

3. When demand for a product falls, which of the following events would you NOT necessarily expect to occur?
- A decrease in the quantity of the product supplied
 - A decrease in its price
 - A decrease in the supply of the product
 - A leftward shift of the demand curve
4. Suppose a recent and widely circulated medical article has reported new benefits of cycling for exercise. Simultaneously, the price of the parts needed to make bikes falls. If the change in supply is greater than the change in demand, the price will _____ and the quantity will _____.
- rise, rise
 - rise, fall
 - fall, rise
 - fall, fall
5. Suppose there are nine sellers and nine buyers, each willing to buy or sell one unit of a good, with values (\$10, \$9, \$8, \$7, \$6, \$5, \$4, \$3, \$2). Assuming there are no transactions costs, what is the equilibrium price in this market?
- \$5
 - \$6
 - \$7
 - \$8
6. If the government imposes a price floor at \$9 (i.e., price must be \$9 or higher) in the above market, how many goods will be traded?
- Five
 - Four
 - Three
 - Two
7. Say the average price of a new home in Lampard City is \$160,000. The local government has just passed new licensing requirements for housing contractors. Based on possible shifts in demand or supply and assuming that the licensing changes don't affect the quality of new houses, which of the following is a reasonable prediction for the average price of a new home in the future?
- \$140,000
 - \$150,000
 - \$160,000
 - \$170,000
8. Suppose a new employer is also relocating to Lampard City and will be attracting many new people who will want to buy new houses. Assume that the change in licensing requirements mentioned in Question 7 occurs at the same time. What do you think will happen to the equilibrium quantity of new homes bought and sold in Lampard City?
- It will decrease substantially.
 - It will decrease but not by much.
 - It will increase.
 - Not enough information
9. The price of peanuts increases. At the same time, we see the price of jelly rise. How does this affect the market for peanut butter?
- The demand curve will shift to the left; the supply curve will shift to the left.
 - The demand curve will shift to the left; the supply curve will shift to the right.
 - The demand curve will shift to the right; the supply curve will shift to the left.
 - The demand curve will shift to the right; the supply curve will shift to the right.
10. Holding other factors constant, a decrease in the tax for producing coffee causes
- the supply curve to shift to the left, causing the prices of coffee to rise.
 - the supply curve to shift to the right, causing the prices of coffee to rise.
 - the supply curve to shift to the left, causing the prices of coffee to fall.
 - the supply curve to shift to the right, causing the prices of coffee to fall.

TABLE 8.2
Optimal Spread in Market Making

Bid	Ask	Quantity	Profit
\$8	\$8	5	\$0
\$7	\$9	4	\$8
\$6	\$10	3	\$12
\$5	\$11	2	\$12
\$4	\$12	1	\$8

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In this case, each market maker would buy at \$7 and sell at \$9. Those offering worse prices wouldn't make any sales, and those offering better prices wouldn't cover costs. In this case, competition forces price down to cost, thereby raising the number of transactions from three to four.

SUMMARY & HOMEWORK PROBLEMS

Summary of Main Points

- A market has a product, geographic, and time dimension. Define the market before using supply-demand analysis.
- Market demand* describes buyer behavior; *market supply* describes seller behavior in a competitive market.
- If price changes, *quantity demanded* increases or decreases (represented by a **movement along** the demand curve).
- If a factor other than price (like income) changes, we say that demand curve increases or decreases (a **shift** of the demand curve).
- Supply curves describe the behavior of sellers and tell you how much will be sold at a given price.
- Market equilibrium** is the price at which quantity supplied equals quantity demanded. If price is above the equilibrium price, there are too many sellers, forcing price down, and vice versa.
- Prices convey valuable information; high prices tell buyers to conserve and sellers to increase supply.
- Making a market is costly, and competition

spread down to the costs of making a market. If the costs of making a market are large, then the equilibrium price may be better viewed as a spread rather than a single price.

Multiple-Choice Questions

- Changes in prices of a good causes
 - movement along the demand curve.
 - movement along the supply curve.
 - no movement along either curve.
 - Both a and b
- If the market for a certain product experiences an increase in supply and a decrease in demand, which of the following results is expected to occur?
 - Both the equilibrium price and the equilibrium quantity could rise or fall.
 - The equilibrium price would rise, and the equilibrium quantity could rise or fall.
 - The equilibrium price would fall, and the equilibrium quantity could rise or fall.
 - The equilibrium price would fall, and the