

EPF Supply and Demand Basics Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What does a shift of the demand curve represent?**
 - A. Change in price**
 - B. Change in demand or change in supply**
 - C. Market equilibrium**
 - D. Surplus**

- 2. What does the law of diminishing returns imply?**
 - A. Adding more inputs will always increase output**
 - B. Constant input yields constant output**
 - C. Producing more of one good leads to lower returns if other inputs are fixed**
 - D. More resources will always yield higher profits**

- 3. According to the law of supply, what happens to quantity supplied as price increases?**
 - A. It decreases**
 - B. It remains constant**
 - C. It increases**
 - D. It fluctuates**

- 4. Which term describes everything you own and all of your liabilities?**
 - A. Budget**
 - B. Portfolio**
 - C. Estate**
 - D. Wealth**

- 5. Which term was coined by Adam Smith to describe the self-regulating nature of the marketplace?**
 - A. Invisible Hand**
 - B. Market Equilibrium**
 - C. Supply and Demand**
 - D. Consumer Sovereignty**

- 6. What is the term used to describe the limited quantities of resources compared to unlimited wants?**
- A. Excess**
 - B. Scarcity**
 - C. Opportunity Cost**
 - D. Efficiency**
- 7. What is a defining characteristic of "monopolistic competition"?**
- A. Only one firm dominates the market**
 - B. Several firms offer identical products**
 - C. Many firms with differentiated products have some price-setting power**
 - D. Complete absence of marketing among competitors**
- 8. The equilibrium price will typically decrease if?**
- A. The supply curve shifts left.**
 - B. The demand curve shifts right.**
 - C. The supply curve shifts right while demand remains the same.**
 - D. Both supply and demand increase.**
- 9. What is the term for the buying and selling of goods and services?**
- A. Trade**
 - B. Commerce**
 - C. Market**
 - D. Industry**
- 10. What does "ceteris paribus" mean?**
- A. After the fact**
 - B. With all factors considered**
 - C. All other things being equal**
 - D. In a complex economy**

Answers

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1. B
2. C
3. C
4. C
5. A
6. B
7. C
8. C
9. B
10. C

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Explanations

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1. What does a shift of the demand curve represent?

- A. Change in price
- B. Change in demand or change in supply**
- C. Market equilibrium
- D. Surplus

A shift of the demand curve represents a change in demand, which occurs when factors other than the price of the good itself influence the overall desire for that product. These factors could include changes in consumer preferences, income levels, the prices of related goods (substitutes and complements), or future expectations regarding prices. When the demand curve shifts to the right, it indicates an increase in demand at all price levels, meaning consumers are willing to buy more of the good based on these other influences. Conversely, a shift to the left suggests a decrease in demand, demonstrating that consumers are less likely to purchase the good at the previous price levels. This distinction is crucial, as it highlights that changes in demand are not simply a response to price changes, but rather to external factors that affect consumer behavior. In contrast, other options closely relate to broader market dynamics. Market equilibrium is concerned with the point where supply equals demand, while surplus refers to a situation where supply exceeds demand at a given price. Therefore, the correct choice accurately captures the essence of what a shift in the demand curve signifies within the context of supply and demand theory.

2. What does the law of diminishing returns imply?

- A. Adding more inputs will always increase output
- B. Constant input yields constant output
- C. Producing more of one good leads to lower returns if other inputs are fixed**
- D. More resources will always yield higher profits

The law of diminishing returns implies that when you increase the quantity of one input while keeping other inputs constant, the additional output resulting from the increased input will eventually start to decline. This concept is crucial in understanding production processes. For example, if a farmer continues to add fertilizer to a fixed piece of land, there will be a point where adding more fertilizer results in lower increases in crop yield because the land can only support a limited amount of nutrients effectively. This principle suggests that while initially increasing an input can lead to significant gains in output, after a certain point, each additional unit of input yields less and less additional output. This is especially evident in production scenarios where some resources are entirely fixed, meaning there are limits to how much efficiency can be gained from simply adding more of one factor of production without changing others. Understanding this concept aids in optimizing resource allocation in various economic contexts.

3. According to the law of supply, what happens to quantity supplied as price increases?

- A. It decreases**
- B. It remains constant**
- C. It increases**
- D. It fluctuates**

The correct answer indicates that as price increases, the quantity supplied also increases. This relationship is grounded in the law of supply, a fundamental principle in economics. The law of supply states that, all else being equal, producers are willing to supply more of a good or service at higher prices. This is primarily because higher prices can lead to higher revenues and profits for businesses, which incentivizes them to produce more. When prices rise, producers are motivated to allocate more resources toward the production of goods, anticipating that they can sell them for a profit. This is often due to the perception that the market is favorable, and thereby, businesses may increase their investment in production capacity or labor to meet the expected demand. In summary, an increase in prices leads suppliers to expand their output, thus increasing the quantity supplied, aligning perfectly with the law of supply.

4. Which term describes everything you own and all of your liabilities?

- A. Budget**
- B. Portfolio**
- C. Estate**
- D. Wealth**

The term that describes everything you own and all of your liabilities is "estate." An estate encompasses all assets and liabilities an individual has at a certain point in time. This includes properties, bank accounts, investments, personal belongings, and any debts such as mortgages, loans, or credit card balances. Essentially, an estate represents the total net worth of an individual when summarized, considering both the value of what is owned and what is owed. While "wealth" refers more broadly to the abundance of valuable resources or material possessions, it does not directly account for liabilities. On the other hand, "portfolio" typically refers to a collection of investments and financial assets held by an individual or institution, while a "budget" is an estimate of income and expenses for a specific timeframe. Therefore, the most accurate term for the complete picture of ownership and liabilities is "estate."

5. Which term was coined by Adam Smith to describe the self-regulating nature of the marketplace?

- A. Invisible Hand**
- B. Market Equilibrium**
- C. Supply and Demand**
- D. Consumer Sovereignty**

The term "Invisible Hand," coined by Adam Smith in the 18th century, refers to the concept that individuals pursuing their own self-interest in a free market economy inadvertently contribute to the overall good of society. Smith argued that when individuals seek the most benefit for themselves, they make decisions that can lead to optimal resource allocation and economic growth, even though that is not their explicit intention. This self-regulating characteristic of the marketplace suggests that when people act in their own interest, it can lead to societal benefits without direct intervention or overarching control. Understanding this term is crucial because it encapsulates the idea that markets can effectively coordinate economic activity through the actions of individuals. The idea of the "Invisible Hand" contrasts with more controlled economic systems, where regulation and planning dictate production and consumption, emphasizing the natural equilibrium that arises from voluntary exchanges in a market. The concept underscores the importance of individual choice and decentralized decision-making in the economy.

6. What is the term used to describe the limited quantities of resources compared to unlimited wants?

- A. Excess**
- B. Scarcity**
- C. Opportunity Cost**
- D. Efficiency**

The term that describes the limited quantities of resources in relation to unlimited wants is scarcity. Scarcity is a fundamental concept in economics that highlights the imbalance between finite resources and the infinite nature of human desires and needs. It reflects the reality that resources such as time, money, land, and raw materials are limited, while people will always seek more than what is available. This core principle drives the need for choice and prioritization, as individuals and societies must make decisions on how to best allocate their limited resources to satisfy their various wants. In contrast, the other terms do not convey the same meaning as scarcity. Excess refers to having an abundance of a particular resource, which is the opposite of scarcity. Opportunity cost is the value of the next best alternative that is forgone when making a choice, illustrating the trade-offs associated with decision-making under constraints, but it does not directly define the relationship between limited resources and unlimited wants. Efficiency relates to how well resources are used to achieve a desired outcome, often striving for the most output with the least input, but it doesn't address the foundational issue of resource limitation. Scarcity, therefore, succinctly encapsulates the essence of resource limitations in the face of human desires.

7. What is a defining characteristic of "monopolistic competition"?

- A. Only one firm dominates the market**
- B. Several firms offer identical products**
- C. Many firms with differentiated products have some price-setting power**
- D. Complete absence of marketing among competitors**

Monopolistic competition is characterized by many firms competing in a market, but each firm offers a product that is slightly different from the others, which allows them to have some degree of price-setting power. This differentiation can stem from various factors, such as branding, quality, features, or customer service. Because the products are not identical, consumers may have preferences that lead them to pay different prices, giving firms the ability to influence their prices to some extent rather than being completely price-takers as in perfect competition. In this context, the presence of competing firms with differentiated products is crucial, as it fosters an environment where firms can market their unique offerings and maintain a competitive edge, even while they compete with other firms. This is a fundamental aspect of monopolistic competition that distinguishes it from other market structures like perfect competition or monopoly.

8. The equilibrium price will typically decrease if?

- A. The supply curve shifts left.**
- B. The demand curve shifts right.**
- C. The supply curve shifts right while demand remains the same.**
- D. Both supply and demand increase.**

The correct choice indicates that the equilibrium price will typically decrease if the supply curve shifts right while demand remains the same. When the supply curve shifts to the right, it signifies an increase in the quantity of goods available in the market. This increase could result from various factors, such as technological improvements, a decrease in production costs, or an increase in the number of suppliers. With more goods available and no corresponding increase in demand, the surplus of goods places downward pressure on the price. Therefore, the equilibrium price, which is determined by the intersection of the supply and demand curves, will fall as suppliers adjust their prices to sell the increased quantity of goods. This concept relies on the fundamental principle of supply and demand, where an increase in supply (with demand constant) leads to lower prices because the market has more of the good than consumers are willing to buy at previous price levels.

9. What is the term for the buying and selling of goods and services?

- A. Trade
- B. Commerce**
- C. Market
- D. Industry

The term that best describes the buying and selling of goods and services is commerce. Commerce encompasses all activities related to the exchange of goods and services, including trading, marketing, and logistics, which are fundamental to the functioning of economies. It includes not only the direct transactions between buyers and sellers but also all the supporting activities that facilitate these transactions. Trade, while closely related, primarily refers to the act of exchanging goods and services directly, often focusing on international transactions. The term market usually refers to the physical or virtual space where these exchanges occur, rather than the broader concept of the entire process of buying and selling. Industry refers to the production side of the economy, involving the creation of goods and services rather than their exchange. Thus, while all these terms are interrelated, commerce specifically highlights the transactional aspect of the economy.

10. What does "ceteris paribus" mean?

- A. After the fact
- B. With all factors considered
- C. All other things being equal**
- D. In a complex economy

The term "ceteris paribus" is a Latin phrase that translates to "all other things being equal." In economics, this concept allows analysts and theorists to isolate the effect of one variable by holding other relevant factors constant. For instance, if examining the relationship between supply and demand, one might state that if the price of a good rises, the quantity demanded will fall, ceteris paribus, meaning that this analysis assumes that other influencing factors, such as consumer income or the prices of related goods, remain unchanged. This simplifies the analysis and helps to focus on the direct effects of changes in a single variable without the interference of external dynamics. This understanding is crucial in economic modeling and discussions, as it enables the exploration of theoretical outcomes without the complexity introduced by multiple simultaneous changes in the economic environment. Other provided choices do not encapsulate this definition, thereby reinforcing the specific meaning of "ceteris paribus" as it is used in economic theory.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://epfsupplydemandbasics.examzify.com>

We wish you the very best on your exam journey. You've got this!

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