



## Section 1: Quiz

# Understanding Supply

## A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

### Column I

- \_\_\_ 1. a measure of how suppliers react to a change in price
- \_\_\_ 2. a factor that can change
- \_\_\_ 3. how much of a good is offered for sale at a specific price
- \_\_\_ 4. relationship between price and total quantity supplied by all firms

### Column II

- a. variable
- b. quantity supplied
- c. market supply schedule
- d. elasticity of supply

## B. Main Ideas

Write the letter of the correct answer in the blank provided.

- \_\_\_ 5. For which of the following products or services is supply likely to be inelastic in the short term whether prices rise or fall?
  - a. cargo ships
  - b. haircuts
  - c. newspapers
  - d. staples
- \_\_\_ 6. What is the principle of the law of supply?
  - a. The lower the price, the larger the quantity produced.
  - b. The higher the price, the larger the quantity produced.
  - c. The higher the price, the smaller the quantity produced.
  - d. The lower the price, the more manufacturers will produce the good.
- \_\_\_ 7. What is the term for supply of a product that cannot easily or quickly expand or reduce its production?
  - a. profit
  - b. supply schedule
  - c. inelastic
  - d. elastic
- \_\_\_ 8. A graph of the data points in the supply schedule creates which of the following?
  - a. a demand curve
  - b. a supply curve
  - c. the quantity of goods demanded
  - d. the supply of goods available
- \_\_\_ 9. What happens in the case of a product that has elastic supply when the price decreases?
  - a. Existing producers expand, and new producers enter the market.
  - b. Some producers produce less, and others drop out of the market.
  - c. Existing firms continue their usual output but earn less.
  - d. New firms enter the market as older ones drop out.
- \_\_\_ 10. A supply schedule is characterized by which of the following?
  - a. It shows the quantity supplied at only one price.
  - b. It shows the factors that could influence supply.
  - c. It is sensitive to changes in the costs of labor and parts.
  - d. It lists supply for a specific good.

Name \_\_\_\_\_

Date \_\_\_\_\_

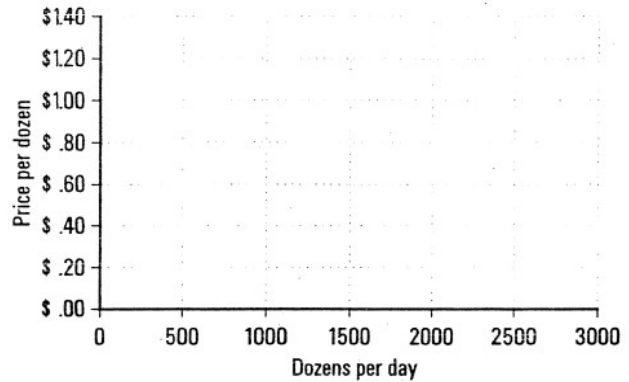
**ECONOMIC SKILLS LAB  
PLOTting SUPPLY CURVES**

Examine the two supply schedules that follow and plot the supply curves. Then answer the questions that follow.

**Supply Schedule for Tortillas**

Price	Quantity Supplied (dozen per day)
\$ .60	500
\$ .80	1,500
\$ 1.00	2,000
\$ 1.20	2,500
\$ 1.40	3,000

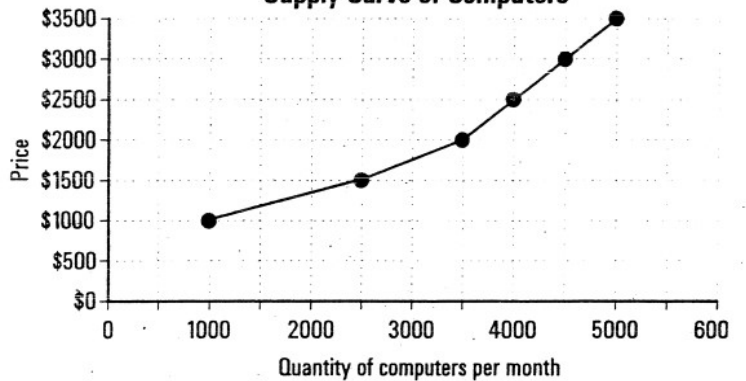
**Supply Curve of Tortillas**



**Supply Schedule for Computers**

Price	Quantity Supplied (per month)
\$1,000	1,000
\$1,500	2,500
\$2,000	3,500
\$2,500	4,000
\$3,000	4,500
\$3,500	5,000

**Supply Curve of Computers**



**Questions for Understanding**

- If the price of tortillas is \$1.20 per dozen, how many dozen will suppliers offer for sale? \_\_\_\_\_
- If the price of tortillas is \$.80 per dozen, how many dozen will suppliers offer for sale? \_\_\_\_\_
- If the quantity of computers offered for sale is 2,500, what is the price per computer? \_\_\_\_\_
- If the quantity of computers offered for sale is 5,000, what is the price per computer? \_\_\_\_\_
- How many computers will suppliers offer for sale at \$1,000? \_\_\_\_\_
- How many computers will suppliers offer for sale at \$3,500? \_\_\_\_\_
- What effect does the price seem to have on the quantity suppliers offer for sale?  
\_\_\_\_\_
- Calculate total revenue (price x quantity)
  - if the price of tortillas is \$1.00 each: \_\_\_\_\_
  - if 1,000 computers are sold each month: \_\_\_\_\_
  - if the price of computers is \$2,500 each: \_\_\_\_\_

Name \_\_\_\_\_ Date \_\_\_\_\_

**ECONOMIC SKILLS LAB**  
**THE AMAZING TORTILLA-INTERPRETING DATA**

When The Amazing Tortilla Company first opened, its owner hoped to sell about 1,000 dozen tortillas daily. To produce this quantity, the owner rented a building and purchased the needed equipment.

The owner wasn't sure if people would buy the tortillas, so the business was risky. Fortunately, customers loved the fresh taste of homemade corn tortillas. The business sold all it could make, so it continually expanded its daily production.

At first the business could increase production without raising its marginal cost of \$.50 a dozen. (Marginal cost is the cost of producing each *additional* dozen.)

As production continued to expand, however, the owner had to work the equipment harder and longer each day. This caused more breakdowns and led to additional repair expenses. Hiring more workers also began to crowd the limited equipment. And the owner had to spend even more time at the business making sure that everything worked properly and that orders were shipped on schedule. As a result, the company's marginal cost of tortillas began to rise as daily production increased. The table shows the owner's estimate of marginal cost.

Marginal Cost of Producing a Dozen Tortillas at the Amazing Tortilla Company	
Dozens per day	Marginal cost
up to 500	\$0.50
501 to 1,000	\$0.50
1,001 to 1,500	\$0.75
1,501 to 2,000	\$0.75
2,001 to 2,500	\$1.00
2,501 to 3,000	\$1.00

Answer each of the following questions:

1. Suppose the business could charge no more than \$0.60 per dozen. How many tortillas do you think the business would want to produce each day at that price? Why?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. If the price increased from \$0.60 per dozen to \$0.80 per dozen, would the business want to sell more tortillas each day? Why?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Suppose the business could charge no more than \$0.40 per dozen for its tortillas. What do you think would happen? Why?

\_\_\_\_\_

\_\_\_\_\_

4. Do the decisions in questions 1-3 illustrate the price effect or a change in supply? Explain.

\_\_\_\_\_



## Section 2: Quiz

# Costs of Production

### A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

#### Column I

- \_\_\_ 1. a cost that rises or falls depending on the quantity produced
- \_\_\_ 2. the change in output that results from having one more worker
- \_\_\_ 3. a cost that does not change no matter how much is produced
- \_\_\_ 4. the additional income from selling one more unit of a good
- \_\_\_ 5. the additional cost of producing one more unit

#### Column II

- a. marginal cost
- b. variable cost
- c. fixed cost
- d. marginal product of labor
- e. marginal revenue

### B. Main Ideas

Write the letter of the correct answer in the blank provided.

- \_\_\_ 6. When do diminishing marginal returns occur?
  - a. when some workers increase output but others decrease it
  - b. when additional workers increase total output at a decreasing rate
  - c. when extra workers will have to wait their turn to be productive
  - d. when additional workers will get in each other's way
- \_\_\_ 7. How does a manufacturer set his or her total output to maximize profit?
  - a. set production so that total revenue plus costs is greatest
  - b. set production at the point where marginal revenue is smallest
  - c. determine the largest gap between total revenue and total cost
  - d. determine where marginal revenue and profit are the same
- \_\_\_ 8. If marginal cost becomes higher than price, what happens to a company?
  - a. The company will go out of business.
  - b. The company will lose money on each additional unit produced.
  - c. Company specialization will lower the actual price charged.
  - d. Diminishing marginal returns will shrink the production.
- \_\_\_ 9. When would it make sense for a factory that is losing money to remain in operation?
  - a. if marginal revenue is equal to marginal cost
  - b. if total cost of the goods being manufactured exceeds the operating cost
  - c. if marginal product of labor becomes negative
  - d. if the revenue from the goods being manufactured exceeds the operating cost
- \_\_\_ 10. How is the total cost of a factory or other production site determined?
  - a. marginal cost plus fixed cost
  - b. fixed cost plus variable cost
  - c. marginal cost plus variable cost
  - d. marginal cost plus output cost