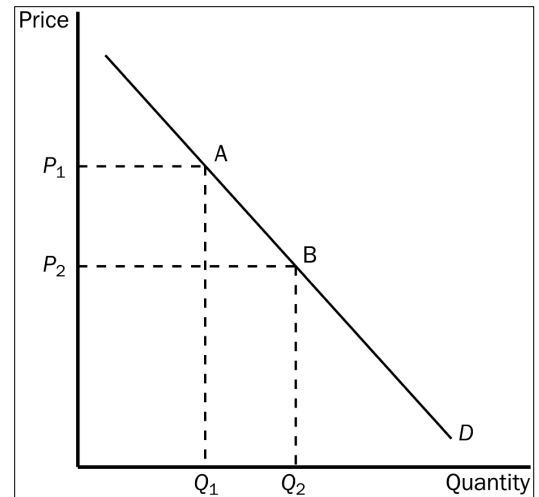


**ARE 201 Spring 2009 HW #2**  
**Due Date: Thursday Feb 19th, 2008 before class**

**MULTIPLE CHOICE**

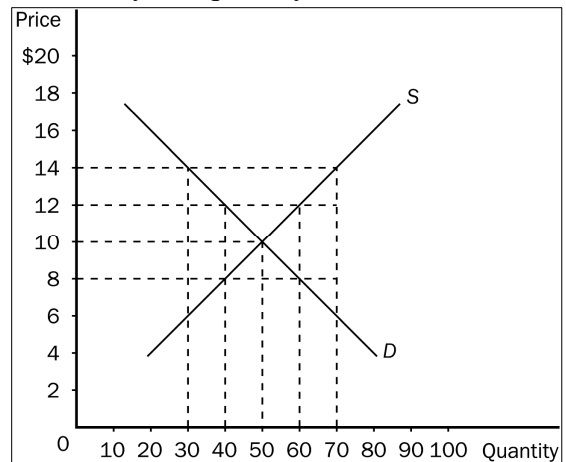
1. The forces that make market economies work are
  - a. price and quantity.
  - b. demand and supply.
  - c. the Senate and House of Representatives.
  - d. the Constitution and the Bill of Rights.
2. As a seller, you would be considered part of a perfectly competitive market if
  - a. your actions are quickly followed by competitors.
  - b. your actions essentially have no effect on the market price.
  - c. your pricing has no impact on the amount you can sell.
  - d. increases in the price of your product have an impact on the market price.
3. Which of the following is NOT a determinant of demand?
  - a. the price of a resource
  - b. the price of a complementary good
  - c. the price of the good next month
  - d. the price of a substitute good
4. The movement from point A to point B on the graph shows
  - a. a decrease in demand.
  - b. an increase in demand.
  - c. a decrease in quantity demanded.
  - d. an increase in quantity demanded.
5. The relationship between price and quantity supplied is
  - a. negative, or inverse.
  - b. positive, or direct.
  - c. nonexistent.
  - d. the same as the relationship between price and quantity demanded.
6. The supply of a good is negatively related to the
  - a. price of inputs used to make the good.
  - b. demand for the good by consumers.
  - c. price of the good itself.
  - d. amount of profit a firm can expect to receive from sale of the good.
7. Lead is an important input in the production of crystal. If the price of lead decreases, all else equal, we would expect the supply of
  - a. crystal to be unaffected.
  - b. crystal to decrease.
  - c. crystal to increase.
  - d. lead to increase.
8. The unique point at which the supply and demand curves intersect is called
  - a. market unity.
  - b. an agreement.



- c. cohesion.
  - d. equilibrium.
9. In the table shown, if the price were \$8, a

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$10	10	60
\$8	20	45
\$6	30	30
\$4	40	15
\$2	50	0

- a. surplus of 50 units would exist and price would tend to fall.
  - b. surplus of 10 units would exist and price would tend to fall.
  - c. surplus of 25 units would exist and price would tend to fall.
  - d. shortage of 25 units would exist and price would tend to rise.
10. According to the graph shown, if price in this market is currently \$8, quantity supplied would be
- a. 40 and quantity demanded would be 60.
  - b. 60 and quantity demanded would be 40.
  - c. 50 and quantity demanded would be 50.
  - d. 70 and quantity demanded would be 30.



**TRUE/FALSE**

1. Price, which is determined by all buyers and sellers as they interact in the marketplace, allocates the economy's scarce resources.
2. The law of demand states that the quantity demanded of a product is positively related to price.
3. A movement along a supply curve is called a change in supply while a shift of the curve is called a change in quantity supplied.
4. A shortage will occur at any price below equilibrium price and a surplus will occur at any price above equilibrium price.
5. The behavior of buyers and sellers drives markets toward equilibrium.

**SHORT ANSWER  
APPLICATION/SCENARIO**

Find an article in a recent newspaper or magazine illustrating a change in price or quantity in some market. Analyze the situation using economic reasoning.

1. Has there been an increase or decrease in demand? Factors that could shift the demand curve include changes in preferences, changes in income, changes in the price of substitutes or complements, or changes in the number of consumers in the market.

2. Has there been an increase or decrease in supply? Factors that could shift the supply curve include changes in costs of materials, wages, or other inputs; changes in technology; or changes in the number of firms in the market.
3. Draw a supply-and-demand graph to explain this change. Be sure to label your graph and clearly indicate which curve shifts.

Please turn in a copy of the article along with your analysis. **Avoid any advertisements since they contain little information.**