Demand

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

____ 1. Demand is measured not only by consumer desire for a product, but also by
   a. competition for the consumer.
   b. demand for all similar products.
   c. opportunity costs.
   d. ability and willingness to buy the product.

____ 2. As a consumer, if the price of apples doubles and your salary remains the same, you would probably
   a. buy more apples.
   b. buy the same number of apples.
   c. buy fewer apples.
   d. buy more complementary goods.

____ 3. If the price of a product decreases and consumers buy more of the product,
   a. a change in demand has taken place.
   b. a change in quantity demanded has taken place.
   c. the product is a complementary product.
   d. there has been an increase in demand.

____ 4. The satisfaction a consumer enjoys by purchasing one more unit of a product is called
   a. marginal utility.
   b. personal satisfaction.
   c. trade-offs.
   d. cause and effect.

____ 5. If consumer demand for sugar at 80 cents per pound results in $1,000 in company revenue, and a drop in price to 50 cents a pound results in $1,250 in revenue, it may be concluded that
   a. demand is inelastic.
   b. demand would overtake supply.
   c. demand is elastic.
   d. demand is unit elastic.

____ 6. The elasticity of demand for an item is determined, in part, by the question:
   a. Is there enough of the product available?
   b. Can the purchase be made with a credit card?
   c. Could something else work just as well?
   d. Should production be cut?

____ 7. If consumers' incomes go up, for most products we can expect
   a. an increase in demand.
   b. a substitution effect.
   c. marginal utility to decline.
   d. an increase in quantity demanded.

____ 8. An entrepreneur who sells lawn mowers might decide that the best business location would be in the
   a. inner city.
   b. suburbs.
   c. financial district.
   d. rural areas.
9. The statement "the demand for an economic product varies inversely with its price" is a definition of
   a. the Law of Demand.
   b. laissez-faire.
   c. the Law of Competition.
   d. the Law of Supply and Demand.

10. Because the demand for local telephone service is relatively inelastic,
    a. modest price increases have little or no impact on quantity demanded.
    b. the government cannot tax telephone rates.
    c. consumers should make as few long-distance calls as possible.
    d. the number of telephones in the home has increased.

11. The law of downward sloping demand indicates that
    a. consumer demand has increased significantly.
    b. consumer demand has not changed significantly.
    c. consumer demand has dropped drastically.
    d. consumers demand more at lower prices.

12. For the basic essentials of life, demand is based on
    a. elastic demands.
    b. inelastic supply.
    c. the urgency of need.
    d. elastic supply.

13. An increase in the price of wombles causes a decrease in the demand for widgets. The two products are
    a. substitutes.
    b. complements.
    c. unrelated.
    d. demand elastic.

14. The principle of diminishing marginal utility can be used to explain
    a. a change in demand.
    b. the nature of inelastic demand.
    c. the substitution effect.
    d. the shape of the demand curve.

15. The _______ effect is the change in the quantity demanded due to a change in the relative price of the
    product.
    a. income
    b. substitution
    c. demand
    d. price

16. Store catalogs and television commercials are methods of
    a. income effectiveness.
    b. consumer needs.
    c. creating demand.
    d. entertainment.

17. An item's elasticity of demand can be determined, in part, by which of the following questions?
    a. Is the item too expensive?
    b. Is there enough of the product available?
    c. Could something else be purchased?
    d. Can the purchase be made on a layaway plan?
18. A business raised the price of a product to increase profits, but found that total revenues went down. The demand for the product is
   a. elastic.
   b. inelastic.
   c. unit elastic.
   d. unable to be determined due to lack of information.

19. If the increase in the price of butter causes a decrease in demand for French pastries,
   a. the marginal utility for additional pastries is diminishing.
   b. the two goods are substitutes.
   c. the demand for pastries is inelastic.
   d. the two goods are complements.

20. A consumer is less likely to buy more and more units of a product at the same price because of
   a. diminishing marginal utility.
   b. demand elasticity.
   c. the substitution effect.
   d. the existence of complementary goods.

21. When a department store lowers the price of a product during a sale, it is counting on
   a. diminishing marginal utility.
   b. the Law of Demand.
   c. the demand curve for the product to shift to the right.
   d. an inelastic demand for the product.

22. Demand is measured not only by a consumer's ability to buy a product, but also by
   a. the demand for the product.
   b. the demand for similar products.
   c. opportunity costs.
   d. desire and willingness to purchase.

23. A business that sells office supplies might have the greatest chance of success in
   a. the suburbs.
   b. rural areas.
   c. urban areas.
   d. farming communities.

24. Because a modest price increase has little or no effect on the demand for local telephone service, the demand for the product is
   a. complementary.
   b. inelastic.
   c. inverse.
   d. elastic.

25. On high ticket items such as automobiles, consumers tend to be
   a. indifferent to price changes.
   b. willing to pay any price.
   c. more sensitive to price changes.
   d. more aware of personal wants than price.

26. Urgency of need is a determining factor when
   a. determining demand elasticity.
   b. identifying complementary goods.
   c. estimating marginal utility.
   d. determining income effects.
27. A change in demand can be caused by
   a. the income effect.
   b. the substitution effect.
   c. diminishing marginal utility.
   d. a change in consumer tastes.

28. The Law of Demand states that
   a. the relative change in price is caused by changes in demand.
   b. the demand for an economic product varies inversely with its price.
   c. consumers select alternative ways of spending income.
   d. the relationship between changing prices and total receipts is a direct one.

29. Economists who study demand for the market as a whole are looking at
   a. supply and demand.
   b. advertising.
   c. the amount people will buy at varying prices.
   d. total revenue.

30. When consumers' incomes decline, consumers tend to
   a. buy more at lower prices.
   b. not change their buying patterns.
   c. buy the same as before.
   d. buy less regardless of price.

Matching

Match each item with the correct statement below.

31. shows the quantity consumers demand at each price
32. determined by multiplying the price of a product by the quantity sold
33. observation that demand for a product varies inversely with its price
34. the study of the economic behavior of individuals and firms
35. increases the popularity of a product
36. change in price causes change in quantity demanded
37. use of one product increases the use of another product
38. shows that a different quantity is demanded at every price
39. change in the quantity demanded due to change in consumer income
40. quantity demanded changes little, even with a relatively large change in price

Match each item with the correct statement below. Write the answer in the space provided.

31. shows the quantity consumers demand at each price
32. determined by multiplying the price of a product by the quantity sold
33. observation that demand for a product varies inversely with its price
34. the study of the economic behavior of individuals and firms
35. increases the popularity of a product
36. change in price causes change in quantity demanded
37. use of one product increases the use of another product
38. shows that a different quantity is demanded at every price
39. change in the quantity demanded due to change in consumer income
40. quantity demanded changes little, even with a relatively large change in price
42. products used in place of other products
43. use of one product increases the use of another product
44. a listing that shows quantity demanded at all prices
45. satisfaction one gets from purchasing one more unit of a product
46. a response to change in price
47. total revenue neither increases nor decreases when the price changes
48. change in quantity demanded due to a change in the relative price of a product
49. determinant of demand elasticity
50. the desire, ability, and willingness to buy a product

**Short Answer**

51. **Critical Thinking** What are the three determinants of demand elasticity? Give an example of each determinant.

52. **Critical Thinking** List and explain three reasons for a change in consumer demand.
Demand
Answer Section

MULTIPLE CHOICE

1. D
2. C
3. B
4. A
5. C
6. C
7. A
8. B
9. A
10. A
11. D
12. C
13. B
14. D
15. B
16. C
17. C
18. A
19. D
20. A
21. B
22. D
23. C
24. B
25. C
26. A
27. D
28. B
29. C
30. D

MATCHING

31. C
32. D
33. H
34. A
35. F
36. I
37. G
38. J
39. B
40. E

41. C
42. H
43. E
44. F
45. D
46. G
47. J
48. A
49. B
50. I

SHORT ANSWER

51. These are the three determinants of demand elasticity: Can the purchase be delayed? (Example: Purchasing medicine such as insulin cannot be delayed.) Are substitutes available? (Example: A consumer purchases margarine because of a rise in the price of butter.) What amount of income is needed for the purchase? (Example: The price of a new car is too high based on personal income.)

52. Changes in consumer demand may result from changes in consumer income--as income rises, consumers tend to buy more, if income declines, consumers buy less; changes in consumer tastes--advertising, news reports, trends, and seasons can all affect consumer tastes; prices of related products--sometimes substitutes can be used in place of other products.