What Affects Price? ENTR 1-9

Think Critically

1. What effect do supply and demand have on price?

2. How do the costs of doing business affect prices?

3. How does the market structure affect the price of a good or service?

True or False

______ 1. The supply curve for a market economy shows that as the price of a good or service rises, suppliers are willing to produce more of the good or service.

______ 2. The demand curve for a market economy shows that as the price of a good or service rises, individuals are willing to consume more of the good or service.

______ 3. Demand elasticity occurs when demand for a product is affected by its price.

______ 4. Inelastic demand occurs when a change in price creates more demand.

______ 5. In a market with perfect competition, a small number of businesses gain the majority of total sales.

______ 6. When a company controls all of a market, it has a monopoly.

______ 7. Fixed costs must be paid even if a company has no sales.

______ 8. When the quantity of a good or service produced increases, variable costs remain the same.

______ 9. Marginal benefit measures the advantages of producing one additional unit of a good.

______ 10. It is difficult for new businesses to enter businesses in a market with an oligopoly market structure.

Multiple Choice

______ 1. A supply curve shows that the quantity produced (a) increases as price decreases, (b) increases as price increases, (c) decreases as price increases, (d) is not affected by price.

______ 2. A demand curve shows that the quantity consumed (a) increases as price decreases, (b) increases as price increases, (c) decreases as price decreases, (d) is not affected by price.

_____ 3. The forces of supply and demand determine (a) price in a market economy, (b) price in a command economy, (c) whether government controls prices, (d) none of these.

_____ 4. At the equilibrium price, supply is (a) greater than demand, (b) at a minimum, (c) equal to demand, (d) at its highest point.

_____ 5. In a competitive market, (a) there is no competition, (b) there is a monopoly, (c) supply will never equal demand, (d) buyers can shop around for the best deal.

_____ 6. A company that controls all of a market (a) must compete for business, (b) cannot exist in a market economy, (c) has a monopoly, (d) has an oligopoly.

_____ 7. When a market is dominated by a small number of businesses that gain the majority of total sales it is called (a) monopolistic competition, (b) pure competition, (c) its factors of production controlled by the government, (d) an oligopoly.

_____ 8. The fixed costs of a business (a) include monthly rent, (b) are based on the price of supplies, (c) do not include the cost of insurance, (d) include advertising costs.

_____ 9. If an entrepreneur's variable cost for each unit produced is $1.35, how much would the fixed costs increase if 30 additional units were demanded each day? (a) $40.50 per day, (b) $40.50 per week, (c) $202.50 per week, (d) none of these.

_____ 10. When a business owner decides to grow the business he or she should consider the (a) equilibrium quantity, (b) variable cost, (c) marginal cost, (d) economies of scale.

Problem Solving

1. Describe what a supply curve looks like and explain why it looks the way it does.

2. Describe what a demand curve looks like and explain why it looks the way it does.

3. What is the significance of the intersection point of the demand and supply curves for a product or service?