1. Thrifty Buy More sells blue baseball hats at $10 a hat in May. The equilibrium price for blue baseball hats increases to $12 in June. Which of the following is a potential explanation for the change?

a. An increase in supply of blue baseball hats
b. A decrease in demand for blue baseball hats
c. Both supply and demand stay the same
d. Government subsides make it less costly to produce blue hats
e. Substitute goods decrease in supply

2. The price of fleece blankets goes up from $10 to $11. At the same time, demand goes down from 1,000 blankets to 800 blankets. Which of the following statements is true?

a. Demand is elastic
b. Demand is inelastic
c. The price elasticity quotient, or Ed, is less than 1
d. The price elasticity quotient, or Ed, is equal to 1
e. Demand is unitary elastic

3. Which of the following statements about price elasticity of supply is not correct?

    a. If the percentage change in the quantity supplied is greater than the percentage change in price, the supply is elastic.
    b. The supply of a good or service with a short life expectancy, such as fresh grapes, is inelastic.
    c. Short-run supply for a factory producing a good through a complicated combination of resources tends to be inelastic.
    d. Long-run supply for a factory tends to be more elastic than short-run supply.
    e. If ES is greater than 1, supply is inelastic.

4. Which of the following areas represents consumer surplus?

    f. A
    g. B
    h. C
    i. D
    j. E

5. Which of the following statements is true about producer surplus?

    k. It is always the same as consumer surplus
    l. It is the part of the demand curve that reaches beyond the equilibrium point
    m. A decrease in equilibrium price results in an increase in producer surplus

n. A decrease in equilibrium price results in a decrease in producer surplus
o. An increase in equilibrium price results in a decrease in producer surplus

6. A determinant of demand increases. What follows?

I. The demand curve shifts to the right
II. The equilibrium price increases
III. The equilibrium quantity increases
IV. The supply curve shifts to the left

p. Only I
q. I and II only
r. I, II, and III only
s. I, II, III, and IV
t. None of the above

7. Assume that the equilibrium price for an apartment in Gotham City is $1,000 and the equilibrium quantity 10,000. Now, assume government steps in and creates a price ceiling at $850. Which of the following is not likely to occur?

I. Demand will increase
II. Supply will increase
III. A price floor will also be established

u. I only
v. II only
w. III only
x. I and II only
y. II and III only

Answers

1. The correct answer is (E). An increase in the supply of the hats and a decrease in demand would both cause the equilibrium price to decrease, not increase. If both supply and demand stayed the same, the equilibrium price would also stay the same. If government subsidies made it cheaper to produce the hats, the price would go down. If the supply of a substitute good went down, more consumers might be driven to buy the blue hats, causing demand to increase and the equilibrium price to increase with it.
2. The correct answer is (A). The change in demand is 20% (1,000 - 800 = 200), and the change in price is 10% ($11 - $10 = $1). Because the change in demand is greater than the change in price, the demand is considered elastic. In this case, the price elasticity quotient is greater than 1.
3. The correct answer is (E). It is not true that if ES is greater than 1, supply is inelastic. In fact, that is the definition of elastic supply. All the other options are true-(A) is another way to define elastic supply, (B) is true because the supplier has to sell the goods before they perish, (C) is true because production processes are generally fixed in the short run, and (D) is true because, given time, a producer can change supply.
4. The correct answer is (A). Consumer surplus is the area below the demand curve that is above the equilibrium price line, represented by Area A in this graph.
5. The correct answer is (D). Producer surplus is the area above the supply curve and below the equilibrium price line. If the equilibrium price decreases, the area between the supply curve (unchanged) and the price line (lowered) will be smaller - which means a decrease in producer surplus.
6. The correct answer is (C). I, II, and III are correct. If a determinant of demand increases, demand will increase. That means that the demand curve will shift to the right, causing an increase in both the equilibrium price and the equilibrium quantity. An increase in a determinant of demand will not cause any movement to the supply curve.
7. The correct answer is (A). If a price ceiling is established, demand will increase. Supply, however, will decrease. A price floor would be counterproductive unless it was placed below the price ceiling, which would render it useless.