

Chapter 3 Review Questions
Supply and Demand
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Mostly True/False; you should be able to provide an explanation of why a false statement is false. An answer of “False” would be marked wrong on an exam if no explanation were provided, or if the explanation was wrong.

Some fill-in questions are also provided.

Note that your final answers to both types of questions should be provided in the blanks in front of the question number.

_____ 1. The circular flow diagram would classify the Pittsburgh Symphony as a firm.

_____ 2. In the circular flow diagram, factors of production are traded in the product market.

_____ 3. Labor is demanded by firms in a factor market.

_____ 4. A fall in the price of iPads would shift the demand curve for iPads to the right.

_____ 5. As the price of a product falls, the quantity demanded of that product will increase, other things equal.

_____ 6. According to the law of demand, there is a positive relation between price and the quantity demanded.

_____ 7. If the demand for potatoes increases as income decreases, economists would consider potatoes as an _____ good.

_____ 8. If the demand for eggs decreases as the price of bacon increases, economists would consider eggs and bacon as _____.

_____ 9. Economists consider income a “stock” measure, and wealth a “flow” measure.

_____ 10. An increase in income will increase the demand for all goods.

_____ 11. A supply curve shows the minimum price producers are willing to charge.

_____ 12. The supply curve will shift upwards on a graph if the prices of inputs into production go up.

(Draw graph below) 13. A demand curve can be written in general terms as

$$Q_d = 0.1 * \text{Income} - 20 P$$

Draw a graph for the demand curves at Income = \$ 10,000 and at Income = \$ 30,000

Be sure to have the axes labeled and also indicate the points at which the demand curves cross the vertical and horizontal axes.

_____ 14. If income were \$ 10,000, and if the supply curve were $Q_s = 30 P$, the equilibrium price would be _____. (show calculations below)

_____ 15. If income were \$ 10,000 and if the supply curve were $Q_s = 30 P$, the equilibrium quantity would be _____. (show calculations below).

_____ 16. If income were \$ 30,000, and if the supply curve were $Q_s = 20 P$, the equilibrium price would be _____. (show calculations below)

_____ 17. If income were \$ 30,000 and if the supply curve were $Q_s = 20 P$, the equilibrium quantity would be _____. (show calculations below).

_____ 18. Illustrate the situation in questions 14-17 by a graph, with the questions 14-15 situation shown as a solid line and the questions 16-17 situation shown in dashed lines.

_____ 19. As a result of the changes in questions 14-18, the equilibrium price increases. (T/F)

_____ 20. As a result of the changes in questions 14-18, the equilibrium quantity increases (T/F)

_____ 21. The change from questions 14-15 to 16-17 can be described as an increase in supply combined with an increase in demand (T/F)

_____ 22. Whenever supply decreases and demand increases, both price and quantity necessarily increase (T/F, and explain carefully)

_____ 23. The good described in questions 14-18 is an inferior good (T/F and explain)