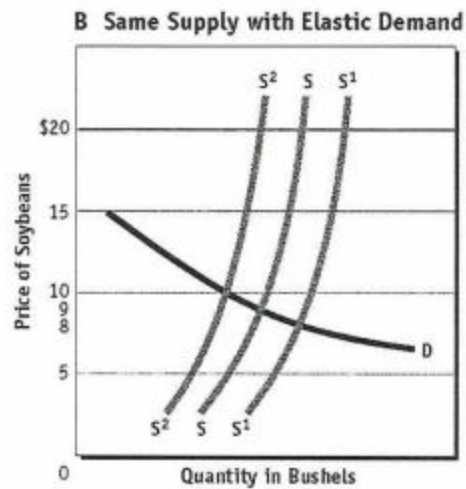
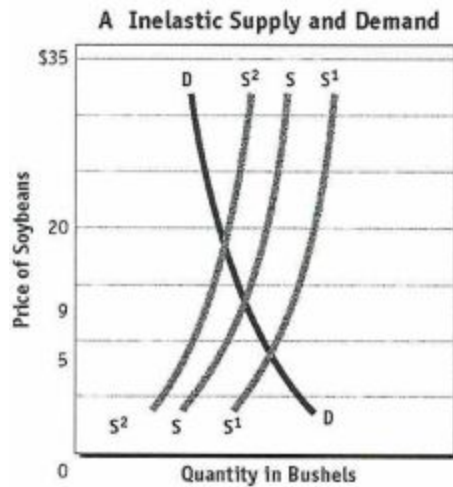


Chapter 6 Test Review

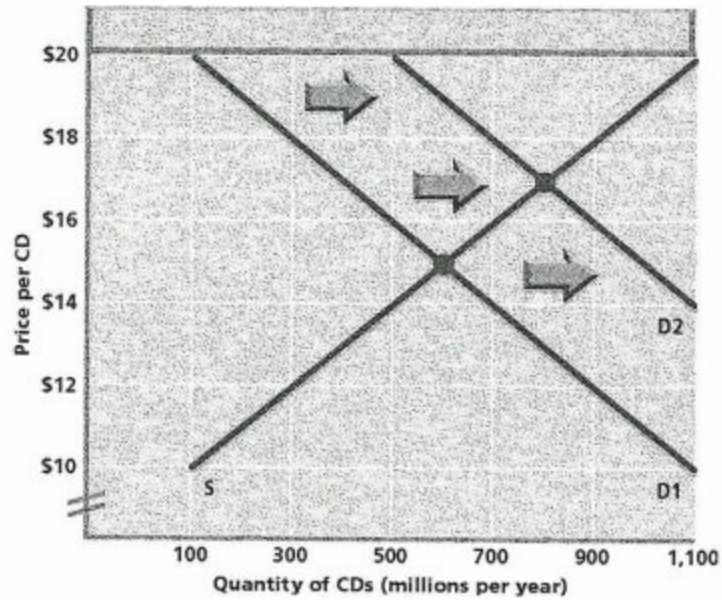
1. Why are prices an effective means of allocation?
2. What does a high price signal for producers and consumers?
3. What does a low price signal for producers and consumers?
4. When does a surplus occur?
5. When does a shortage occur?
6. What is an example of a societal choice for economic equity over efficiency?
7. Who runs a competitive market economy?
8. Farm subsidies are an example of what?

Market Demand and Supply Schedules			
Price	Quantity Demanded	Quantity Supplied	Surplus/ Shortage
\$20	0	20	20
18	2	16	14
16	4	10	6
14	7	7	0
12	11	5	?
10	13	0	-13

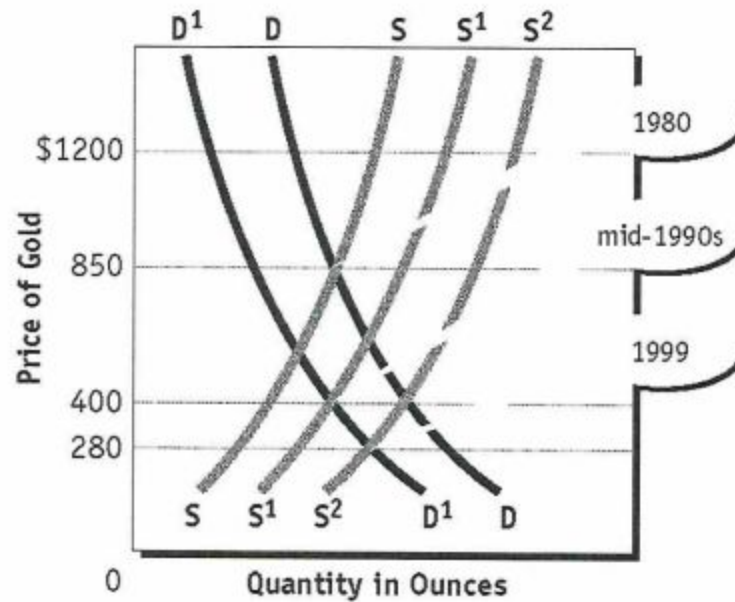
9. At what price will market equilibrium occur?



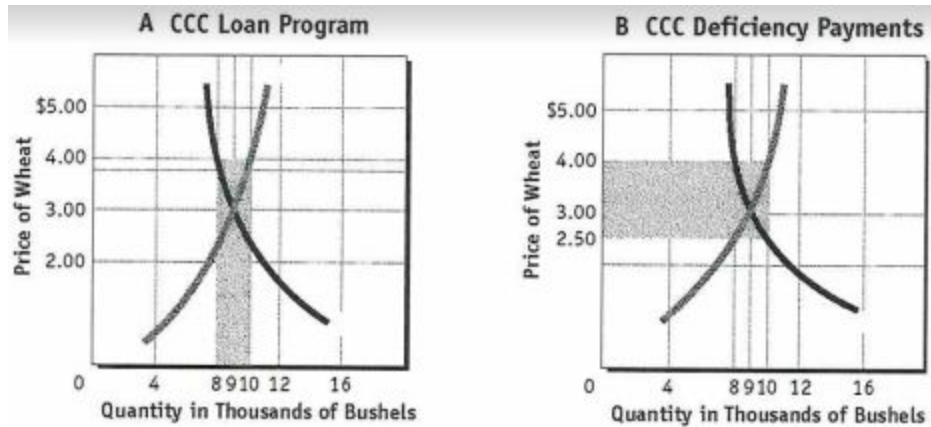
10. In the graphs above, which curve represents the worst yield for soybean farmers?
11. How do prices enable a market economy to adjust to unexpected events?
12. What are the characteristics of allocation by rationing?
13. If a competitive market is at equilibrium, and there is a sudden increase in demand, what will happen?
14. Why are perfectly competitive markets rare?
15. Who is helped out by deficiency payments?
16. How has the internet made marketplaces more efficient?



17. Suppose the demand curve shifts from D_1 to D_2 . How do the quantity supplied and quantity demanded change at the new equilibrium price?



18. Demand is D_1D . A new gold mine opens and shifts the supply curve from S_1S_1 to S_2S_2 . How does this shift affect price?



19. In panel A, the farmer produced 10,000 bushels of wheat under the loan program. At the target price how many bushels did the farmer sell on the open market? **Hint:** the target price is \$4.
20. In panel A, the farmer produced 10,000 bushels of wheat under the loan program. If the program did not exist, how many bushels would the farmer have produced and sold? **Hint:** this is the price and quantity where supply and demand meet.

Vocab

price:

price ceiling:

ration coupon:

target price:

economic model:

deficiency payment:

shortage:

surplus:

market equilibrium:

nonrecourse loan:

rationing:

rebate:

equilibrium price:

price floor: