

MIDTERM PRACTICE TEST

KNOWLEDGE (True/False & MCQs)

Circle the correct answer.

1. Elasticity of demand measures how sensitive the quantity demanded of a good is to a change in its price.
 - a) True
 - b) False

2. If the price of good A (a substitute for good B) increases, the demand for good B will decrease.
 - a) True
 - b) False

3. The equilibrium price in a market is the compromise between buyers and sellers.
 - a) True
 - b) False

4. The law of demand states that as price increases, quantity demanded decreases.
 - a) True
 - b) False

5. When demand is perfectly inelastic, the demand curve is vertical.
 - a) True
 - b) False

6. Which factor would shift the demand curve leftward?
 - a) Increase in consumer incomes

- b) Decline in consumer incomes
 - c) Successful advertising campaign
7. Which factor would shift the supply curve rightward?
- a) Higher production costs
 - b) Improved technology
 - c) Government tax increase
8. If the supply of a product decreases due to bad weather, what happens?
- a) Price \uparrow , Quantity \uparrow
 - b) Price \uparrow , Quantity \downarrow
 - c) Price \downarrow , Quantity \uparrow
 - d) Price \downarrow , Quantity \downarrow
9. Which of the following is **not** a determinant of demand?
- a) Consumer income
 - b) Tastes & preferences
 - c) Government subsidies to producers
 - d) Price of related goods
10. The relationship between price and quantity supplied is:
- a) Direct
 - b) Inverse
 - c) No relationship
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5. Sketch and label graphs showing (a) elastic demand and (b) inelastic demand.

6. Explain why luxury goods tend to have more elastic demand than necessities.

7. Why is supply usually more elastic in the long run than in the short run?

8. Draw a supply curve and show the movement when price rises.

9. Sketch a graph showing the difference between a movement along demand vs. a shift in demand.

APPLICATION

1. $PE_D = 2.5$ → What does this tell us about consumer responsiveness?
2. $PE_S = 1.5$ → What does this tell us about producer responsiveness?
3. If the price of a good rises by 10% and demand falls by 15%, calculate PE_D .
4. If the price of a good rises by 8% and supply rises by 12%, calculate PE_S .
5. A firm sells coffee. At \$10 per pound, $Q_d = 80$, $Q_s = 80$.
At \$20, $Q_d = 60$, $Q_s = 110$.

Sketch surplus/shortage and equilibrium

6. If the government places a tax on cigarettes, illustrate its effect on supply and equilibrium. Sketch a graph.

7. Explain with a diagram: What happens to price, if demand increases and shifts but supply stays the same?

8. Explain with a diagram: What happens if supply decreases but demand stays the same?

COMMUNICATION

1. Consider the coffee market with the following table

Price	Qd	Qs
\$5	90	65
\$10	80	80
\$15	70	95
\$20	60	110
\$25	50	125

(a) Graph demand & supply. Mark equilibrium.

(b) At \$20, is there surplus or shortage? Calculate.

2: Shifts in Demand & Supply

Demand Increase

The popularity of electric scooters rises after new government incentives.

- Task: Draw a graph showing the shift in the demand curve for electric scooters.
- Explain: What happens to equilibrium price and quantity?

Demand Decrease

Consumer incomes fall during an economic downturn, reducing demand for luxury handbags.

- Task: Draw a graph showing the shift in the demand curve.
- Explain: What happens to price and quantity?

Supply Decrease

A hurricane damages orange crops in Florida.

- Task: Draw a graph showing the shift in the supply curve for oranges.
- Explain: What happens to price and quantity?

Supply Increase

A new farming technology doubles wheat production.

- Task: Draw a graph showing the shift in the supply curve.
- Explain: What happens to equilibrium price and quantity?

Q5. Mixed Shift – Demand \uparrow and Supply \downarrow

The price of gasoline rises because:

1. Demand increases (more car travel in summer), and
 2. Supply decreases (conflict reduces oil exports).
- Task: Draw a graph showing both shifts.
 - Explain: What happens to equilibrium price and quantity?
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Q6. Mixed Shift – Demand ↓ and Supply ↑

A pandemic reduces restaurant demand while farming efficiency increases food supply.

- Task: Draw a graph showing both shifts.
 - Explain: What happens to equilibrium price and quantity?
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