**Question Bank**

**Chapter 14**

**Demand and Supply: Prices and Quantities in a Competitive Market**

**Think Break Questions** (from Book: p. 199, 205, 207)

Given the definition of a market and the important role prices provide in a self-sustaining incentive environment for resource allocation, suppose you are dissatisfied with the local food system in your community and feel something needs to be done to improve the nutrition quality of foods being sold and consumed in the market. Propose two solutions and then evaluate them based on the following questions.

1. How has your solution changed incentives for the consumer given what you know about consumer constraints, substitutes, and opportunity cost? Explain.

2. How has your solution changed incentives for the producer given what you know about producer constraints, competition, opportunity cost, and profitability? Explain.

3. Is the system self-sustaining? That is, what self-sustaining mechanism exist in your food system for helping consumers *and* producers decide how to allocate resources toward more healthy foods? Explain.

4. Think of two very specific foods. Think of two very specific causes for demand to *shift in* for these two foods (hint: use table 14.1) and show these on a graph. Discuss what happens to the market equilibrium price and quantity.

5. Repeat 4 for supply.

6. As indicated, we often hear someone say “the tax will be passed on fully to the consumer.” What does this statement implicitly assume about the demand or supply elasticities (slopes)? Is there a case where producers pay the full amount of the tax? Show and explain both cases graphically. (Hint: Use figure 14.4 and think extremes).

7. It is well documented that the number of fast food restaurants has increased over the last two decades. Using the list of variables in table 14.1, identify which variables would be expected to change and then draw the associated supply and demand diagram and the expected effect on caloric intake. Explain in words.

8. Given 7, use the list of variables in table 14.1 to identify possible policy instruments the government could use to offset or moderate this supply environment effect. Show and explain your choice graphically.

***Multiple Choice Questions***

1. An individual who believes that consumers’ choices determine firms’ production decisions is a

a. consumer sovereignist.

b. producer sovereignist.

2. An individual who believes that firms’ choices determine consumers’ decisions is a

a. consumer sovereignist.

b. producer sovereignist.

3. A market is a collection of individuals or entities buying and selling a good and a system for allocating resources between consumers and producers.

a. True

b. False

4. A price serves which three functions in a market.

a. A standard of value, a resource extraction device from consumers, a surplus indicator.

b. A resource extraction device from consumers, a distribution signal for producers, a store of value.

c. A standard of value, a signal for resource allocation, to determine the distribution of production among consumers.

5. The key feature of a perfectly competitive market is that

a. there are many producers of the good.

b. there are many consumers of the good.

c. no single producer or consumers can affect the market price of the good with their production or consumption decisions.

6. Each point on a market demand and a market supply curve represents

a. a market quantity demanded and supplied, respectively.

b. a market equilibrium quantity.

c. a and b.

7. The market quantity and price equilibrium occurs where

a. market quantity demanded equals market quantity supplied.

b. the market price is acceptable to participating consumers and producers.

c. consumers and producers would like a different price for the same quantity on the market.

d. all of the above.

8. A shortage in a market occurs

a. where the market equilibrium price leads to quantity demanded being greater than quantity supplied.

b. where the number of producers is fewer than the number of consumers.

c. none of the above.

9. A surplus in a market can occur without price changing

a. True

b. False

10. A change in the own price of a good is represented in the market demand curve by

a. a movement along the demand curve

b. a shift in the demand curve

c. a or b.

11. A change in the own price of a good is represented in the market supply curve by

a. a movement along the supply curve

b. a shift in the supply curve

c. a or b.

12. An increase in a cost of production leads to

a. a shift to the right of the market supply curve and an increase in the price of the good.

b. a shift to the left of the demand curve and an increase in the price of the good.

c. None of the above.

13. A decrease in the price of a substitute good in consumption leads to

a. a shift to the right of the market demand curve and an increase in the price of the good.

b. a shift to the left of the demand curve and a decrease in the price of the good.

c. None of the above.

14. A scatter plot of the prices and quantities sold of broccoli over 10 years will

a. trace out the demand curve for broccoli.

b. trace out the supply curve for broccoli.

c. tell us nothing about the demand or supply curve of broccoli in isolation because the ceteris paribus condition is not satisfied in scatter plots.

15. In a market tax analysis, the effective price is

a. the price that will bring a positive quantity to the market.

b. the net price the consumer pays for a taxed good.

c. the net price the producer receives for the taxed good.

16. The incidence of the tax refers to date when a tax is implemented.

a. True.

b. False.

17. The amount of a tax on a good payed by the consumer

a. is 0%.

b. is 100%.

c. depends of the magnitude of the tax and the slopes of the demand and supply curves.

18. The more inelastic the demand curve the more effective a tax will be in decreasing consumption.

a. True

b. False

19. If market supply and demand increase then

a. we know the market price will decrease and market quantity will increase.

b. we know the market price will increase and market quantity will decrease.

c. we do not know what will happen to the market price, but the market quantity will increase.

d. we do not know what will happen to the market quantity, but the market price will increase.

20. If market supply decreases and demand increase then

a. we know the market price will decrease and market quantity will increase.

b. we know the market price will increase and market quantity will decrease.

c. we do not know what will happen to the market price, but the market quantity will increase.

d. we do not know what will happen to the market quantity, but the market price will increase.

***Short Answer Questions***

1. Explain the difference between consumer and producer sovereignty.

2. Explain why the term “surplus” or “shortage” is a technically a misnomer in a market where a price and a quantity are observed. What do you think people really mean by the term ‘shortage’ and ‘surplus’ when referring to a market.

3. Explain the difference between demand and quantity demanded and supply and quantity supplied. Why is making these distinctions important when discussing changes in a market?

4. Explain why a scatter plot of prices and quantities does not satisfy the ceteris paribus condition required for identifying a demand or a supply curve.

5. Define the phrase *incidence of the tax* and discuss how it is related to the elasticities of supply and demand.

***Discussion Questions***

1. A key function of any market is to provide signals to consumers and producers in how to allocate resources. Think of some alternative signaling device, other than prices, for signaling this information to producers and consumers. Discuss its advantages and disadvantages relative to the price system.

2. In the context of corporate social responsibility (CSR) and profitability covered in chapter 13, discuss the incentives for an advocacy group to take an extreme consumer sovereignty or producer sovereignty position. Does this help explain the hyperbolic rhetoric we hear related to ‘Big Food’?

3. Explain the logic of the market equilibrium process and how prices and quantities settle in an equilibrium. Discuss how the term equilibrium does *not* imply prices and quantities do not change (i.e. do changing prices and quantities imply disequilibrium?).

4. Explain the error in the statement, “the soft drink tax will be passed on fully to the consumer.”

5. As was discussed in chapter 6 on convenience and time, one of the most important factors thought to increase the demand for food away from home has been the increasing opportunity cost of time as women have entered the work force over the last four decades. Using a demand and supply graph for food away from home, show what we would expect to happen in the market for food away from home. Explain how this analysis lines up with your intuition about this market in terms of prices and quantities. Repeat this analysis for food at home.