ECONOMICS A02Y Xmas Test: December 15, 2000 QUESTIONS

PART I - MULTIPLE CHOICE (2 marks each, for 46 marks)

1- 3 The perfectly competitive market for cable TV is in equilibrium, and its demand and supply schedules have the usual shapes (positively sloped supply and negatively sloped demand). Cable TV is a normal good. A satellite dish is a good substitute for cable TV as far as consumers are concerned. Video tapes are a complement in consumption to cable TV. Internet services (offered on cable) are a substitute in production for the producers of cable TV. Questions 1 to 3 refer to the effects of various events on the market for cable TV; each question should be taken as separate.

1. Suppose that, as the population ages, cable television becomes more popular. At the same time, the cost of providing cable TV services increases. What happens to equilibrium market price and quantity?

(A) equilibrium price and quantity will both fall
(B) equilibrium price will fall and equilibrium quantity will rise
(C) equilibrium price will rise and equilibrium quantity will fall
(D) equilibrium price and quantity will both rise
✓(E) equilibrium price will rise but equilibrium quantity may rise or fall depending on the relative size of shifts of supply and demand
(F) equilibrium price will fall but equilibrium quantity may rise or fall depending on the relative size of shifts of supply and demand