

## Markets - Twenty20

1. When buyers and sellers meet for the purpose of trade they

1. create a market
2. create a price
3. fix the quantity of trade
4. create welfare

a) Only 1 is correct; b) Only 2 and 3 are correct; c) Only 1, 2 and 3 are correct; d) All are correct.

2. According to the Law of Demand if the price of cars goes up, other things being equal, there will be:

- a) an increase in the demand for cars
- b) a decrease in the demand for cars
- c) an extension in the quantity of cars demanded
- d) a contraction in the quantity of cars demanded

3. If the price of petrol rises there will be a contraction in the quantity of petrol demanded. This price effect happens because:

1. some consumers of petrol may substitute other forms of travel for car travel (i.e. walk to the shops)
2. consumers of petrol will experience a drop in their real income and cut back a bit on all spending
3. the opportunity cost of car travel has decreased but the benefit of car travel has increased

a) Only 1 is correct; b) Only 2 is correct; c) Only 1 and 2 are correct; d) All are correct

4. The table shows the demand for ties from a shop in Claremont.

Price of ties	Quantity of ties demanded per week
10	100
20	80
30	60
40	40
50	20

The data suggests that:

1. the benefit received by 60 tie buyers must be at least \$30
2. the maximum amount 80 tie buyers are willing to pay is \$20
3. the quantity of ties demanded by tie buyers when the price is \$25 is 70 ties
4. the 21<sup>st</sup> shopper for ties estimates the benefit received from buying a tie is less than \$50

a) Only 1 and 2 are correct; b) Only 1 and 3 are correct; c) Only 1, 3 and 4 are correct; d) All are correct

5. Demand curves shift their position when a \_\_\_\_\_ factor affects the market. The missing phrase is:

- a) price; b) non-price; c) supply; d) cost

6. If the price of mobile phones falls, other things being equal, this is shown in a diagram by:

- a) a movement along the demand curve for mobile phones in a downward (right) direction
- b) a movement along the demand curve for mobile phones in an upwards (left) direction
- c) a shift in the demand curve for mobile phones to the right
- d) a shift in the demand curve for mobile phones to the left

7. Which of the following demand shocks shifts the demand curve in a direction different to the other three?

- a) An increase in real income
- b) A rise in the price of a substitute product
- c) A rise in the price of a complementary product
- d) An increase in tastes or preference for the product

8. The Law of Supply suggests that as the market price of a product rises, the willingness to supply products to the market \_\_\_\_\_. The missing word is;

- a) falls
- b) rises
- c) stays the same

9. An increase in the costs of production for a tie manufacturer would;

- a) shift the demand curve for ties to the left
- b) shift the demand curve for ties to the right
- c) shift the supply curve for ties upwards
- d) shift the supply curve for ties downwards

10. Which of the following supply shocks shifts the supply curve in a direction different to the other three?

- a) An increase in a sales tax applied to the product;
- b) A rise in wages paid to workers in the industry;
- c) The entry of new producers into the market;
- d) A fall in productivity or efficiency of workers in the industry

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11. The price of gold has gone gangbusters (risen significantly) recently. Economic theory suggests:

- a) there will be an increase in the quantity of gold supplied, shown by a movement along the supply curve in an upwards direction
- b) there will be a decrease in the quantity of gold supplied, shown by a movement along the supply curve in a downwards direction
- c) there will be an increase in the supply of gold, shown by a shift in the supply curve to the right
- d) there will be a decrease in the supply of gold, shown a shift in the supply curve to the left

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12.

Price of ties	Quantity of ties demanded per week	Quantity of ties supplied per week
10	100	0
20	80	15
30	60	30
40	40	45
50	20	60

According to the data in the table, if the price of ties was \$40;

- a) there would be shortage of ties and the shop would sell out before the end of the week
- b) there would be unsold ties at the end of the week
- c) the market would be equilibrium
- d) prices would have to be raised in the following week

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13. In a free market, where there are no price controls, a surplus of goods in a market leads to a \_\_\_\_\_ in the market price, a(n) \_\_\_\_\_ in quantity demanded and a(n) \_\_\_\_\_ in quantity supplied. The missing words in the correct order are;

- a) fall, expansion, contraction
- b) fall, increase, decrease
- c) rise, contraction, expansion
- d) fall, contraction, expansion

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14. A positive demand shock shifts the demand curve for Pay TV to the right. Other things being equal, there will be a \_\_\_\_\_ in the market which could lead to a \_\_\_\_\_ in price, which, in turn, leads to a \_\_\_\_\_ in quantity demanded and a \_\_\_\_\_ in quantity supplied until the market reaches a new \_\_\_\_\_.

The missing words in the correct order are;

- a) shortage, rise, contraction, expansion, equilibrium
- b) surplus, fall, expansion, contraction, equilibrium
- c) shortage, rise, increase, decrease, equilibrium
- d) surplus, fall, decrease, increase, clearance

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15. In the tie market (see question 12 for details) the equation for the demand curve is  $Q_d = 120 - 2P$  and the equation for the supply curve is  $Q_s = -15 + 1.5P$ . The equilibrium position in this market is closest to;

- a) price of ties = \$18.60; quantity of ties = 33
- b) price of ties = \$28.60; quantity of ties = 43
- c) price of ties = \$38.60; quantity of ties = 43
- d) price of ties = \$48.60; quantity of ties = 33

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16. The government controls the supply of taxis in Perth. Supply is less than would be the case under a free market situation. It is likely therefore that in the Perth taxi market prices are \_\_\_\_\_ and the waiting time \_\_\_\_\_ than would be the case if there was no government regulation of the market. The missing words in the correct order are:

- a) higher, longer; b) lower, shorter; c) higher, shorter
- d) lower, longer

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17. Which of the following would not help make the demand and supply for water in Perth more equal?

- a) Increase supply by building more desalination plants
- b) Raise the price of water to contract the level of quantity demanded
- c) Peg water prices at the current level for equity reasons
- d) Impose restrictions on the use of water

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18. If the price of a Holden Commodore rises, other things being equal, there will be a(n);

- a) contraction in the quantity of Commodores demanded and an increase in the demand for Ford Falcons
- a) expansion in the quantity of Commodores demanded and a decrease in the demand for Ford Falcons
- a) contraction in the quantity of Commodores demanded and a decrease in the demand for Ford Falcons
- a) expansion in the quantity of Commodores demanded and an increase in the demand for Ford Falcons

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19. When demand for mobile phones rises, demand for ring tones rises because mobile phones and ring tones are;

- a) substitute products
- b) complementary products
- c) independent products
- d) Veblen (or high status) products

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20. Free markets and the price mechanism provide answers to which of the following big questions that have to be answered by an economic system?

- 1. What and how much to produce
  - 2. How to produce
  - 3. For whom to produce
  - 4. How to provide incentives so resource allocation is efficient
- a) Only 1, 2 and 3 are correct; b) All are correct; c) Only 1 and 2 are correct; d) None are correct.
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Answers: ddccb/acbcc/bbaac/acabb