M Economics The Basics 3rd edition Mandel Test Bank

SKU: 9780078021794-TEST-BANK

Chapter 02 Demand and Supply

True / False Questions

1. The rate at which buyers exchange money for a good or service is known as the price.

Explanation: The rate at which the buyer and seller exchange money for a good or service is called the price.
Answer: True
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

2. Individuals in a market economy can be both buyers and sellers.

Explanation: A typical worker is a seller of labor, while also a buyer of products and services.
Answer: True
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

3. Buyers and sellers who are geographically close to each other are part of a national market.

Explanation: Buyers and sellers who are geographically close are part of a local market.
Answer: False
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

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4. The Internet has allowed an increasing number of goods and services to be traded in national markets.

Explanation: Many services and products are available from the sellers' websites, regardless of the geographical location of the buyer.
Answer: True
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

5. Crude oil is sold in a local market.

Explanation: Because of the multinational basis of many oil companies, crude oil has been sold in a global market for decades.
Answer: False
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

6. The market price is the typical price at which a good or service sells.

Explanation: The market price is the typical price at which a good or service sells.
Answer: True
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

7. The individual quantity demanded is the amount that the buyer is allowed to purchase at a given price.

Explanation: Individual quantity demanded is based on the amount that the buyer is willing to purchase at a given price.
Answer: False
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.

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Topic: How Price Affects the Quantity Demanded

8. The law of demand says that in most cases, the lower the price, the lower the quantity demanded.

Explanation: The law of demand says that a lower price tends to increase the quantity demanded, all other things equal.
Answer: False
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

9. Zero-price products and services exist only in the technology sector.

Explanation: You can use all-you-can-eat buffets and unlimited refills of coffee as examples of zero-price products outside of technology.
Answer: False
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

10. A demand schedule illustrates the quantities of a particular product or service that are demanded at different prices.

Explanation: The demand schedule illustrates the link between a buyer's quantity demanded and the product's price.
Answer: True
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

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Multiple Choice Questions

11. The demand curve is the graphical counterpart to the

A. demand schedule.
B. supply curve.
C. supply schedule.
D. market equilibrium.

Explanation: The demand curve shows the graphical representation of quantity demanded at different prices.
Answer: A
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

12. The law of demand suggests that most demand curves will be

A. upward-sloping.
B. a straight line.
C. downward-sloping.
D. curved.

Explanation: As a product's price increases, there is usually a decrease in quantity demanded, leading to a negative, or "downward," slope for a demand curve.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

13. A supply schedule illustrates the quantity supplied at

A. various demand levels.
B. a single selling price.
C. different selling prices.
D. market equilibrium.

Explanation: The supply schedule for a good or service reports the quantity supplied at different selling prices.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

14. A market supply schedule

A. is all the products or services demanded in a market.
B. combines the quantities supplied by all businesses in a market.
C. has an upward-sloping demand curve.
D. is determined by adding demand and supply.

Explanation: The market supply schedule adds up the quantity supplied by all the sellers in a market.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

15. The law of supply says that higher prices tend to _____ the quantity of a good or service supplied, assuming no other changes.

A. increase
B. decrease
C. first decrease, then increase
D. first increase, then decrease

Explanation: The law of supply states that a higher price tends to increase the quantity supplied, all other things equal.
Answer: A
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

16. Supply curves are generally

A. upward-sloping.
B. downward-sloping.
C. a straight line in real life.
D. responsive to demand curves.

Explanation: As the price of a product or service increases, generally so does the quantity supplied, creating an upward-sloping supply curve.
Answer: A

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AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

17. The demand schedule is a description of the behavior of _____ in a market.

A. sellers
B. buyers
C. labor
D. goods or services

Explanation: The demand schedule provides a link between a buyer's quantity demanded and the price.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

18. *Ceteris paribus*, when used by economists, means

A. for every action, there is a reaction.
B. things never change.
C. all other things equal.
D. buyer beware.

Explanation: When constructing a demand schedule, economists use the assumption of ceteris paribus to mean that the schedule reflects changes in no variables other than price and quantity demanded.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

19. Opportunity cost is defined as the value or benefit of the

A. most valuable item.
B. least valuable item.
C. equilibrium price.
D. next best alternative.

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Explanation: See the definition of opportunity cost.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

20. A table showing how much lemonade consumers are willing to buy at different prices would be best described as a

A. consumption table.
B. supply schedule.
C. equilibrium table.
D. demand schedule.

Explanation: A demand schedule shows the relationship between price and quantity demanded.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

21. The way that economists explain it, the worker is a _____ in the _____ market.

A. buyer; labor
B. seller; labor
C. buyer; job
D. seller; job

Explanation: Workers sell their time on the job for money.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

22. Global markets consist of buyers and sellers

A. anywhere in the world.
B. only within their community.
C. within a nation.
D. within a state.

Explanation: Global markets allow buyers and sellers to be anywhere in the world.

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Answer: A
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

23. The market price can sometimes be difficult to identify due to which of the following?

A. The laws of supply and the law of demand
B. Equilibriums and opportunity costs
C. Satiation and zero prices
D. Sale prices and negotiated prices

Explanation: Sale prices, negotiated prices, volume discounts, and advanced purchase discounts each affect the market price.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

24. Which of the following goods is NOT an example of a good that carries an advance purchase discount?

A. Prepaid tuition plans
B. Airline tickets
C. “Early bird” conference registration
D. Refrigerated milk

Explanation: When the buyer pays for a good or service in advance, the buyer typically will receive a discount from the market price.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

25. A market demand schedule for hamburgers would NOT include which of the following?

A. Vegetarians, who buy no hamburgers
B. People who eat a cheeseburger every day for lunch
C. The concept of *ceteris paribus*
D. The labor market

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Explanation: The market demand schedule for hamburgers would tell us how many hamburgers would be bought by people at any given price.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

26. If the market price of $10 per lawn leads to the quantity supplied of 15 mowed lawns, and the market price of $15 per lawn leads to 25 lawns mowed, what does the supply curve look like?

A. It slopes down and to the right.
B. It slopes up and to the right.
C. It is a horizontal line.
D. It is a vertical line.

Explanation: If the quantity supplied rises when the price rises, as the law of supply predicts, then the graph of the supply curve will slope up and to the right.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

27. According to the law of demand, when the price of a good falls

A. the quantity of the good supplied will increase to meet the increased demand.
B. the quantity of the good demanded tends to rise.
C. the quantity of the good supplied will decrease to meet the decreased demand.
D. the quantity of the good demanded tends to fall.

Explanation: The law of demand states that a lower price tends to increase the quantity demanded, all other things equal.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

28. Which of the following is generally NOT an example of a zero price?

A. Watching another movie on Netflix
B. Sending another text message

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C. Getting a refill of coffee at a restaurant
D. Downloading another MP3 from iTunes

Explanation: Some products come with a zero price, so that you get an additional unit of a good or service at no extra charge. For example, with Netflix, a consumer pays a monthly fee but has unlimited use.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

29. Which of the following is an example of a product that is sold primarily in a local market?

A. Cheese
B. Butter
C. Milk
D. Oil

Explanation: Due to transportation issues and government regulations, milk is primarily sold locally. Cheese, butter, and oil are sold globally.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

30. Sale prices mean that a good's price is

A. temporarily reduced.
B. otherwise set above the market price.
C. equal to the equilibrium price.
D. a meaningless variable.

Explanation: A sale price is intentionally set below the market price for a limited time to stimulate purchases.
Answer: A
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

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31. Based on the law of demand, what would you expect to happen if the price of gasoline were to rise to $8.00 per gallon?

A. The quantity demanded would increase.
B. There would be no impact on demand or supply.
C. The quantity demanded would decrease.
D. The quantity supplied would increase. .

Explanation: According to the law of demand, when the price increases, there generally is a corresponding decrease in quantity demanded.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

32. In economics, satiation means

A. eventually the marginal value of the good consumed increases.
B. that quantity demanded and quantity supplied rises.
C. eventually the marginal value of the good consumed decreases.
D. that the market price has been attained.

Explanation: As you consume more of a good, you eventually reach a satiation point when the value of consuming more of the good falls to zero. . There is only so much free coffee you can drink before your body rejects it.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

33. In contrast to the law of supply, sometimes _____ can reduce the quantity supplied.

A. an increased price
B. a market supply curve
C. a market demand curve
D. price negotiations

Explanation: Labor markets provide a good example: If you have a goal to earn $2,000, and are paid $10 per hour, it will take you 200 hours to achieve that goal. If your rate increases to $20 per hour, the amount of labor you supply to reach your goal will decrease.
Answer: A
AACSB: Reflective Thinking
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

34. The textbook provides examples of markets that are

A. local and global.
B. national and global.
C. individual, local, national, and universal.
D. local, national, and global.

Explanation: Markets are a way for buyers and sellers to voluntarily exchange goods and services for money, regardless of their physical proximity to one another.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

35. What would it mean if a demand curve sloped upward and to the right?

A. Quantity demanded decreases as the price increases.
B. Quantity demanded increases as the price increases.
C. There is no relationship between price and quantity demanded.
D. Quantity demanded increases as the price decreases.

Explanation: Demand curves are generally downward-sloping because as price falls, quantity demanded rises.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

36. A vertical supply curve would mean that

A. as price decreases, quantity supplied decreases.
B. as price decreases, quantity supplied increases.
C. the price does not affect the quantity supplied.
D. market equilibrium has been reached.

Explanation: A vertical supply curve would imply that quantity supplied was constant, regardless of the price.
Answer: C
AACSB: Analytical Thinking

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

37. One of the biggest benefits of a market-based economy is

A. centralized planning.
B. the ability to adapt quickly to change.
C. government regulation.
D. consumer protection policies.

Explanation: New markets are created every day to the changing needs of consumers and to take advantage of the changing capabilities of producers.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Discuss why the number of markets can increase.
Topic: New Markets

38. If the quantity of a good that buyers are willing to buy rises sharply when the price falls, this illustrates what principle?

A. The law of supply
B. The law of demand
C. Market equilibrium
D. *Ceteris paribus*

Explanation: The law of demand states that when a price drops, the quantity demanded generally increases.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

39. Which of the following is NOT an example of a good or service provided by a market?

A. Illegal sports betting
B. Metered street parking in Sacramento, California
C. Pizza in Toledo, Ohio
D. The air we breathe

Explanation: The air we breathe is not exchanged between buyers and sellers.
Answer: D
AACSB: Reflective Thinking

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

40. Buying a used textbook from a fellow student is an example of what type of market?

A. Local
B. National
C. Global
D. Labor

Explanation: Because the buyer and the seller of the textbook are geographically close to one another, this is an example of a local market.
Answer: A
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

41. The market price is

A. the exact price a product sells for at a specific time.
B. the typical price at which a good or service sells.
C. always easy to determine.
D. usually higher than the equilibrium price.

Explanation: Market price is the typical price at which a good or service sells.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

42. What phrase do economists use to describe the assumption that everything else about a situation stays the same, allowing only one variable, such as price, to change?

A. *E pluribus unum*
B. *Caveat emptor*
C. *Vini, vidi, vici*
D. *Ceteris paribus*

Explanation: The implicit assumption that all other variables stay the same when the price changes is called ceteris paribus, which means "all other things equal."

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Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

43. When you have to give up one opportunity in order to choose another, the value of the opportunity that is not chosen is called the

A. opportunity price.
B. opportunity cost.
C. forgone value.
D. choice equilibrium.

Explanation: Opportunity cost is the value or benefit of the next-best alternative use of money or time.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

44. What might happen if the market price for haircuts increased?

A. Cutting hair would be less profitable.
B. Some stylists would work fewer hours.
C. Some salons might close.
D. Some hair salons might hire more stylists.

Explanation: The law of supply states that a higher price tends to increase the quantity supplied, all other things equal.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

45. The number of markets is

A. fixed.
B. always changing.
C. closed.
D. variable on a local basis, but fixed on a national basis.

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Explanation: As technology changes, so do markets.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Discuss why the number of markets can increase.
Topic: New Markets

46. What is the name given to the price in a labor market?
A. The supply rate
B. The demand rate
C. The equilibrium rate
D. The wage rate

Explanation: Sellers trade their time for money (wages).
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

47. The law of demand

A. can never be violated.
B. is the opposite of the law of supply.
C. works only in large markets.
D. is a general tendency.

Explanation: Generally speaking, the lower the price, the greater the quantity demanded.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

48. The demand schedule reports the quantity demanded at

A. many different prices.
B. a zero price.
C. the average of all prices.
D. the market equilibrium price.

Explanation: The demand schedule shows the link between a buyer's quantity demanded and the price.
Answer: A

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AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

49. The supply schedule is a description of

A. the quantity demanded at a single price.
B. the supply offered according to demand.
C. the basis of calculating market price.
D. the relationship between quantity supplied and market price.

Explanation: The supply schedule for a good or service reports the quantity supplied at different selling prices.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

50. The individual quantity demanded is the amount the _____ is willing to _____ at a given price.

A. seller, purchase
B. buyer, purchase
C. buyer, sell
D. seller, sell

Explanation: The quantity demanded by a particular buyer is the amount that a buyer is willing to purchase at a given price.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

51. Natural resources, such as crude oil and fish, are often sold in _____markets.

A. local
B. national
C. global
D. labor

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Explanation: The textbook uses crude oil and fish as two examples of goods sold in global markets.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

52. Households are generally buyers in the markets for products and sellers in _____ markets.

A. goods
B. service
C. natural resource
D. labor

Explanation: In labor markets, individuals sell their labor; in product markets, individuals buy goods and services.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
Topic: Prices, Buyers, and Sellers

53.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. Which of the following statements does NOT explain why the quantity demanded was not higher for a price of $0?

A. There are only so many songs that people want to listen to.
B. Downloading an MP3 takes time.
C. MP3s take up space on a computer's hard drive.
D. People would rather pay for the downloads.

Explanation: The quantity demanded at a price of zero is not infinite because of opportunity cost and satiation.
Answer: D

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AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

54.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. Does this demand schedule conform to the law of demand?

A. Yes, because as the price falls, the quantity demanded rises.
B. Yes, because as the price falls, the quantity demanded also falls.
C. No, because there appears to be no relationship between price and quantity demanded.
D. No, because the demand for most goods does not follow the law of demand.

Explanation: The law of demand holds that as price rises, the quantity demanded falls.
Answer: A
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

55.

Price	Quantity Demanded
$0	1,000
$1	400
$2	200
$3	100
$4	25

Refer to the table, which shows the number of MP3 downloads demanded per month for the students at a certain university. What would happen to the quantity of MP3s demanded at a price of $2 if the university's enrollment were to increase significantly?

A. The quantity demanded would fall below 200 because there would be more students competing for MP3s.

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B. The quantity demanded would remain at 200 because the number of buyers in a market does not impact the market demand schedule.
C. The quantity demanded would increase above 200 because the market demand schedule is the sum of individual demand schedules, and more students means more individual demand schedules for MP3s.
D. The quantity demanded would rise to exactly 400 because every number in the table would simply shift down one row.

Explanation: The market demand schedule sums the demand schedules of all buyers, so more buyers would increase the quantities demanded at every price.
Answer: C
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

56. Does the law of supply apply to labor markets?

A. Yes, because all workers will increase the number of hours they work if their wages increase.
B. Yes, because some workers who are less committed to the labor force will decide to work if wages increase.
C. No, because the laws of supply and demand both apply only to product markets.
D. No, because workers have no control over the number of hours they work.

Explanation: Although some workers may not respond to an increase in wages by working more (some workers may even work less), higher wages tend to draw workers into labor markets.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

57. The average sale price of a home in the United States increased from $207,000 to $297,000 from 2000 to 2005. All else equal, we would expect that during the same time the quantity of new homes supplied

A. also increased.
B. decreased.
C. did not change.
D. changed directly in proportion to changes in the population.

Explanation: The law of supply states that as prices rise, quantity supplied also rises.
Answer: A
AACSB: Knowledge Application
Blooms: Apply

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Difficulty: 3 Hard
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

58. If the average market price for haircuts increases, all else equal, which of the following is LEAST likely to occur as a result?

A. More new salons will open.
B. Existing salons and barber shops will hire more stylists and barbers.
C. Some workers will leave other jobs in order to become hair stylists.
D. Many salons will go out of business.

Explanation: Higher prices lead to higher quantities supplied. This is because existing suppliers produce more and because new suppliers enter the market.
Answer: D
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

59. The market for automobiles in China has experienced tremendous growth primarily because of

A. relaxed emissions standards in China.
B. rising incomes in China.
C. higher wages of American workers.
D. the invention of new products.

Explanation: Rising incomes in China have created the potential for many new markets for American products.
Answer: B
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Discuss why the number of markets can increase.
Topic: New Markets

60. The market for smartphones did not exist 30 years ago because

A. consumers did not need or want smartphones.
B. portable electronic devices were illegal.
C. the technology did not exist to produce smartphones.
D. smartphones were too expensive for most consumers.

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Explanation: There are different reasons why new markets arise. Consumers would certainly have enjoyed smartphones 30 years ago, but most of the technology required did not exist at that time.
Answer: C
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Discuss why the number of markets can increase.
Topic: New Markets

61.

Price per pizza	**Quantity Demanded**
$0	?
$5	200
$10	75

Refer to the table, which shows part of the weekly demand schedule for pizza in a certain town. The current market price for pizza is $5 per pizza. According to the laws of economics, which of the following could be the missing number?

A. Infinity
B. 500
C. 125
D. 0

Explanation: The law of demand holds that as price falls, quantity demanded increases. However, due to satiation and opportunity cost, the quantity demanded at a zero price will not be infinity.
Answer: B
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

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62.

Price per pizza	Quantity Demanded
$0	500
$5	200
$10	75

Refer to the table, which shows part of the weekly demand schedule for pizza in a certain town. If one were to plot these three points on a graph, what would the result be?

A. A downward-sloping demand curve
B. A downward-sloping supply curve
C. An upward-sloping demand curve
D. An upward-sloping supply curve

Explanation: The numbers in this demand schedule follow the law of demand, so they would graph as a downward-sloping demand curve. AACSB: Analytical Thinking
Answer: A
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

63.

Price per yard	Quantity supplied
$15	?
$25	20

Refer to the table, which shows part of the weekly supply schedule for fall leaf-raking in a certain neighborhood. According to the laws of economics, which of the following could be the missing number?

A. 10
B. 20
C. 30
D. More information is needed.

Explanation: The law of supply holds that as the price of a good or service falls, the quantity of that good or service supplied will also fall.

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Answer: A
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

64.

Price per yard	**Quantity supplied**
$20	25
$?	15

Refer to the table, which shows part of the weekly supply schedule for fall leaf-raking in a certain neighborhood. According to the laws of economics, which of the following could be the missing number?

A. 0
B. 15
C. 25
D. 35

Explanation: The law of supply holds that as the price of a good or service falls, the quantity of that good or service supplied will also fall.
Answer: B
AACSB: Knowledge Application
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

65. Which of the following is NOT provided in the textbook as something that might lead to the creation of a new market?

A. New buyers
B. New sellers
C. New services
D. New laws

Explanation: New markets are markets with new products and services, or markets that include mostly new buyers and sellers.
Answer: D
AACSB: Reflective Thinking
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-04 Discuss why the number of markets can increase.
Topic: New Markets

Short Answer Questions

66. Explain why a demand curve slopes downward.

Answer: As the price of a good decreases, more consumers are inclined to purchase it, increasing the quantity demanded. Since the demand curve is graphed with price on the vertical axis (higher prices at higher points) and quantity demanded on the horizontal axis (higher quantities to the right), this leads to a demand curve with a negative (downward) slope.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain how the price in a market affects the quantity demanded.
Topic: How Price Affects the Quantity Demanded

67. What determines a market supply schedule?

Answer: By combining the quantity supplied by all businesses in a given market at different prices, the market supply schedule indicates the amount of a product or service all sellers are willing to provide at those prices.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

68. What does an upward-sloping supply curve mean?

Answer: As the price increases, the quantity supplied generally increases, causing the line to slope upward. Suppliers are generally willing to invest in more production to increase supply if they are going to be paid more for the product or service. More profit also tends to attract more suppliers of the same product or service.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain how the price in a market affects the quantity supplied.
Topic: How Price Affects the Quantity Supplied

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69. Give three examples of why new markets are created every day.

Answer: New technologies create products for needs we didn't know we had, new services for technologies that didn't exist before, and new customers in countries with fast-growing economies. An example of this is the MP3 player. Prior to the introduction of MP3 technology, consumers did not need a small, handheld device to store and transfer recorded music. The creation of this technology resulted in a complete shift in the distribution of music.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Discuss why the number of markets can increase.
Topic: New Markets

70. What do economists mean when they say *ceteris paribus*?

Answer: When speaking about the laws of demand and supply, economists want to isolate changes in price from other changes, so they assume that key factors don't change when price goes up or down. When economists say that quantity demanded will decrease, for example, as price increases, they mean that this will happen if there are no other changes that could affect quantity demanded.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Describe the key elements of a market.
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