

## Microeconomics, Module 1: “Supply, Demand, and Equilibrium”

### *Illustrative Test Questions*

(The attached PDF file has better formatting.)

Updated: May 23, 2005

#### Question 1.1: Law of Demand

All but which of the following are true regarding the law of demand?

- A. The law of demand says that when price rises, the quantity demanded falls.
- B. The law of demand implies that demand curves slope downward.
- C. A change in the price of wine leads to a change in the demand for wine.
- D. The law of demand implies that goods have decreasing marginal utility.
- E. All of A, B, C, and D are true.

Answer 1.1: C

A change in the price of wine leads to a change in the quantity demanded of wine; the demand for wine – that is, the demand curve for wine – stays the same.

*Jacob:* Choice E in many of these questions is *all of A, B, C, and D are true* or *none of A, B, C, or D is true*. Is this the type of question we should expect on the final exam?

*Rachel:* The final exam gives five distinct choices; the exam questions do not say “all of the above” or “none of the above.”

#### Question 1.2: Laws of Supply and Demand

All but which of the following are true regarding supply and demand?

- A. If demand falls, the demand curve shifts downwards.
- B. A sales tax is paid by the seller (supplier, producer) to the government.
- C. The law of supply says that as price rises, producers supply more of the good.
- D. The law of supply implies that supply curves are upward sloping.
- E. All of A, B, C, and D are true.

Answer 1.2: B

In Landsburg’s textbook, a sales tax is paid by the consumer to the government.

#### Question 1.3: Sales and Excise Taxes

All but which of the following are true regarding sales and excise taxes?

- A. An excise tax is paid to the government by sellers.
- B. The economic incidence of a sales tax is usually shared between the buyers and the sellers.
- C. If the demand curve is vertical, the economic incidence of an sales tax is completely on the consumers.
- D. If the demand curve is vertical, the economic incidence of an excise tax is completely on the sellers.
- E. All of A, B, C, and D are true.

Answer 1.3: D