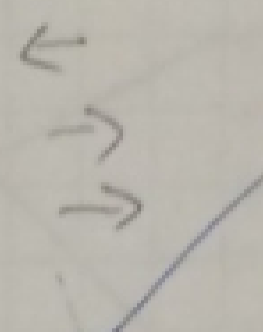


30 Multiple Choice Questions. Circle the letter next to the correct answer or most appropriate response.

1. Consider the following three statements:

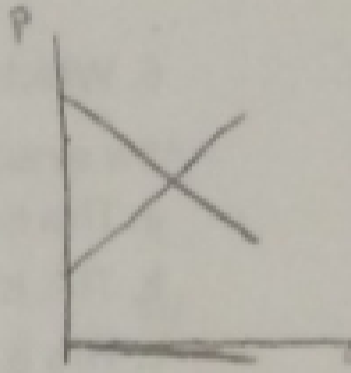
- I. The price of soybeans, a substitute in production for wheat, increases
- II. The technology that assists farmers in growing wheat improves significantly
- III. The price of fertilizer, an input to wheat production, decreases significantly



Which of the following is correct?

- a. "I" will shift the supply curve for wheat to the right
- b. "II" will shift the supply curve for wheat to the left
- c. "III" will shift the supply curve for wheat to the left
- d. Actually none of the above is correct

2. You are looking at the supply and demand of potato chips. Two things occur: the price of potatoes decreases at the same time that the price of corn chips—a demand substitute for potato chips—increases. Which of the following is correct?



- a. We know the equilibrium price of potato chips will increase but we do not know about equilibrium quantity
- b. We know that both the equilibrium price and equilibrium quantity of potato chips will increase
- c. We know the equilibrium quantity of potato chips will increase but we do not know about equilibrium price
- d. We know that the equilibrium price of potato chips will decrease and equilibrium quantity of potato chips will increase

3. Brian is sitting at a restaurant eating pizza by the slice. Each slice is priced at \$2.50. According to economic reasoning discussed in lecture Brian should...

- a. stop eating pizza unless the benefit of the next slice is exactly \$2.50
- b. keep eating pizza until the benefit of the next slice is less than \$2.50
- c. stop eating pizza if the benefit of the next slice is greater than \$2.50
- d. not stop eating pizza until his money runs out

4. Assume that as the price of product Z decreases, the demand for product Y decreases. It can be concluded that...

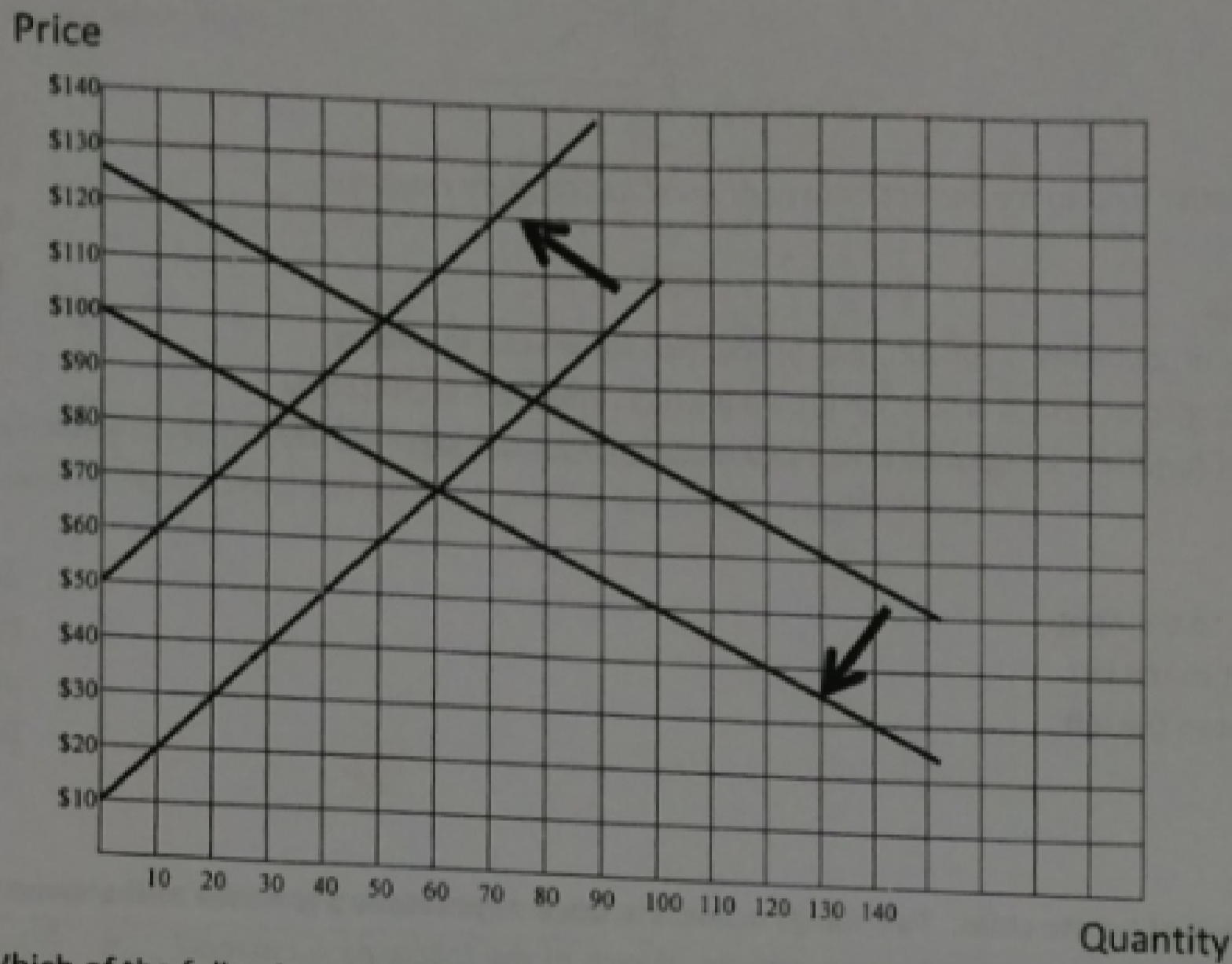
- a. Z and Y are complements
- b. Z and Y are both inferior goods
- c. Z and Y are substitutes
- d. Y must be an inferior good, but we cannot say about Z

5. Your demand equation is $P = 100 - 2 \cdot Q$. Your supply equation is $P = 40 + Q$. Consumer surplus in this market is...

- a. 320
- b. 400
- c. 480
- d. None of the above

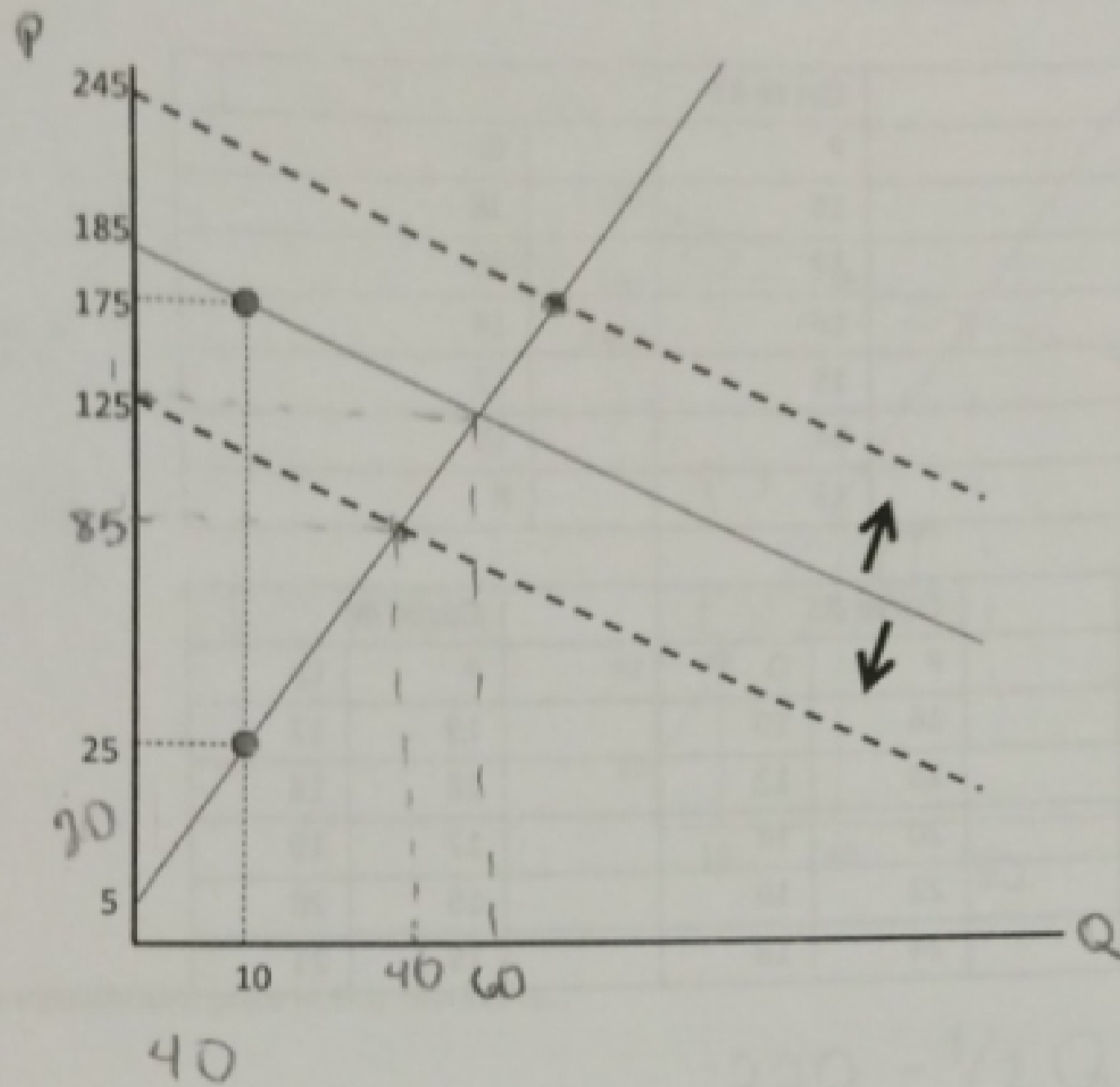
$$\begin{aligned} 100 - 2Q &= 40 + Q \\ 100 &= 40 + 3Q \quad P = 60 \\ 60 &= 3Q \quad Q = 20 \\ (100 - 60) \cdot 20 \cdot \frac{1}{2} &= 800 \cdot \frac{1}{2} \\ &= 400 \end{aligned}$$

Use this graph to answer the next two questions.



6. Which of the following is not depicted on the graph above?
- a. This is the demand for Diet Coke and the price of Diet Pepsi increases.
 - b. This is the demand for a normal good and income increases
 - c. This is the demand for gasoline today and you expect the price of gasoline to go up in the future
 - d. Actually none of the above is depicted on this graph
7. Which of the following is depicted on this graph?
- a. This is the supply of corn flakes and the price of corn increases
 - b. This is the supply of microprocessors and the factory making microprocessors introduces new technology
 - c. This is the supply of blue jeans and suppliers expect the price of blue jeans to decrease in the future
 - d. This is the supply of pizza and several new pizza restaurants enter the market
8. Assume that as the price of product Z increases, the demand for product Y decreases. It can be concluded that...
- a. Z and Y are complements
 - b. Z and Y are both inferior goods
 - c. Z and Y are substitutes
 - d. Y must be an inferior good, but we cannot say about Z
9. Which of the following would fall under the heading of "macroeconomics"?
- a. Investigating why the national unemployment rate is as high as it is
 - b. Investigating why an individual firm introduces a new product
 - c. Investigating how an individual person allocates his/her time
 - d. Actually all three would fall under the heading of "macroeconomics"

Use the graph below to answer the next 3 questions. Assume the slopes of all three demand curves are identical.



10. You are initially at the intersection of the two solid lines; the demand curve with intercept of "185" and the supply curve with intercept of "5". What is the equilibrium quantity in this market?

- a. 80
- b. 70
- c. 60
- d. 50

demand $P = 185 - Q$
 $10/10$ $5 + 2Q$

$$185 - Q = 5 + 2Q$$

$$185 = 5 + 3Q$$

$$180 = 3Q$$

$$Q = 60 \quad P = 125$$

11. Now assume that this product, whatever it is, has a complement and the price of the complement has increased. What will be the new equilibrium quantity in this market?

- a. 45
- b. 40
- c. 35
- d. 30

~~$245 - Q = 5 + 2Q$~~
 ~~$245 = 5 + 3Q$~~
 ~~$240 = 3Q$~~
 $Q = 40$
 $P = 85$

$$125 - Q = 5 + 2Q$$

$$125 = 5 + 3Q$$

$$120 = 3Q$$

12. Based on your answer to the question immediately above (the new equilibrium) what will be the value of producer surplus in this market?

- a. 1,200
- b. 1,300
- c. 1,400
- d. None of the above

$$85 - 5 = 80 \cdot 40 = 3200 \cdot \frac{1}{2}$$

$$= 1600$$