**Question Bank**

**Chapter 15**

**Horizontally and Vertically Related Competitive Markets**

**Think Break Questions** (from Book: p. 217)

1. Construct a hypothetical story related to watermelons and cantaloupes where figure 15.4 would apply.
2. How would the slope of the demand curve in market one be related to the shift in the demand curve in market two (Hint: Look at Figure 15.4 and think extreme values).
3. Use Figure 15.5 to help explain Figure 15.2 and the price relationships between chuck roast and cattle prices, but then also cattle price and corn. Given the prices are not moving in perfect unison, construct a possible explanation using figure 15.5 to explain how the prices may move in opposite directions.

***Multiple Choice Questions***

1. Interrelated markets are markets where supply and demand move in the same directions.

a. True

b. False

2. Ignoring an interrelated market in the analysis of a nutrition policy will

a. keep the focus on the market of interest.

b. help in designing a more focused policy instrument for achieving the objective.

c. tend to under or overestimate the effect of the policy.

3. The two types of interrelated markets are

a. primary and secondary.

b. vertical and horizontal.

c. immediate and distant.

4. Markets that are related through substitution or complementary possibilities between goods in consumption or production or both are called.

a. substitute and complement related markets.

b. horizontally related markets.

c. vertically related markets.

5. Bananas and apples are substitutes in consumption and thus their markets are \_\_\_\_\_\_\_ related (fill in the blank).

a. vertically related

b. horizontally related

c. vertically and horizontally related

6. Markets that are related through the supply and demand of an input with the supply and demand for an output are called.

a. input and output related markets.

b. horizontally related markets.

c. vertically related markets.

7. Crude oil and gasoline markets are \_\_\_\_\_\_\_ (fill in the blank).

a. vertically related

b. horizontally related

c. vertically and horizontally related

8. Derived demand refers to

a. the demand for a good that is derived from consumer preferences.

b. the demand for an input that is used in the production of an output.

c. a and b.

9. The key variable that links interrelated markets is

a. income

b. price

c. quantity

10. If two markets are horizontally related through demand substitution only their prices will tend to move in the same direction when there is a change in demand

a. True

b. False

11. The demand and supply curves in horizontally related markets will have the same slopes in each market

a. True

b. False

12. In horizontally related markets the prices and quantities will always move in the same direction.

a. True

b. False

13. Ignoring the effects on horizontally related markets in evaluating a sugar sweetened beverage tax will tend to \_\_\_\_\_\_\_\_ the caloric reduction effect caused by the tax (fill in the blank).

a. underestimate

b. overestimate

c. have no effect on the

14. The upstream derived demand curve will be affected by the same variables as the downstream supply curve.

a. True

b. False

15. The affect of corn subsidies on obesity rates requires a

a. vertically related markets framework.

b. horizontally related markets framework.

***Short Answer Questions***

1. Define horizontal and vertical related markets. Give two examples of each.

2. Write down the steps in doing a horizontal or vertical market analysis (for two markets) assuming the supply curve in one market shifted to the right because of some exogenous factor.

3. Explain in words the logic of the statement, ‘there are often unintended consequences of taxing a specific food to improve health in the context of horizontally related markets.’

***Discussion Questions***

1. In the context of horizontally and vertically related markets explain this sentence from the text: “It takes both blades of the scissors to determine price and if the individual blades in both markets are moving in similar directions then the prices will move in similar directions, but if they are moving in opposite directions so too will the price.”

2. Using a horizontally related market analysis, show graphically and explain how a tax on sugar sweetened beverages (SSB) will be more effective at reducing total calories if the demand for substitute drinks is more inelastic than elastic. (Simplifying assumption: Just consider SSB as one market and all non-SSB substitute products as the other market).

3. Discuss the difference between a logical qualitative effect and an empirical quantitative effect in the context of vertically relate markets where there is a market for corn that receives corn subsidies, the market for high fructose corn syrup, and the market for sugar sweetened beverages (SSB) and there is a claim that corn subsides lead to higher SSB consumption.