ECN 221 Practice Problems for Chapter 3 ~ This is not due for a grade

1. Which of the following is held constant along the demand curve?
   a. income, tastes, and the price of the good.
   b. income and tastes.
   c. income, tastes, and the price of other goods.
   d. tastes and the price of other goods.

2. According to the law of demand: As prices rise, ceteris paribus,
   a. demand increases.
   b. demand decreases.
   c. quantity demanded decreases.
   d. quantity demanded increases.

3. The quantity demanded of Pepsi has decreased. The best explanation for this is that
   a. the price of Coca Cola has increased.
   b. Pepsi's advertising is not as effective as in the past.
   c. the price of Pepsi increased.
   d. Pepsi consumers had an increase in income.

4. A change in income, preferences, or prices of other goods or services leads to a__________ which leads to a__________.
   a. change in demand; movement along the demand curve
   b. change in quantity demanded; movement along the demand curve
   c. change in demand; shift of the demand curve
   d. change in quantity demanded; shift of the demand curve

5. Which of the following will not cause the demand for coffee to shift to the right?
   a. An increase in the income or wealth of coffee consumers.
   b. A decrease in the price of cream (cream and coffee are complements).
   c. An announcement that the price of coffee will decrease in the near future.
   d. A decrease in the price of coffee.
   e. Both a. and b.
   f. Both c. and d.

6. Suppose a firm enters a market for the first time, and sets the price of their good above the true equilibrium price, so that the quantity demanded is less than the quantity supplied. Which of the following is true?
   a. This market is not in equilibrium, and the price of the good will fall to eliminate the surplus.
   b. This market is not in equilibrium, and the price of the good will rise to eliminate the surplus.
   c. This market is not in equilibrium, and the demand for the good will fall, causing the price of the good to decrease.
   d. This market is not in equilibrium, and the supply of the good will fall, causing the price of the good to increase.
   e. This market is in equilibrium, and there will be no changes until the firm goes out of business.

7. An increase in your income causes your demand for ramen noodles to decrease. It must be true that:
   a. Ramen noodles are a normal good for you
   b. Ramen noodles are an inferior good for you
   c. The law of demand does not apply to Ramen noodles
   d. Your demand for Ramen noodles is perfectly elastic
8. During the recent hurricanes many large trees fell that would not have otherwise been cut down. Because of this, there will be a larger than usual supply of firewood this winter. Given this change, we would expect to see:
   a. The equilibrium price of firewood will fall, and equilibrium quantity will rise.
   b. The equilibrium price of firewood will rise, and equilibrium quantity will fall.
   c. The equilibrium quantity of firewood will rise, but we can't be sure what will happen to equilibrium price.
   d. The equilibrium price of firewood will fall, but we can't be sure what will happen to equilibrium quantity.

9. Which of the following will not cause the demand for bagels to increase?
   a. a decrease in the price of bagels
   b. a decrease in the price of cream cheese (a complement to bagels)
   c. a decrease in the price of doughnuts (a substitute for bagels)
   d. a decrease in the price of flour (an input into bagels)
   e. all of the above
   f. a and b only
   g. a, c and d

Use the following graph to answer questions 10-12:

![Graph](image)

10. Assume the market is initially at point B and that pizza is a normal good. A decrease in income would cause the market to move from point B on demand curve D2 to
   A. demand curve D1.
   B. demand curve D3.
   C. point A on demand curve D2.
   D. point C on demand curve D2.

11. If pizza and beer are complements, a decrease in the price of beer will cause a movement from point B on demand curve D2 to
   A. demand curve D1.
   B. demand curve D3.
   C. point A on demand curve D2.
   D. point C on demand curve D2.

12. A movement from point C to point B on demand curve D2 would be caused by
   A. a decrease in income, assuming pizza is a normal good.
   B. a decrease in the price of hamburgers, assuming that pizza and hamburgers are substitutes.
   C. a decrease in the price of pizza.
   D. an increase in the price of pizza sauce.
13. The price of pizza dough increases. In the market for pizza you would expect that
A. the demand for pizza would increase and the price of pizza would increase.
B. the demand for pizza would decrease and the price of pizza would fall.
C. the supply of pizza would decrease and the price of pizza would increase.
D. the supply of pizza would increase and the price of pizza would decrease.

**True/False** - For each of the following, write "T" if the statement TRUE and "F" if it is False.

14. _____ An increase in the price of Bob Marley CD's will cause a decrease in the Demand for Bob Marley CD's
15. _____ When the price of good A rises, the demand for good B falls. Therefore A and B are complements.
16. _____ The law of demand states that there is an inverse relationship between prices and consumer's incomes.
17. _____ A simultaneous increase in both the supply of and the demand for plaid flannel shirts will always cause an increase in the equilibrium quantity of plaid flannel shirts and a decrease in their price.
18. _____ A decrease in demand for a product will cause the price of the product to fall and supply of the product to decrease.

19. Assume the following regarding the supply of potatoes:
   - Land, labor and tractors are inputs into the production of potatoes.
   - Corn can be produced with the same inputs as potatoes.
   - The technology used in producing potatoes involves small tractors that are not very fast.
   a. Draw a graph illustrating the SUPPLY of potatoes.
   b. List 4 changes that would cause an increase in the supply of potatoes.
   c. Show an increase in supply on your graph.

20. Assume that the following 4 consumers make up the entire market for a given product, and that the price and quantity combinations below represent how much each of these consumers is willing and able to purchase at various prices. Fill in the market $Q^D$ column. That is, derive the market demand schedule for this product given the individual demand schedules.

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21. (a) Draw a graph illustrating an equilibrium situation in the market for Skippy peanut butter. Assume that Georgia peanuts are an input into Skippy peanut butter, and that an improvement in the technology used in harvesting peanuts causes the price of peanuts to fall. Use your graph to show what will happen in the market for Skippy peanut butter following this change. Be sure to show (or explain) what will happen to the equilibrium price and quantity of Skippy peanut butter.
   (b) Use a new graph to show what will happen in the market for Smuckers grape jelly, which is a complement to Skippy peanut butter following the change in part (a). Again, be sure to clearly show (or explain) what will happen to equilibrium price and quantity.