Reading 14: Topics in Demand and Supply Analysis

Question #1 of 45

Question ID: 434233

The percent change in demand for a good divided by the percent change in the price of another good is known as the:

A) income elasticity of demand.

B) price elasticity of demand.

C) cross price elasticity of demand.

Question #2 of 45

Question ID: 413616

The law of diminishing returns states that at some point as:

A) more of a resource is devoted to production, holding the quantity of other inputs constant, at some point output will begin to decrease.

B) more of a resource is devoted to production, holding the quantity of other inputs constant, the output will increase, but at a decreasing rate.

C) less of a resource are devoted to production, holding the quantity of other inputs constant, the output will decrease, but at an increasing rate.

Question #3 of 45

Question ID: 413578

In the long run, if price is below average total cost (ATC) the firm will:

A) cover its variable costs.

B) keep running.

C) shut down.

Question #4 of 45

Question ID: 413531

If the price elasticity of demand is -1.5 and the price of the product increases 2%, the quantity demanded will:

A) decrease approximately 0.75%.

B) decrease approximately 1.5%.

C) decrease approximately 3%.

Question #5 of 45

Question ID: 413587

Which of the following *most* accurately describes economies of scale? Economies of scale:

A) increase at a decreasing rate.

B) occur when long-run unit costs fall as output increases.

C) are dependent on short-run average costs.

Question #6 of 45

Question ID: 413577

A firm in a perfectly competitive industry that seeks to maximize profit is *most likely* to continue production in the short run as long which of the following conditions exists? Price is equal to or greater than:

A) average variable costs.

B) marginal cost.

C) average fixed cost.

Question #7 of 45

Question ID: 413537

The demand for a product tends to be price inelastic if:

A) people spend a large share of their income on the product.

B) few good complements for the product are available.

C) few good substitutes for the product are available.

Question #8 of 45

Question ID: 413526

When demand for a good is inelastic, a higher price will:

A) lead to an increase in total expenditures for the good.

B) have no impact on the demand for the good.

C) fail to reduce the quantity demanded for the good.

Question #9 of 45

Question ID: 413554

A decrease in the price of Good Y can result in a decrease of the quantity of Good Y demanded by consumers if the substitution effect:

A) is negative and larger than the positive income effect.

B) is positive and the income effect is negative and larger than the substitution effect.

C) and the income effect are negative.

Question #10 of 45

Question ID: 413586

A firm that is experiencing diseconomies of scale should:

A) decrease output in the short run.

B) decrease its plant size.

C) shut down in the long run.

Question #11 of 45

Question ID: 413579

In the short run, if price is below average total cost (ATC) the firm will:

A) raise prices.

B) keep running as long as it is covering its variable costs.

C) produce more.

Question #12 of 45

Question ID: 413588

The upward sloping segment of a long-run average total cost curve represents the existence of:

A) diseconomies of scale.

B) economies of scale.

C) efficiencies of scale.

Question #13 of 45

Question ID: 413528

If the demand curve for a given product is a straight line, this indicates that:

A) demand is unit elastic.

B) demand is more elastic at higher prices.

C) elasticity is constant along the demand curve.

Question #14 of 45

Question ID: 413515

A good is *most likely* to demonstrate higher price elasticity of demand:

A) when there are few substitutes for the good, than when there are many good substitutes.

B) if it represents a small portion of the consumer's budget, than if it represents a large portion.

C) in the long run than the short run.

Question #15 of 45

Question ID: 413518

Income elasticity is defined as the percentage change in:

A) income divided by the percentage change in the quantity demanded.

B) quantity demanded divided by the percentage change in income.

C) quantity demanded divided by the percentage change in the price of the product.

Question #16 of 45

Question ID: 413552

Which of the following is *most likely* to cause a decrease in the consumption of a good in response to a decline in the price of the good?

A) Law of demand.

B) Substitution effect.

C) Income effect.

Question #17 of 45

Question ID: 413516

The cross price elasticity of demand for a substitute good and the income elasticity for an inferior good are:

	Cross elasticity	Income elasticity
A)	> 0	< 0
B)	< 0	< 0
C)	< 0	> 0

Question #18 of 45

Question ID: 413580

John Klement is a soybean farmer who harvests 125,000 bushels of soybeans annually. Klement's fixed costs are $200,000 and his variable costs are $5 per bushel. Soybeans are currently priced at $5.35 per bushel. Based on his estimates, Klement sees soybean prices being relatively stable for the next two years, then increasing to $7.00 per bushel due to increased demand from Japan. What action should Klement take? Klement should:

A) cut his production by 50% for the next two years and then resume full production.

B) shut down for two years and then restart his business.

C) continue operating his business as usual.

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Question ID: 413529

If the price elasticity of demand for a good is 4.0, then a 10% increase in price would result in a:

A) 4% decrease in the quantity demanded.

B) 10% decrease in the quantity demanded.

C) 40% decrease in the quantity demanded.

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Question ID: 413527

If the price of World Cup Soccer tickets increases from $40 a ticket to $50 a ticket and the quantity demanded of tickets stays the same, demand for the tickets is:

A) inelastic, but not perfectly inelastic.

B) elastic, but not perfectly elastic.

C) perfectly inelastic.

Question #21 of 45

Question ID: 413549

With respect to utility theory, the income effect for a decrease in the price of a good:

A) will increase consumption of the good.

B) will decrease consumption of the good.

C) may increase or decrease consumption of the good.

Question #22 of 45

Question ID: 413523

For a linear demand curve, at the price where elasticity is -2.0, reducing prices will:

A) increase total revenue and we are at the point of maximum total revenue.

B) decrease total revenue and we are not at the point of maximum total revenue.

C) increase total revenue and we are not at the point of maximum total revenue.

Question #23 of 45

Question ID: 413524

If quantity demanded increases 15% when the price drops 1%, demand for this good:

A) inelastic, but not perfectly inelastic.

B) elastic, but not perfectly elastic.

C) perfectly elastic.

Question #24 of 45

Question ID: 413517

If the price elasticity of demand is −2 and the price of the product decreases by 5%, the quantity demanded will:

A) decrease 2%.

B) increase 10%.

C) increase 5%.

Question #25 of 45

Question ID: 413556

A distinction between Giffen goods and Veblen goods is that:

A) Giffen goods are inferior goods, while Veblen goods are not inferior goods.

B) demand curves for Giffen goods slope upward, while demand curves for Veblen goods slope downward.

C) the substitution effect is positive for a Veblen good but negative for a Giffen good.

Question #26 of 45

Question ID: 413614

According to the law of diminishing returns, doubling the number of salespeople for a firm will *most likely* result in:

A) increasing the total sales of the firm and reducing the average sales per salesperson.

B) doubling the total sales of the firm.

C) decreasing the total sales of the firm as a result of competition amongst salespeople.

Question #27 of 45

Question ID: 413617

The law of diminishing returns states that for a given production process, as more and more of a resource (such as labor) are added, holding the quantities of other resources fixed:

A) cost declines at an increasing rate.

B) output increases at a decreasing rate.

C) cost declines at a decreasing rate.

Question #28 of 45

Question ID: 413550

With respect to utility theory, the substitution effect for a decrease in the price of a good:

A) will increase consumption of the good.

B) will decrease consumption of the good.

C) may increase or decrease consumption of the good.

Question #29 of 45

Question ID: 413612

Which of the following statements regarding diminishing marginal returns is *most* accurate?

A) As the quantity produced rises, costs begin to rise at a decreasing rate.

B) The total cost curve arches downward.

C) As the quantity produced rises, costs begin to rise at an increasing rate.

Question #30 of 45

Question ID: 413520

If quantity demanded increases 20% when the price drops 2%, this good exhibits:

A) perfectly inelastic demand.

B) inelastic, but not perfectly inelastic, demand.

C) elastic, but not perfectly elastic, demand.

Question #31 of 45

Question ID: 413581

Suppose a price-taker firm produces baseball bats that sell at a price of $100 each. This firm's average total cost at the current level of production is $150 per bat, and the average fixed cost is $40 per bat. Which of the following statements is *most* accurate regarding this firm? They should:

A) continue producing baseball bats because they are covering their fixed costs.

B) shut down in the short run because their average variable cost is greater than their price.

C) shut down in the short run because their average total cost is greater than their price.

Question #32 of 45

Question ID: 413553

A good for which consumers exhibit a negative income effect that is smaller than the substitution effect is *most accurately* described as a(n):

A) inferior good.

B) Veblen good.

C) Giffen good.

Question #33 of 45

Question ID: 413555

A good is considered an inferior good if it exhibits a negative:

A) substitution effect.

B) elasticity of demand.

C) income effect.

Question #34 of 45

Question ID: 639402

If the price elasticity of demand is -1.5 and a change in the price of the product increases the quantity demanded by 4%, then what is the percent change in price?

A) −2.667%.

B) -0.375%.

C) -6.000%.

Question #35 of 45

Question ID: 413519

If the price elasticity of a linear demand curve is −1 at the current price, an increase in price will lead to:

A) a decrease in total revenue.

B) no change in total revenue.

C) an increase in total revenue.

Question #36 of 45

Question ID: 683839

At a fixed level of capital, output increases as the quantity of labor increases, but at a decreasing rate. This phenomenon is an example of:

A) diminishing returns to labor.

B) diminishing returns to capital.

C) diminishing costs to labor.

Question #37 of 45

Question ID: 413536

Gene Bawerk, an economics professor, is lecturing on the factors that influence the price elasticity of demand. He makes the following assertions:

> Statement 1: For most goods, demand is more elastic in the long run than the short run.
> Statement 2: Demand for a good becomes more elastic when a close substitute for it becomes available on the market.

With respect to Bawerk's statements:

A) both are correct.
B) only statement 2 is correct.
C) only statement 1 is correct.

Question #38 of 45

Question ID: 413521

The primary factors that influence the price elasticity of demand for a product are:

A) the availability of substitute goods, the time that has elapsed since the price of the good changed, and the proportions of consumers' budgets spent on the product.
B) changes in consumers' incomes, the time since the price change occurred, and the availability of substitute goods.
C) the proportions of consumers' budgets spent on the product, the size of the shift in the demand curve for a product, and changes in consumers' price expectations.

Question #39 of 45

Question ID: 413615

Based on the concept of diminishing returns, as the quantity of output increases, the short-run marginal costs of production eventually:

A) fall at a decreasing rate.
B) rise at a decreasing rate.
C) rise at an increasing rate.

Question #40 of 45

Question ID: 434232

Price elasticity of demand is *most* accurately defined as the change in:

A) quantity demanded in response to a change in market price.
B) quantity demanded in response to a change in income.
C) market price in response to a change in the quantity demanded.

Question #41 of 45

Question ID: 413525

If a good has elastic demand, a small price decrease will cause:

A) no change in the quantity demanded.

B) a larger increase in quantity demanded.

C) a larger decrease in the quantity demanded.

Question #42 of 45

Question ID: 413551

When the price of a good decreases, how do the income effect and the substitution effect change the quantity demanded of the good?

A) The substitution effect increases the quantity demanded, but the income effect may increase or decrease the quantity demanded.

B) The income effect increases the quantity consumed, but the substitution effect may increase or decrease the quantity demanded.

C) Both the income effect and the substitution effect increase the quantity demanded.

Question #43 of 45

Question ID: 413522

If a good has elastic demand, a small percentage price increase will cause:

A) a larger percentage increase in the quantity demanded.

B) a larger percentage decrease in the quantity demanded.

C) a smaller percentage increase in the quantity demanded.

Question #44 of 45

Question ID: 413533

Income elasticity is defined as the:

A) change in quantity demanded divided by the change in income.

B) percentage change in the quantity demanded divided by the percentage change in income.

C) percentage change in income divided by the percentage change in the quantity demanded.

Question #45 of 45

Question ID: 683838

When household incomes go down and the quantity of a product demanded goes up, the product is:

A) a Veblen good.

B) a normal good.

C) an inferior good.