Economics Chapter 6 Review

Matching

a. price ceiling  
   b. minimum wage  
   c. equilibrium  
   d. price floor  
   e. shortage  
   f. rent control  
   g. surplus  
   h. disequilibrium

1. point at which quantity demanded equals quantity supplied
2. when quantity supplied is not equal to quantity demanded
3. when quantity demanded is more than quantity supplied
4. when quantity supplied is greater than quantity demanded
5. legal maximum that can be charged for a good
6. government-set price floor on earnings

Multiple Choice

Identify the choice that best completes the statement or answers the question.

7. In general, what happens to the price of a good or service when a shortage of that good or service occurs?
   a. It remains unchanged while quantity demanded drops.
   b. It increases until quantity demanded equals quantity supplied.
   c. A price ceiling is imposed, lowering the price to meet the demand.
   d. It decreases until quantity demanded equals quantity supplied.

8. What happens when a market is in disequilibrium and prices are flexible?
   a. Market forces push toward equilibrium.
   b. Sellers waste their resources.
   c. Excess demand is created.
   d. Unsold perishable goods are thrown out.

9. What condition has been reached when buyers purchase exactly as much as sellers are willing to sell?
   a. supply and demand
   b. shortage
   c. equilibrium
   d. price floor

10. Use the graph below to answer questions 32 and 33. Students are publishing an annual literary magazine at their school. How many copies should they print and what price should they charge for each copy?
    a. 300 copies at $3 each
    b. 200 copies at $4 each
    c. 250 copies at $5 each
    d. 100 copies at $6 each
11. Which of the following is the best illustration of equilibrium?
   a. All the stores in a city that stock a certain model of plasma screen television are selling it for the same price of $899.
   b. The number of plasma screen televisions a store has for sale at $899 is the same as the number of its customers willing to buy one at that price.
   c. Some customers believe that $899 is too much to pay for a plasma screen television and decide to buy a lower-cost television instead.
   d. One store that sells plasma screen televisions for $999 lowers its price to $899 to match the price that other stores are charging.

12. What will happen to price, supply, and demand when a surplus of a product develops?
   a. Price and demand will rise. At the same time, supply will fall.
   b. Price will rise. At the same time, supply and demand will fall.
   c. Price and supply will fall. At the same time, demand will rise.
   d. Price will fall. At the same time, demand and supply will rise.

13. Why does a government place price ceilings, such as rent control, on some “essential” goods?
   a. to prevent inflation during boom times
   b. to keep business people from making large profits
   c. to keep the goods from becoming too expensive
   d. to reduce demand for these goods

14. In 1971 the American economy was suffering from a rapid increase in the cost of living. To combat this trend, the government temporarily froze all wages and prices. This action by the government is an example of
   a. rationing.
   b. disequilibrium.
   c. a price ceiling.
   d. a price floor.

15. On which kinds of goods do governments generally place price ceilings?
   a. those that are cheap but could become more expensive without the ceiling
   b. those that are not necessary but have become customary
   c. those that are essential and cheap
   d. those that are essential but too expensive for some consumers

16. The price ceiling that was used to control the price of housing in New York City and other cities was called
   a. rent control.
   b. rent abatement.
   c. housing control.
   d. equilibrium price.

17. A shortage will develop when
   a. the quantity of a good that is supplied is greater than the quantity demanded.
   b. the discovery of new technology reduces production costs.
   c. the government provides subsidies to producers.
   d. the market price is below the equilibrium price.
18. What is the government’s goal in buying excess crops or other agricultural products?
   a. to raise minimum wage
   b. to keep prices from going down
   c. to set legal price ceilings
   d. to lower prices

19. When is a market at equilibrium?
   a. when quantity demanded equals quantity supplied
   b. when unsold goods begin to pile up
   c. when prices equal the cost of production
   d. when suppliers begin to reduce prices

20. What condition must be present before a product’s price will naturally move toward its equilibrium price?
   a. price floors
   b. high taxes
   c. a free market
   d. rationing

21. How did the market react to an increased supply of digital cameras?
   a. Suppliers struggled to keep up with consumer demand for cameras.
   b. Manufacturers produced fewer cameras.
   c. Suppliers increased prices on the cameras.
   d. A surplus of cameras forced suppliers to reduce prices.

22. Suppose the market for the magazine is in equilibrium. Some students insist on raising the cover price by $1 and printing the same quantity. What is likely to happen?
   a. The demand for the magazine will go up.
   b. There will be a shortage of 150 magazines.
   c. There will be a surplus of 100 magazines.
   d. The surplus will be greater than their sales.
23. Advances in technology have reduced the cost of manufacturing MP3 players. If demand does not change,
   a. more MP3 players will be sold at a higher price.
   b. fewer MP3 players will be sold at a higher price.
   c. more MP3 players will be sold at a lower price.
   d. fewer MP3 players will be sold at a lower price.

24. How did an improvement in the technology for producing digital cameras affect supply?
   a. The supply curve moved to the left.
   b. The supply curve moved to the right.
   c. The demand curve moved to the right.
   d. The demand curve moved to the left.

25. Which of the following could cause the supply curve of a good to shift to the right?
   a. new technology to produce the good
   b. raw materials shortage
   c. higher taxes on the good
   d. a minimum wage increase

Directions: Write the letter of the correct answer.

26. How does a firm respond to a higher demand for its goods?
   a. It rations goods.
   b. It raises prices.
   c. It cuts prices.
   d. There is no set response.

27. What is the main principle of Adam Smith’s The Wealth of Nations?
   a. Profits are made by selling people what they need.
   b. Business prospers by finding out what people want and providing it.
   c. People do not always get what they need.
   d. A price-based system provides few incentives for businesses.

28. What happens after the demand for a fad drops?
   a. The quantity supplied goes down, and the price goes up.
   b. The quantity supplied and the price both go up.
   c. Shortage makes the good difficult to obtain.
   d. Excess supply makes the good easy to obtain.

29. In response to rising car traffic, demand for bicycles has increased. The new equilibrium point will show
   a. more bicycles sold, but at a higher price.
   b. fewer bicycles sold, but at a higher price.
   c. more bicycles sold, but at a lower price.
   d. fewer bicycles sold, but at a higher price.

30. Why do fads often lead to shortages, at least in the short term?
   a. Buyers and sellers are unable to agree on a price for the good.
   b. Laws prevent stores from responding to excess demand in time to prevent a shortage.
   c. Manufacturers charge such high prices for the goods that stores are unwilling to pay.
   d. Demand increases too quickly and unexpectedly for the supply to keep up.
31. Suppose that you cannot buy a popular new video game because it has sold out in the stores you visited. What is the most likely scenario if you try to purchase the game again before the fad ends?
   a. The game’s price will be higher, but some stores will have the game in stock.
   b. The game’s price will be lower and demand for it will have risen.
   c. Both the game’s price and demand for the game will have risen sharply.
   d. Both the game’s price and demand for it will have fallen.

32. Which newspaper headline will most likely shift the demand curve for flu shots to the right?
   a. New Inhaler Protects Against Flu Without Shot
   b. Contaminated Flu Vaccine Sickens Recipients
   c. Suppliers Produce a Surplus of Flu Vaccine
   d. Health Experts Predict Severe Flu Season Ahead

33. Elena is looking for an apartment. Which of the following is an example of her search costs?
   a. Elena must pay the first and last months’ rent before she can move into a new apartment.
   b. Elena pays movers $400 to help her transfer her belongings to the new apartment.
   c. Elena misses two days of work at the supermarket to visit several different apartments available for rent.
   d. Elena pays $300 to stay at a hotel for four nights before the apartment is ready.

34. How do price changes drive markets toward equilibrium?
   a. They set new price floors and ceilings.
   b. They increase or decrease supply or demand.
   c. They ensure that prices are fair.
   d. They prevent inflation or deflation.

35. Which traffic signal best represents the message that providers of cable services receive from declining customer subscriptions?
   a. no U-turn
   b. yellow light
   c. green light
   d. red light

36. During World War II, the United States used rationing to
   a. limit production
   b. meet tremendous shortages
   c. give away goods
   d. stop the black market

37. Why did the U.S. government use rationing for some foods and consumer goods during World War II?
   a. to guarantee each civilian a minimum standard of living in wartime
   b. to keep sellers from raising prices on necessary goods
   c. because the British government had also decided on rationing
   d. to earn more money to support the military

38. Which of the following is most likely to lead directly to a black market?
   a. a supply shock
   b. a price floor
   c. rationing
   d. equilibrium

39. What prompts efficient resource allocation in a market system?
   a. business profits
   b. distribution according to need
   c. government regulation
   d. price ceilings
40. How does the free market benefit from the profit incentive?
   a. The profit incentive is a signal to buy more of a good.
   b. The profit incentive contributes to the wealth of nations.
   c. The profit incentive promotes efficient resource allocation.
   d. The profit incentive leads to rationing.

41. In a free market, prices lead to an efficient allocation of resources. In other words,
   a. consumers can buy unlimited amounts of any good they like at a price of their choice.
   b. resources are used in the most valuable and productive way according to the desires of
      consumers and producers.
   c. the government decides who controls natural resources.
   d. people who own resources are unable to bargain with people who wish to buy
      resources.

42. Adam Smith wrote that producers are motivated to provide the goods people need by the
   a. profit incentive.
   b. nation’s laws.
   c. desire to do good.
   d. supply curve.

Short Answer: You MUST answer TWO QUESTIONS for FIVE POINTS EACH. Additional correct
answers earn one point of extra credit.

C. Critical Thinking and Writing

![Movie DVD Supply and Demand Graph]

43. What will happen in the market if the manufacturer sells its DVDs for $16.99?
44. At what price should the manufacturer sells its DVDs to have equilibrium in the market?

45. How does rent control work to help some people and hurt others?

46. What are the advantages and disadvantages of the minimum wage for workers?

47. What are the major advantages of a distribution system based on price?

48. How could a restaurant owner use prices to respond to a diet fad that shifted the dining out demand curve to the left?
Economics Chapter 6 Review
Answer Section

MATCHING

1. ANS: C  PTS: 2  DIF: L3  REF: A.134
   OBJ: 6.1.1 Explain how supply and demand create equilibrium in the marketplace.
   TOP: Prices | Equilibrium
2. ANS: H  PTS: 2  DIF: L3  REF: A.134
   OBJ: 6.1.2 Describe what happens to prices when equilibrium is disturbed.
   TOP: Prices | Disequilibrium
   OBJ: 6.1.2 Describe what happens to prices when equilibrium is disturbed.
   TOP: Prices | Shortage
4. ANS: G  PTS: 2  DIF: L3  REF: A.136
   OBJ: 6.1.2 Describe what happens to prices when equilibrium is disturbed.
   TOP: Prices | Surplus
5. ANS: A  PTS: 2  DIF: L3  REF: A.137
   OBJ: 6.1.3 Identify two ways that the government intervenes in markets to control prices.
   TOP: Prices | Price Ceiling
6. ANS: B  PTS: 2  DIF: L3  REF: A.139
   OBJ: 6.1.3 Identify two ways that the government intervenes in markets to control prices.
   TOP: Prices | Minimum Wage

MULTIPLE CHOICE

7. ANS: B
   In general, the price will increase to the equilibrium point.
   PTS: 3  DIF: L3  REF: A.134
   OBJ: 6.1.2 Describe what happens to prices when equilibrium is disturbed.
   TOP: Prices | Shortage
8. ANS: A
   If the market is in disequilibrium, prices can be raised or lowered to address the shortage or surplus, respectively, and bring the market back toward equilibrium.
   PTS: 3  DIF: L3  REF: A.134
   OBJ: 6.1.1 Explain how supply and demand create equilibrium in the marketplace.
   TOP: Prices | Disequilibrium
9. ANS: C
   Equilibrium is the point where the amount of a good or service customers are willing to purchase equals the amount suppliers are willing to supply.
   PTS: 3  DIF: L3  REF: A.134
   OBJ: 6.1.2 Describe what happens to prices when equilibrium is disturbed.
   TOP: Prices | Equilibrium
10. ANS: B
The students should print 200 magazines and charge $4 per copy, because this is the equilibrium point, where the demand equals the supply.

PTS: 3 DIF: L3 REF: A.134
OBJ: 6.1.1 Explain how supply and demand create equilibrium in the marketplace.
TOP: Prices | Equilibrium

11. ANS: B
The number of plasma screen televisions the store has to sell equals the number of plasma screen televisions their customers want to purchase.

PTS: 5 DIF: L4 REF: A.134
OBJ: 6.1.1 Explain how supply and demand create equilibrium in the marketplace.
TOP: Prices | Equilibrium

12. ANS: C
When a surplus develops, the supplier will lower the price to increase the demand for the good. At the same time, the supplier will produce fewer of the goods, which are otherwise not selling. All of this will continue to happen until the amount of product demanded equals the amount supplied.

PTS: 3 DIF: L3 REF: A.136
OBJ: 6.1.2 Describe what happens to prices when equilibrium is disturbed.
TOP: Prices | Surplus | Equilibrium

13. ANS: C
Price ceilings are an attempt by the government to make “essential” goods affordable for all consumers.

PTS: 3 DIF: L3 REF: A.137
OBJ: 6.1.4 Analyze the impact of price ceilings and price floors on a free market.
TOP: Prices | Price Ceiling

14. ANS: C
Setting a maximum wage or price constitutes a price ceiling.

PTS: 3 DIF: L3 REF: A.137
OBJ: 6.1.4 Analyze the impact of price ceilings and price floors on a free market.
TOP: Prices | Price Ceiling

15. ANS: D
The government typically places price ceilings on goods that are considered “essential” and might become too expensive for some consumers.

PTS: 3 DIF: L3 REF: A.137
OBJ: 6.1.4 Analyze the impact of price ceilings and price floors on a free market.
TOP: Prices | Price Ceiling

16. ANS: A
This is known as rent control.

PTS: 3 DIF: L3 REF: A.137
OBJ: 6.1.3 Identify two ways that the government intervenes in markets to control prices.
TOP: Prices | Rent Control
17. **ANS: D**
   If the market price for a good or service is lower than the equilibrium price, then the amount demanded of that good or service will be higher than the amount supplied.

   **PTS:** 3  **DIF:** L3  **REF:** A.137
   **OBJ:** 6.1.4 Analyze the impact of price ceilings and price floors on a free market.
   **TOP:** Prices | Shortage | Disequilibrium

18. **ANS: B**
   The government creating demand keeps prices from falling below a certain level.

   **PTS:** 3  **DIF:** L3  **REF:** A.139
   **OBJ:** 6.1.3 Identify two ways that the government intervenes in markets to control prices.
   **KEY:** Prices | Price Floor

19. **ANS: A**
   The equilibrium point occurs at the intersection of the supply and demand curves.

   **PTS:** 3  **DIF:** L3  **REF:** A.141
   **OBJ:** 6.2.1 Explain why a free market naturally tends to move toward equilibrium.
   **TOP:** Prices | Equilibrium

20. **ANS: C**
   Free markets tend toward equilibrium; every good or service has an equilibrium price and quantity.

   **PTS:** 3  **DIF:** L3  **REF:** A.141
   **OBJ:** 6.2.1 Explain why a free market naturally tends to move toward equilibrium.
   **TOP:** Prices | Equilibrium

21. **ANS: D**
   Suppliers had to reduce prices to get consumers to purchase more cameras since there were more cameras supplied than consumers were willing to purchase.

   **PTS:** 3  **DIF:** L3  **REF:** A.142
   **OBJ:** 6.2.2 Analyze how a market reacts to an increase or decrease in supply.
   **TOP:** Prices | Surplus

22. **ANS: C**
   A price of $1 over the equilibrium price is $5. At $5, supply would theoretically be 250 magazines, but the students will print the equilibrium supply of 200 magazines. Demand will be for only 100 magazines, so supply will exceed demand by 100 copies.

   **PTS:** 5  **DIF:** L4  **REF:** A.142
   **OBJ:** 6.1.2 Describe what happens to prices when equilibrium is disturbed.
   **TOP:** Prices | Surplus | Disequilibrium

23. **ANS: C**
   The reduced cost of manufacturing MP3 players has caused the supply curve to shift to the right. The resulting equilibrium price will be lower than the original price and the new equilibrium quantity will be greater than the original quantity.

   **PTS:** 3  **DIF:** L3  **REF:** A.142
   **OBJ:** 6.2.2 Analyze how a market reacts to an increase or decrease in supply.
   **TOP:** Prices | Supply
24. **ANS: B**
Lower costs of production made producers willing to supply larger quantities of cameras at each price. Therefore, the supply curve shifted to the right.

**PTS:** 3  **DIF:** L3  **REF:** A.143
**OBJ:** 6.2.2 Analyze how a market reacts to an increase or decrease in supply.
**TOP:** Prices | Supply Curve

25. **ANS: A**
Only the event that would lower the price of the good would cause the supply curve to shift to the right.

**PTS:** 3  **DIF:** L3  **REF:** A.143
**OBJ:** 6.2.2 Analyze how a market reacts to an increase or decrease in supply.
**TOP:** Prices | Supply Curve

26. **ANS: B**
If demand is higher, a firm will generally respond by raising prices to increase profits.

**PTS:** 3  **DIF:** L3  **REF:** A.145
**OBJ:** 6.2.3 Analyze how a market reacts to an increase or decrease in demand.
**TOP:** Prices | Shortage

27. **ANS: B**
Smith writes about the profit incentive, which motivates merchants to provide people with goods because the merchants will profit from doing so.

**PTS:** 3  **DIF:** L3  **REF:** A.154
**OBJ:** 6.3.4 Describe the relationship between prices and the profit incentive.
**TOP:** Prices | Profit Incentive

28. **ANS: D**
After a fad passes, decreased demand will result in a surplus.

**PTS:** 3  **DIF:** L3  **REF:** A.145
**OBJ:** 6.2.3 Analyze how a market reacts to an increase or decrease in demand.
**TOP:** Prices | Fad | Shortage

29. **ANS: A**
The supply of bicycles will take time to catch up to demand, so prices will rise until supply meets demand.

**PTS:** 3  **DIF:** L3  **REF:** A.145
**OBJ:** 6.2.1 Explain why a free market naturally tends to move toward equilibrium.
**TOP:** Prices | Equilibrium | Shortage

30. **ANS: D**
Initially, the demand is much greater than the supply during a fad, resulting in a shortage. Only after price and quantify supplied increase will the new equilibrium price and quantity be reached.

**PTS:** 5  **DIF:** L4  **REF:** A.145
**OBJ:** 6.2.3 Analyze how a market reacts to an increase or decrease in demand.
**TOP:** Prices | Shortage | Disequilibrium

4
31. **ANS: A**
   Because the fad has not ended, prices will be higher. However, more games could be available because more suppliers could have entered the market and fewer customers may be willing to buy the items at the higher prices.

   **PTS: 5**  **DIF: L4**  **REF: A.145**
   **OBJ: 6.2.3 Analyze how a market reacts to an increase or decrease in demand.**
   **TOP: Prices | Shortage | Fad**

32. **ANS: D**
   The prediction of a severe flu season may cause a sharp increase in consumer demand for the flu shot, causing the demand curve to shift to the right.

   **PTS: 5**  **DIF: L4**  **REF: A.145**
   **OBJ: 6.2.3 Analyze how a market reacts to an increase or decrease in demand.**
   **TOP: Prices | Demand Curve**

33. **ANS: C**
   Search costs are the costs consumers pay in searching for a good or service.

   **PTS: 5**  **DIF: L4**  **REF: A.146**
   **OBJ: 6.2.3 Analyze how a market reacts to an increase or decrease in demand.**
   **TOP: Prices | Search Costs**

34. **ANS: B**
   Price changes can move markets from disequilibrium toward equilibrium: they are easily increased to solve a problem of shortage, or decreased to solve a problem of surplus.

   **PTS: 3**  **DIF: L3**  **REF: A.148**
   **OBJ: 6.3.3 Explain how a price-based system leads to a wider choice of goods and more efficient allocation of resources.**
   **TOP: Prices | Equilibrium**

35. **ANS: D**
   Declining customer subscriptions tell providers to stop and consider other products or services that might be more profitable.

   **PTS: 5**  **DIF: L4**  **REF: A.151**
   **OBJ: 6.3.1 Identify the many roles that prices play in a free market.**
   **TOP: Prices | Signals**

36. **ANS: B**
   During World War II, to ensure that enough resources were available for the armed forces and to guarantee all citizens a minimum standard of living, the government imposed rationing.

   **PTS: 3**  **DIF: L3**  **REF: A.152**
   **OBJ: 6.3.4 Describe the relationship between prices and the profit incentive.**
   **TOP: Prices | Rationing**
37. ANS: A
The U.S. military's demand for supplies during World War II caused shortages of essential goods. The government wanted to guarantee each citizen a minimum standard of living during the war.

PTS: 3  DIF: L3  REF: A.152
OBJ: 6.3.3 Explain how a price-based system leads to a wider choice of goods and more efficient allocation of resources.  TOP: Prices | Rationing

38. ANS: C
A limited supply of goods is likely to lead people who can afford it to purchase goods illegally.

PTS: 3  DIF: L3  REF: A.152
OBJ: 6.3.3 Explain how a price-based system leads to a wider choice of goods and more efficient allocation of resources.  TOP: Prices | Black Market

39. ANS: A
People who own resources seek the greatest profits and buyers seek the best price.

PTS: 3  DIF: L3  REF: A.153
OBJ: 6.3.2 List the advantages of a price-based system.  TOP: Prices | Efficient Resource Allocation

40. ANS: C
Efficient resource allocation happens naturally in a free market when suppliers recognize the possibility for profit in a product that is in demand. The market responds to people’s needs and wants.

PTS: 3  DIF: L3  REF: A.153
OBJ: 6.3.4 Describe the relationship between prices and the profit incentive.  TOP: Prices | Profit Incentive

41. ANS: B
The efficient allocation of resources means that economic resources will be used for the purposes that consumers and producers most value.

PTS: 3  DIF: L3  REF: A.153
OBJ: 6.3.2 List the advantages of a price-based system.  TOP: Prices | Advantages

42. ANS: A
Adam Smith wrote that producers provide goods and services because they can sell them at the price that will enable them to make a profit.

PTS: 3  DIF: L3  REF: A.154
OBJ: 6.3.4 Describe the relationship between prices and the profit incentive.  TOP: Prices | Profit Incentive

SHORT ANSWER

43. ANS:
It will have a surplus of 400,000 DVDs.

PTS: 5  DIF: L3  REF: A.136
OBJ: 6.1.1 Explain how supply and demand create equilibrium in the marketplace.  TOP: Prices | Equilibrium | Supply Curve | Demand Curve
44. ANS:
$13$ (or $12.99)

PTS: 5   DIF: L3   REF: A.136
OBJ: 6.1.1 Explain how supply and demand create equilibrium in the marketplace.
TOP: Prices | Equilibrium | Supply Curve | Demand Curve

45. ANS:
Possible answer: Rent control helps those who have or can get rent-controlled apartments because their rents are seldom as high as market rents. Rent control also hurts landlords because it limits their profits and they have no incentive to make improvements or repairs.

PTS: 5   DIF: L3   REF: A.137
OBJ: 6.1.3 Identify two ways that the government intervenes in markets to control prices.
TOP: Prices | Rent Control

46. ANS:
Possible answer: Some jobs are lost because employers do not want to pay minimum wage when the wage is greater than the market equilibrium wage rate. On the other hand, the minimum wage provides a higher limit for workers’ earnings and therefore some level of support for low-income workers.

PTS: 5   DIF: L3   REF: A.139
OBJ: 6.1.3 Identify two ways that the government intervenes in markets to control prices.
TOP: Prices | Minimum Wage

47. ANS:
Possible answer: Prices communicate to both buyers and sellers whether a good is scarce or plentiful. The price system is the most efficient way to allocate resources. The price system is flexible and can change more quickly than the production of goods, making it easier for both consumers and sellers to solve a problem of surplus or shortage. The price system also works for free without an elaborate agency to administer it.

PTS: 7   DIF: L4   REF: A.149
OBJ: 6.3.2 List the advantages of a price-based system.   TOP: Prices | Equilibrium

48. ANS:
Possible answer: The restaurant owner could lower prices to increase demand.

PTS: 7   DIF: L4   REF: A.151
OBJ: 6.3.1 Identify the many roles that prices play in a free market.
TOP: Prices | Price System