

Multiple Choice:

1. In Equation (1) (in the text), the fact that the coefficient for the price of potatoes is a positive number provides information about the relationship between potatoes and corn. It tells you that corn and potatoes are:
 - a. substitutes
 - b. complements
 - c. unrelated goods
 - d. none of the above
2. Only one thing can cause a movement along the demand curve (instead of a shift in the demand curve):
 - a. change in the price of the product shown in the demand graph (the product's own price)
 - b. change in the price of a substitute good
 - c. change in the price of a complement
 - d. change in income
3. Figure 1 provides a graph of the demand for corn (in-text Exercise 2.1) when the price of potatoes is \$.25, the price of butter is \$2. Use the graph to find the price of corn at which consumers demand 7 billion bushels per year.
 - a. 2
 - b. 3
 - c. 4
 - d. 5
4. Figure 1 provides a graph of the demand for corn (in-text Exercise 2.1) when the price of potatoes is \$.25, the price of butter is \$2. The slope of this line is:
 - a. $1/2$
 - b. 1
 - c. 2
 - d. none of the above

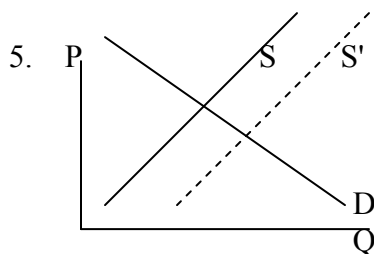


Figure 1

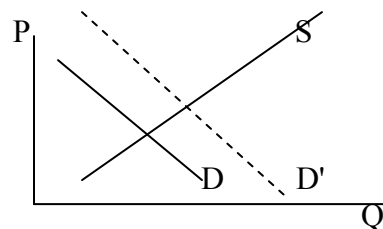
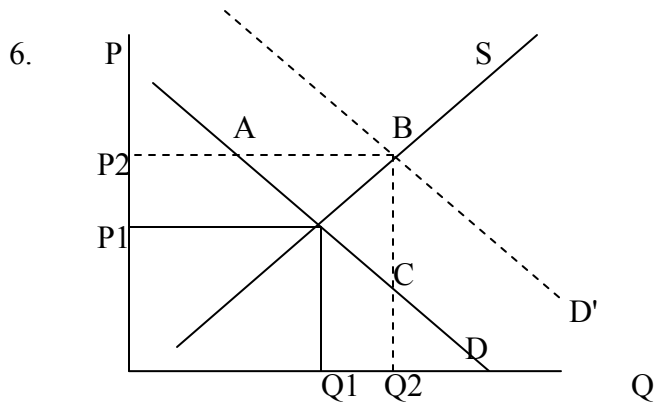


Figure 2

Which of the following statements is correct?

- a. Figure 1 correctly illustrates the impact of an increase in the price of an important input.
- b. Figure 2 correctly illustrates the impact of an decrease in the price of a substitute.

- c. both of the above
- d. none of the above

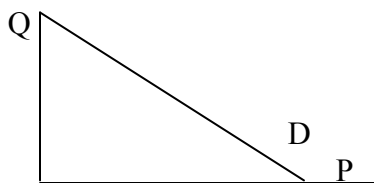


This graph correctly illustrates a movement along the supply curve that results when the product price is increased from P_1 to P_2 . Note that the supply curve does not shift. Some students find this puzzling because their intuition tells them that producers will respond to the price increase by increasing production. That increase in quantity is shown in Figure 1 by:

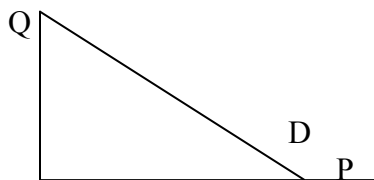
- a. A shift that will occur in the future (not illustrated on this graph).
- b. the vertical distance between P_1 and P_2
- c. the horizontal distance from Q_1 to Q_2
- d. the area of the triangle ABC

7. The demand equation noted in In-text Exercise 2.2 is $Q = 20 - 2P$. Which of the following statements is true?

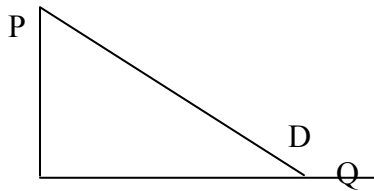
- a. If we use the following graph to illustrate the demand curve, then the slope of this demand curve is -2.



- b. If we use the following graph to illustrate the demand curve, then the slope of this demand curve is $-1/2$.



c. If we use the following graph to illustrate the demand curve, then the slope of this demand curve is -2.



d. Both a and c.

8. Application 2.3 states that hurricanes destroyed 40% of the Florida orange crop in the 2003-2004 growing season. Price increased 50%. The elasticity of demand is:

a. $e = -5/4$

b. $e = -4/5$

c. $e = -1$

d. $e = 0$ because consumers can purchase oranges grown in California

9. Worked-Out problem 2.3 states that the elasticity of demand is $-.46$ when price is $\$2.51$, and elasticity is $-.59$ when price increases to $\$2.92$. For linear demand curves, why does the absolute value of elasticity increase when price increases? (Hint: Note that Equation 6 can be rewritten as $E^d = \text{slope} * P/Q$ for a linear demand curve).

a. For a linear demand curve, the slope is the same at each point along the line. For the demand curve used in this problem, the slope is $\Delta Q/\Delta P = -73.17$.

b. As we move up the demand curve from point A to point B, P increases and Q decreases. P/Q is larger at point B than point C. Therefore, as we move up a linear demand curve, the absolute value of elasticity will always increase.

c. Both a and b.

d. None of the above

10. Application 2.5 states that the elasticity of demand for a Honda Accord was -4.8 . If Honda increases the price of the Accord, what would happen to total revenue from Accord sales?

a. Total revenue would increase

b. Total revenue would decrease

c. Total revenue would not change

d. There is not enough information to answer this question.

Essay Questions

See end-of-chapter 2 questions:

2.1, 2.2, 2.3, 2.4, 2.7, 2.8, 2.9, 2.11, 2.13