demand for a good will result in higher prices in a market economy.

TRUE

Difficulty: 2 Medium

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116. In the short run, an increase in demand for a good will result in long lines in a command economy.

TRUE

Difficulty: 2 Medium

117. In the long run, an increase in the demand for a good will result in an increase in supply of the good in a market economy.

TRUE

Difficulty: 2 Medium

118. In the long run, an increase in the demand for a good will result in an increase in supply of the good in a command economy.

FALSE

Difficulty: 2 Medium

119. If the demand for a good increases in a monopoly market, price will rise and firms will enter the industry in the long run.

FALSE

Difficulty: 2 Medium

120. China's transition to a market economy began in 1990.

FALSE

Difficulty: 1 Easy

121. Command economies introduce incentives for efficient production.

FALSE

Difficulty: 1 Easy

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122. Under the Great Leap Forward, the task of determining how much to produce fell on the State Planning Commission.

TRUE

Difficulty: 1 Easy

123. The Chinese Communist Party favored production in the heavy industry sectors of the economy.

TRUE

Difficulty: 1 Easy

124. In 1978, Deng Xiaoping started the process of transitioning China to a "socialist market economy."

TRUE

Difficulty: 1 Easy

125. While the superiority of the market orientation seems clear, it is equally clear that the transition from a command to a market economy is very difficult.

TRUE

Difficulty: 1 Easy

126. China's transition to a market orientation has been relatively problem-free.

FALSE

Difficulty: 1 Easy

127. China's transition to a market orientation began with agricultural reform.

TRUE

Difficulty: 1 Easy

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128. China's transitional economy is free of unemployment and inflation.

FALSE

Difficulty: 1 Easy

129. 16 of the 20 cities with the highest levels of air pollution are in China.

FALSE

Difficulty: 1 Easy

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