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| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **1** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Use the following diagram to answer the next question.  http://glencoe.mcgraw-hill.com/sites/dl/free/0025694212/627563/q1.jpg  Refer to the diagram. Between the prices of $10 and $8, the price elasticity of demand is: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | .5 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | .9 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | 1.11 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | 2 |
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| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **2** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Use the following diagram to answer the next question.  http://glencoe.mcgraw-hill.com/sites/dl/free/0025694212/627563/q2.jpg  Refer to the diagram. Suppose total revenue at price P3 is the same as at price P2. Then, over the price range from P2 to P3, demand is: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | relatively elastic |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | relatively inelastic |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | unit elastic |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | perfectly elastic |
|  |  |  |  |  |
|  | | | | |
| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **3** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Suppose that a 2% increase in income in the economy decreases the quantity of gadgets demanded by 1% at every possible price. This implies that: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | the supply of gadgets is elastic |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | income elasticity is positive and gadgets are a normal good |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | income elasticity is negative and gadgets are a normal good |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | income elasticity is negative and gadgets are an inferior good |
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| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **4** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif The maker of a particular breakfast cereal found that increasing the price from $3.00 to $3.25 per box had no impact on total revenue, but increasing the price further to $3.50 reduced total revenue by 2%. Thus, the demand for the cereal is: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | inelastic over the range $3.00 to $3.50 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | elastic over the range $3.00 to $3.25 but not over the range $3.25 to $3.50 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | unit elastic over the range $3.00 to $3.25 and elastic over the range $3.25 to $3.50 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | unit elastic over the range $3.00 to $3.25 and inelastic over the range $3.25 to $3.50 |
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| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **5** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Use the following diagram to answer the next question.  http://glencoe.mcgraw-hill.com/sites/dl/free/0025694212/627563/q5.jpg  Refer to the diagram. In this competitive market, combined consumer and producer surplus is maximized at: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | price M |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | price B |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | output G |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | output H |
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|  | | | | |
| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **6** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif The cross elasticity of demand between two goods is reported to be +0.2. This implies that: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | a 2% increase in the price of one shifts the demand curve for the other to the left by 1% |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | the two goods are complements |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | the two goods are substitutes |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | both goods are normal goods |
|  |  |  |  |  |
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| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **7** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Which of the following is likely to have the most elastic demand? | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | Food |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | Fruit |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | Bananas |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | Dole brand bananas |
|  |  |  |  |  |
|  | | | | |
| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **8** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Answer the next question on the basis of the following diagram:  http://glencoe.mcgraw-hill.com/sites/dl/free/0025694212/627563/q8.jpg  Refer to the diagram. At the equilibrium price and quantity, total consumer surplus in this market is: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | $3 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | $7 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | $150 |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | $350 |
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| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **9** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Suppose legalization—and subsequent regulation—of heroin and cocaine reduces their prices by 50%. Estimates suggest the total quantity of heroin and cocaine demanded would rise by 83% and 42%, respectively. Consequently, legalization would: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | increase total expenditures on both heroine and cocaine |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | decrease total expenditures on both heroine and cocaine |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | increase total expenditures on heroine and decrease total expenditures on cocaine |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | decrease total expenditures on heroine and increase total expenditures on cocaine |
|  |  |  |  |  |
|  | | | | |
| http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | | | | |
| **10** | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif Assume that the price of product Y decreases by 5% and the quantity supplied decreases by 2%. The coefficient of price elasticity of supply for good Y is: | |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | negative and therefore Y is an inferior good |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | less than one and therefore supply is inelastic |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | more than one and therefore supply is elastic |
|  | | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **D)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | negative and therefore the supply curve is downward sloping |

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