Multiple Choice

1. The law of demand states that
   a. A decrease in the price of a good causes the demand curve to shift rightward
   b. A decrease in the price of a good causes the demand curve to shift leftward
   c. Other things remaining the same, as the price of a good falls, the quantity demanded rises.
   d. Other things remaining the same, as the price of a good falls, the quantity demanded falls.

2. Which of the following pairs of goods are most likely to be substitutes in production?
   a. Corn and beans
   b. Hot dogs and ketchup
   c. Orange juice and water
   d. Beef and cowhide.

3. Suppose that rice is an inferior good. If income falls, we should expect to see
   a. The demand for rice to increase
   b. The demand for rice to decrease
   c. The supply of rice to increase
   d. The supply of rice decrease

4. Suppose that goods A and B are complements in production. If the demand for A rises, this will cause:
   a. The price of B to drop because the supply of B will increase.
   b. The price of B to drop because the demand for B will decrease.
   c. The price of B to rise because the supply of B will decrease.
   d. None of the above.

5. Suppose that government institutes a price ceiling of $4 for gasoline. This will cause
   a. A shortage of gasoline only if the equilibrium price of gasoline is above $4
   b. A shortage of gasoline only if the equilibrium price of gasoline is below $4
   c. A surplus of gasoline only if the equilibrium price of gasoline is above $4
   d. A surplus of gasoline only if the equilibrium price of gasoline is below $4.
6 Which of the following would simultaneously reduce the equilibrium price and quantity of plasma TVs?
   a. Lower prices for LCD TVs which consumers consider to be a reasonable substitute for a plasma TV.
   b. Lower prices for cable TV service which consumers consider to be a complement to a plasma TV.
   c. Lower prices for the electronic components that are used in the production of plasma TVs.
   d. All of the above.

7 Suppose that the current equilibrium price of corn is $4 and that the government imposes a price floor at $4. If there is exceptionally good weather leading to a large increase in the amount of corn produced, we should expect:
   a. Corn prices will fall and no shortage or surplus will occur.
   b. Corn prices cannot fall so a surplus of corn will occur.
   c. Corn prices cannot fall so a shortage of corn will occur.
   d. Corn prices cannot rise so a shortage of corn will occur.

8 Suppose that there is simultaneously an increase in the cost of producing plasma TVs and consumer income rises. Assuming that plasma TVs are normal goods, theory predicts that in the market for plasma TVs
   a. Equilibrium quantity will rise, but the effect on equilibrium price is unknown.
   b. Equilibrium price will fall, but the effect on equilibrium quantity is unknown.
   c. Equilibrium price will rise, but the effect on equilibrium quantity is unknown.
   d. None of the above.

Record your answers here.

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TestingPoint 2