Market Supply and Demand and Equilibrium Prices

Complete in pen or pencil and hand into your teacher when ready. Each multiple choice question carries one mark. Select one answer only.

Market demand and supply

_ 1. The following might influence the demand for a good. Which would not cause a shift in the demand curve for the product?
   1
   - A. a change in the price of a complement
   - B. a change in the price of the good itself
   - C. a change in the price of a substitute
   - D. a change in consumers’ incomes

_ 2. A fall in the price of online music downloads from sites such as iTunes and growing popularity for services such as Spotify results in a fall in the demand for music CDs. This result implies that these products are
   1
   - A. Are in joint demand
   - B. Are in joint supply
   - C. Are produced by business involved in a cartel
   - D. Are substitute products

_ 3. A major determinant of demand in one particular market would be
   1
   - A. the technique of production
   - B. the number of sellers in the market
   - C. the incomes of buyers in that market
   - D. the cost of raw materials

_ 4. Which of the following will result in a shift in the demand curve for motorcycles?
   1
   - A. a subsidy paid to producers of motorcycles
   - B. higher raw material and component prices in the production of motorcycles
   - C. falling petrol and diesel prices
   - D. higher motorcycle prices

_ 5. Which of the following would shift the supply curve for housing in Glasgow to the right?
   1
   - A. an increase in mortgage interest rates
   - B. the release of more land for housing development in the suburbs around Glasgow
   - C. an increase in the cost of construction materials
   - D. an increase in speculative demand for properties in Glasgow
6. Joint supply is where an increase in
   ○ A. Demand for one good leads to an increase in the demand for another
   ○ B. Higher production of one good leads to a decrease in the output of another
   ○ C. Extra production of one good leads to an increase in output of another
   ○ D. Higher demand for one good leads to a decrease in demand for another

7. Unfavourable climatic conditions in the major fruit-growing areas in Spain are most likely to lead to
   ○ A. an increase in demand for fruit and increased prices
   ○ B. an increase in supply of fruit and decreased prices
   ○ C. a decrease in demand for fruit and decreased prices
   ○ D. a decrease in supply of fruit and increased prices

8. The law of demand is that there is an [A]________ relationship between the price of a good and demand. As prices fall we see an [B]________ of demand. If price rises there should be a [C]________ of demand

9. Substitutes are goods in [A]________ demand and act as replacements for another product

10. A situation in which quantity [A]________ is greater than quantity [B]________

11. Subsidies represent payments by the government to suppliers. The effect of a subsidy is to [A]________ supply and therefore [B]________ the market equilibrium price

12. Oil is a substitute for coal. If the price of oil increases, then
   ○ A. the demand curve for coal will shift to the right
   ○ B. the quantity of coal demanded will decline
   ○ C. the supply curve for coal will shift to the right
   ○ D. the equilibrium price and quantity of coal will not change

13. Suppose the government reduces subsidies paid to dairy farmers. The most likely effect on the price of dairy products would be
   ○ A. an increase as there would be a decrease in the supply of milk
   ○ B. a decrease as there would be a decrease in demand for milk
   ○ C. an increase as there would be an increase in demand for milk
   ○ D. a decrease as there would be an increase in the supply of milk

14. As a result of a substantial increase in wages paid to carpenters, we would expect that the price of new houses would
   ○ A. decrease as there would be an increase in the supply of new housing due to higher production costs
   ○ B. increase as there would be a decrease in the supply of new housing due to higher production costs
   ○ C. increase as there would be an increase in the demand for new housing across the community
   ○ D. decrease as there would be a decrease in the demand for new housing across the community
15. The following was printed in a magazine.

"More soft drinks are being consumed than ever before by the 16 - 34 age group. Schweppes, the drink manufacturers, claim that over 45 per cent of their soft drinks are now being consumed without alcohol as people switch away from alcoholic spirits."

How would this change be represented on a demand and supply diagram for soft drinks?

- A. decrease in demand
- B. increase in supply
- C. increase in demand
- D. decrease in supply

16. Assume that coal is a normal good. If the price of coal increases and the quantity sold increases, which of the following is consistent with these observations?

- A. The demand curve for coal is upward sloping
- B. New regulations are imposed on the coal mining industry
- C. The price of oil increased, oil and coal being substitutes
- D. New machinery made coal mining more efficient

Changes in market equilibrium prices

17. The diagrams show how a shift in demand for good X results in a shift in the demand for good Y. Which of the following pairs of goods is most likely to be represented by good X and good Y?

- A. Coca-Cola and Pepsi-Cola
- B. The Guardian and The Independent newspapers
- C. Rail travel and air travel
- D. iPads and software applications (apps)
18. As consumers have become more concerned about the amount of saturated fat in their diet, the demand for fresh chicken has increased whilst the demand for fried chicken nuggets has fallen. The result of this is likely to be

- A. A rise in the market price of fried chicken nuggets
- B. An increase in the quantity supplied of fried chicken nuggets
- C. A decrease in the quantity supplied of fresh chicken
- D. A rise in the market price of fresh chicken

19. An increase in the price of fresh vegetables will most likely result from

- A. an increase in the price of a complementary product
- B. a decrease in the price of a substitute product
- C. a decrease in the price of fertilisers used in vegetable growing
- D. flooding affecting farmers during the harvesting season

20. The diagram shows the demand and supply curves for bricks. Which one of the following might explain the shift in the supply curve from S1 to S2?

- A. A fall in the demand for new homes
- B. A rise in the cost of materials used in making bricks
- C. A fall in mortgage interest rates
- D. A government subsidy to brick producers
21. The diagram shows the market supply and demand for wine. The rightward shift in the supply curve for wine might have been caused by

- A. A fall in the rate of value added tax applied to wine producers
- B. A fall in demand for wine
- C. The creation of a cartel among wine producers designed to maximise profits
- D. A rise in the wages of people employed by wine vineyards

22. The diagram shows the market demand curve for tomatoes. Assuming OP1 to be the original equilibrium price, a decrease in price to OP2 could have been caused by a decrease in

- A. the productivity of workers employed by tomato producers
- B. the price of substitutes for tomatoes
- C. the tax on employing workers in the tomato industry
- D. real incomes in the economy (assume tomatoes are a normal good)
The diagram shows the market for asparagus. The initial equilibrium position is indicated by point X.

Following a successful advertising campaign for asparagus and a sustained period of rain which damaged the asparagus crop, what would be the new equilibrium point (A, B, C or D)?

- A. A
- B. B
- C. C
- D. D
The diagram shows the demand for and supply of flights to the United Arab Emirates (UAE) from the UK.

The government raises taxes on flights out of the United Kingdom, whilst a recession affects the demand for business and tourist flights. (Both business and tourist travel are assumed to be normal goods)

If the initial equilibrium point is X, which of the following points, A, B, C, D shows the likely new equilibrium point for the flights?

- A. A
- B. B
- C. C
- D. D

**Short answer questions**

25. Explain briefly what you understand by the term "ostentatious consumption"

   [Answer]

26. Define "buyers' market"

   [Answer]

27. Define excess supply and explain what you would expect to happen to the market price

   [Answer]