

Chapter 4 Practice Test

Indicate whether the statement is true or false. If it is false, change the identified word(s) to make the statement true.

- ___ 1. Demand is elastic when a given change in price causes a *relatively smaller* change in quantity demanded.
- ___ 2. Demand is **unit elastic** when a given change in price causes a *proportional change* in quantity demanded.
- ___ 3. The sole determinate of elasticity is the answer to this question: Can the purchase be delayed?
- ___ 4. Demand elasticity is the extent to which a change in price causes a change in the quantity demanded.
- ___ 5. To estimate elasticity, add the *direction* of a price change to the *direction* of the change in total revenue, or total expenditures.

Indicate the answer choice that best completes the statement or answers the question.

- ___ 6. What is the income effect?
 - a. a change in quantity demanded caused by a change in consumer income
 - b. a change in demand caused by substitution
 - c. a proportional change in quantity demanded based on income
 - d. an increase in purchase of complements based on an increase in income
- ___ 7. Prices for common vegetables tend to be elastic. Why?
 - a. because other vegetables are available
 - b. because consumers must eat
 - c. because vegetables cannot be substituted
 - d. because vegetables are inexpensive
- ___ 8. Which of the following replaces a costly item with a less costly one?
 - a. the substitution effect
 - b. the income effect
 - c. change in demand
 - d. consumer taste
- ___ 9. Which is a likely complement to a tablet computer?
 - a. DVDs
 - b. movie tickets
 - c. apps
 - d. pencils

Chapter 4 Practice Test

- ___ 10. What is the **main** cause of a change in quantity demanded?
- a. substitution
 - b. changes in revenue
 - c. change in price
 - d. the income effect
- ___ 11. What test do economists use to measure elasticity?
- a. utility
 - b. revenue
 - c. total expenditures
 - d. demand
- ___ 12. Consider the term *marginal utility*. Which word is the best synonym for *marginal*?
- a. useful
 - b. satisfactory
 - c. borderline
 - d. additional
- ___ 13. When the price of something increases, the quantity demanded ____
- a. increases.
 - b. decreases.
 - c. remains unchanged.
 - d. reverses.
- ___ 14. Changes in quantity demanded and changes in price have a(n) _____ relationship.
- a. indirect
 - b. positive
 - c. inverse
 - d. neutral
- ___ 15. An economist performs a total expenditures test and finds that a change in price and a change in revenue move in opposite directions and concludes that the test shows ____
- a. demand is inelastic.
 - b. demand is elastic.
 - c. demand is unit elastic.
 - d. there's not enough demand.

Chapter 4 Practice Test

- ___ 16. A hungry man is willing to pay a high price for food. After he is no longer hungry, he is not willing to pay the same high price. Which of the following best defines this example?
- a. a complement
 - b. diminishing marginal utility
 - c. unit elasticity
 - d. the substitution effect
- ___ 17. Which product most likely has a demand that is inelastic?
- a. a meal at a restaurant
 - b. green beans
 - c. a vital medicine
 - d. a vacation
- ___ 18. Why is the Law of Demand called a “law”?
- a. because it is legally required
 - b. because there are no exceptions to it
 - c. because it has been demonstrated repeatedly
 - d. because it is an economic term
- ___ 19. On a demand curve, movement along the curve, as opposed to a shift in the entire curve, is a result of ___
- a. a change in price.
 - b. an increase in demand.
 - c. a decrease in demand.
 - d. a change in demand.
- ___ 20. To determine elasticity, which question would an economist ask?
- a. Can the consumer afford the purchase?
 - b. Is the product highly valued by the consumer?
 - c. What portion of the consumer's income is required for the purchase?
 - d. Are there complementary products the consumer might also purchase?
- ___ 21. Which term refers to a changing price that causes a *proportional change* in total revenue?
- a. elastic
 - b. unit elastic
 - c. inelastic
 - d. total expenditures

Chapter 4 Practice Test

- ___ 22. A change in quantity demanded is represented by _____
- a. Movement along the demand curve.
 - b. A shift of the demand curve.
 - c. Substitution.
 - d. Complements.
- ___ 23. Why is a demand curve downward sloping?
- a. because quantity demanded increases as price decreases
 - b. because of the natural elasticity of the market
 - c. because it shows how increasing incentives changes demand
 - d. because it reflects the desire, ability, and willingness of consumers
- ___ 24. What is the relationship between income and demand?
- a. A decrease in income increases demand.
 - b. A decrease in price decreases income.
 - c. An increase in price increases income.
 - d. An increase in income increases demand.
- ___ 25. Which would an economist consider a likely substitute for coffee?
- a. water
 - b. tea
 - c. chicken
 - d. donuts
- ___ 26. For which product is demand likely to be the most elastic?
- a. a product with no substitutes
 - b. a product with inadequate substitutes
 - c. a product with many adequate substitutes
 - d. it is impossible to tell
- ___ 27. A demand schedule is best described as _____
- a. a graph.
 - b. an incentive.
 - c. data.
 - d. a time line

Chapter 4 Practice Test

- ___ 28. Which would an economist consider a likely complement for coffee?
 - a. water
 - b. tea
 - c. chicken
 - d. donuts

- ___ 29. To estimate elasticity, compare the _____ of a price change to the _____ of the change in total revenue.
 - a. amount, amount
 - b. amount, direction
 - c. direction, amount
 - d. direction, direction

- ___ 30. What are the characteristics of demand?
 - a. the desire and ability to buy a product
 - b. the ability and willingness to buy a product
 - c. the willingness and desire to buy a product
 - d. the desire, ability, and willingness to buy a product

Enter the appropriate word(s) to complete the statement.

31. The Law of Demand states that the quantity demanded of a product varies _____ with its price.

32. As people use more and more of a product, they encounter _____.

33. Prices act as a motivating influence, or _____, that causes an individual to take action.

Chapter 4 Practice Test

34. Demand is the desire, _____, and willingness to buy a product or service.

35. The market demand curve that shows the _____ by everyone who is interested in purchasing a product at all possible prices.

Match each item with the its description.

- a. Change in demand
- b. Change in quantity demanded
- c. Complements
- d. Income effect
- e. Substitutes

- ___ 36. Movement along the demand curve showing that a different quantity is purchased in response to a change in price
- ___ 37. Portion of a change in quantity demanded caused by a change in a consumer's income when the price of a product changes
- ___ 38. Different amounts demanded at every price, causing the demand curve to shift to the left or the right
- ___ 39. Products related in such a way that an increase in the price of one increases the demand for the other
- ___ 40. Products related in such a way that an increase in the price of one reduces the demand for the other

Chapter 4 Practice Test

Match each item with the correct description.

- a. change in demand
- b. change in quantity demanded
- c. complements
- d. demand
- e. demand curve
- f. demand elasticity
- g. inelastic
- h. Law of Demand
- i. marginal utility
- j. substitution effect

- ___ 41. combination of desire, ability, and willingness to buy a product
- ___ 42. graph showing the quantity demanded at each and every possible price that might prevail in the market at a given time
- ___ 43. rule stating that more will be demanded at lower prices and less at higher prices
- ___ 44. satisfaction or usefulness obtained from acquiring one more unit of a product
- ___ 45. movement along the demand curve showing that a different quantity is purchased in response to a change in price
- ___ 46. the portion of a change in quantity demanded caused by a change in price that makes other products more or less costly
- ___ 47. consumer demand for different amounts at every price, causing the demand curve to shift to the left or the right
- ___ 48. products related in such a way that an increase in the price of one reduces the demand for the other
- ___ 49. the extent to which a change in price causes a change in the quantity demanded
- ___ 50. type of elasticity in which the percentage change in the independent variable (usually price) causes a less than proportionate change in the dependent variable (usually quantity demanded or supplied)