

ANSWERS TO SUPPLY AND DEMAND QUESTIONS

1. We expect the answer is the relationship between the price (the independent variable) and the quantity demanded, which is d. The answer is not a.
2. The SC is also the MC curve and MC curves have positive slopes because of diminishing returns so we choose a.
3. The demand curve is also the Willingness to Pay (WTP) curve since its height tells us the maximum price the buyer will pay for this unit and so we choose c.
4. Where quantity demanded is equal to quantity supplied, that is d.
5. Here we need to distinguish between the quantity bought and sold, the quantity transacted, and the equilibrium quantity. The quantity bought and sold is simply the smaller of the quantity demanded or supplied, the equilibrium quantity is the quantity at which quantity demanded is equal to quantity supplied. c.
6. There are six determinants of supply, starting with the price, so we choose b.
7. There are only five demand shifters, changes in price cause movements along a given demand curve. Choose d.
8. Supply (and demand) curves do not shift if the price is the only thing that changes. Choose b.
9. More difficult than most exam questions but the answer is: e.
10. An increase in the price of a substitute increases the demand for X because some people will substitute for the more expensive Y: a.
11. An increase in the price of an input raises production costs and reduces profits and hence causes supply to shift to the left: b.

12. Most increases in supply shifters cause costs to rise and profits to fall: b.
13. Price fell and quantity increased, an inverse (negative) relationship. Assuming that only one curve shifted it is reasonable to assume that the negatively sloped demand curve stayed in place and that supply increased (draw a diagram to check this): c.
14. The fact that price is determined at "the margin", where the marginal unit is the one with the lowest MB and the highest MC. But $P=MB=MC$ and so all preceding units have higher MBs than P and lower MCs than P: d.
15. Voluntary exchanges make both parties better off but not necessarily equally so. This has nothing to do with CS and PS and so choose d.
16. $GFT=CS+PS$: e.

If you did not get most of the questions correct without too much thought, no more than one minute, then you need to do more work on S&D and probably all of the other CMs too!