

Section 1: Guided Reading and Review

Understanding Supply



A. As You Read

As you read Section 1, supply the missing causes or effects on the lines provided in the chart.

Cause	Effect
1. The price of pizza increases.	1. <i>On pizzerias:</i> _____
2. The cost of tomato sauce increases along with the price of pizza.	_____
3. _____ _____	2. <i>On pizza supply schedule:</i> _____
_____	_____
4. _____ _____	3. <i>On market supply curve:</i> Prices will remain the same as on a single pizzeria's supply curve.
_____	4. <i>On supply curve:</i> The curve always rises from left to right.
5. The supply of a good is not very responsive to price changes.	5. <i>On the value of elasticity of supply:</i> _____
6. A supplier, such as an orange grower, has a long time to respond to a price change.	_____
_____	6. <i>On supply:</i> _____
_____	_____

B. Reviewing Key Terms

Read the statements below. In the space provided, write *T* if the statement is true or *F* if it is false.

- ____ 7. Price and quantity supplied are variables on a supply schedule.
- ____ 8. A supply curve shows price and quantity in a table.
- ____ 9. Elasticity of supply states that the output of a good increases as the price of the good increases.
- ____ 10. To create a market supply schedule, an economist needs to know the total output of all suppliers in a given market.





Section 2: Guided Reading and Review

Costs of Production

A. As You Read

As you read Section 2, supply the requested information in the spaces provided.

1. A basic question a producer must answer: _____

2. Marginal product of labor benefits gained from worker specialization: _____

3. Negative effect of a firm's limited capital: _____

4. Curve pattern for marginal product of labor when capital is limited: _____

5. Examples of typical fixed costs: _____

6. Why labor is a variable cost: _____

7. How the marginal costs of production for the beanbag producer changed after the rate of three bags per hour was surpassed: _____

8. How total revenue and total cost can help set the most profitable output level: _____

9. How marginal revenue and marginal cost can help set the most profitable output level: _____

10. Why a producer would continue to increase output even though the marginal cost of production may be rising: _____

B. Reviewing Key Terms

Define the following terms.

11. marginal product of labor _____
12. diminishing marginal returns _____
13. total cost _____
14. marginal cost _____



Section 3: Guided Reading and Review

Changes in Supply



A. As You Read

As you read Section 3, supply information to complete each statement in the spaces provided.

1. Unable to control price, a profitable producer faced with rising labor and/or materials costs will

2. New technology affects supply by

3. European governments' reasons for subsidizing food producers include

4. In the past, Western European governments subsidized banks and airlines by

5. The United States government subsidizes such industries as

6. An excise tax increases production costs by

7. Consumers may be unaware of excise taxes because

8. Government regulations often reduce supply because

9. During periods of inflation, suppliers may temporarily withhold goods that can be stored for long periods because

B. Reviewing Key Terms

Complete each sentence by writing the correct key term in the blank provided.

10. Government can increase supply by granting producers a(n) _____.
11. To reduce supply, a government might levy a(n) _____.
12. Requiring pollution control on automobiles exemplifies government _____.





Section 1: Guided Reading and Review

Combining Supply and Demand

A. As You Read

As you read Section 1, supply the requested information in the spaces provided.

In the Case of the Pizzerias

1. The market equilibrium price: _____
2. The market supply level: _____
3. The market demand level: _____

In Any Market Environment

4. How equilibrium is shown on a supply and demand graph: _____

5. Two possible outcomes of disequilibrium: _____

6. Supplier price response to excess demand: _____

7. Condition under which market forces will push market toward the equilibrium: _____

In the Case of Government Intervention

8. Purpose(s) of rent control: _____

9. Negative results of ending rent control: _____

10. Effect on labor when minimum wage exceeds equilibrium: _____
11. Purpose of Northeast Dairy Compact: _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank provided.

12. When government wants to ensure that "essential" goods or services are within the reach of all consumers, it may impose a(n) _____.
13. If prices rise too high, a market may face the problem of _____.
14. The one and only price at which quantities supplied equal quantities demanded indicates the market _____.
15. Minimum wage is an example of a government-imposed _____.
16. If car manufacturers produce more or fewer cars than customers will buy, the car market will be in _____.

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Section 2: Guided Reading and Review

Changes in Market Equilibrium



A. As You Read

As you read Section 2, complete the chart by supplying an effect for each cause.

Cause	Effect
1. Entire supply curve shifts.	1.
2. Technology for making compact disc (CD) players improved.	2.
3. After a drop in production cost, CD player suppliers become willing to offer 1,200,000 units at the original price, but demand remains at 1,000,000.	3.
4. Price of CD players continues to fall.	4.
5. Production cost of CD players continues to fall.	5.
6. Market's supply curve shifts to the left.	6. <i>In the market:</i> <i>On the equilibrium point:</i>
7. Demand curve of a good suddenly shifts right.	7.
8. Signs of excess demand for the good continue over time.	8. <i>On suppliers:</i>
9. Demand for a good falls.	9. <i>On the demand curve:</i>

B. Reviewing Key Terms

Rewrite each sentence so that the italicized term is used correctly.

10. *Shortage* occurs when the quantity demanded falls below the quantity supplied.

11. Excess demand for a good indicates a market *surplus* of that good.

12. Suppliers pay *search costs* in the form of financial and opportunity costs as they search for a good.





Section 3: Guided Reading and Review

The Role of Prices

A. As You Read

As you read Section 3, answer the questions on the lines provided.

1. What overall, vital role do prices play in the free market? _____

2. What standard do prices set? _____
3. What signals do high prices send to producers and consumers? _____

4. Why do suppliers use price rather than production to resolve the problem of excess demand? _____

5. What drives the distribution system in the free market? _____

6. How does a price-driven economy allow for a wide diversity of goods? _____

7. What was the goal of the Soviet planned economy? _____

8. How did the Soviet economic system affect consumer goods? _____

9. How does the free market ensure an efficient allocation of resources? _____

10. What motivates suppliers to increase production in the face of high demand and high prices? _____

11. What three problems in the free market work against the efficient allocation of resources? _____

B. Reviewing Key Terms

Define the following terms.

12. supply shock _____

13. rationing _____

14. spillover costs _____

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