

Practice Problems

1) When the price of tea increases 7%, quantity demanded decreases 12%. The price elasticity of demand for tea is _____, and total revenue from tea sales will _____.

- A) inelastic; increase
- B) inelastic; decrease
- C) elastic; increase
- D) elastic; decrease

2) The All Smiles Greeting Card Company wants to increase the quantity of greeting cards it sells by 10%. If the price elasticity of demand is -2.5, the company must

- A) increase price by 4.0%.
- B) decrease price by 4.0%.
- C) increase price by 0.25%.
- D) decrease price by 0.25%.

3) A government wants to reduce electricity consumption by 5%. The price elasticity of demand for electricity is -0.05. The government must _____ the price of electricity by _____.

- A) raise; 100.0%
- B) raise; 10.0%
- C) raise; 1.0%
- D) lower; 20%

Refer to the information provided in Figure 5.2 below to answer the questions that follow.

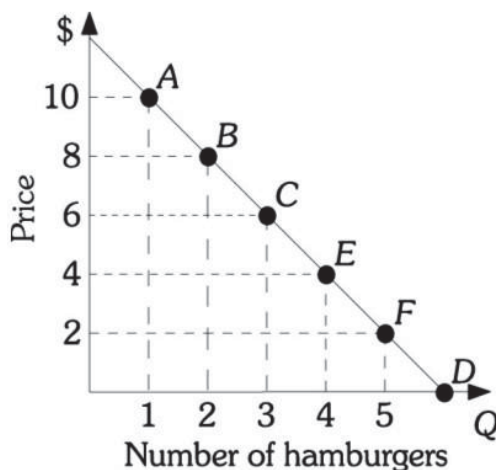


Figure 5.2

4) Refer to Figure 5.2. If the price of a hamburger decreases from \$10 to \$8, the price elasticity of demand equals _____. Use the midpoint formula.

- A) -0.33
- B) -3.0
- C) -30.
- D) -300

- 5) Refer to Figure 5.2. If the price of a hamburger decreases from \$4 to \$2, the price elasticity of demand equals _____. Use the midpoint formula.
- A) -0.33
 - B) -2.0
 - C) -3.0
 - D) -5.0
- 6) Price and total revenue move in the same direction when demand is
- A) price elastic.
 - B) price inelastic.
 - C) unit price elastic.
 - D) perfectly price elastic.
- 7) A firm is currently producing in the inelastic portion of its demand curve. What course of action do you recommend for it, assuming it wants to raise revenue?
- A) Continue producing at the current output level, because it maximizes its total revenue by producing in the inelastic portion of its demand curve.
 - B) Reduce price, because if it reduces price and demand is inelastic, total revenue will increase.
 - C) Increase price, because if it increases price and demand is inelastic, total revenue will increase.
 - D) Continue selling at the same price, but increase the amount it produces.
- 8) If income decreases by 20% and, in response, the quantity of housing demanded decreases by 14%, then the income elasticity of demand for housing is
- A) -1.
 - B) -0.7.
 - C) 0.7.
 - D) 1.43.
- 9) The income elasticity of demand for education is 3.5. Thus, a 6% decrease in income will
- A) decrease the quantity of education demanded by 3.5%.
 - B) decrease the quantity of education demanded by 21%.
 - C) increase the quantity of education demanded by 6%.
 - D) increase the quantity of education demanded by 21%.
- 10) Cross-price elasticity of demand measures the response in the
- A) price of a good to a change in the quantity of another good demanded.
 - B) income of consumers to the change in the price of goods.
 - C) quantity of one good demanded when the quantity demanded of another good changes.
 - D) quantity of one good demanded to a change in the price of another good.
- 11) If the cross-price elasticity of demand between shrimp and oysters is 4, then a 2% increase in the price of shrimp will result in a _____ in the quantity of oysters demanded.
- A) 0.5% increase
 - B) 8% increase
 - C) 4% increase
 - D) 2% decrease

12) The cross-price elasticity of demand between good X and good Y is -2.4 . Given this information, which of the following statements is *true*?

- A) The demand for goods X and Y is elastic.
- B) Goods X and Y are substitutes.
- C) Goods X and Y are complements.
- D) The demand for goods X and Y is income elastic.

Refer to the information provided in Figure 5.5 below to answer the question that follows.

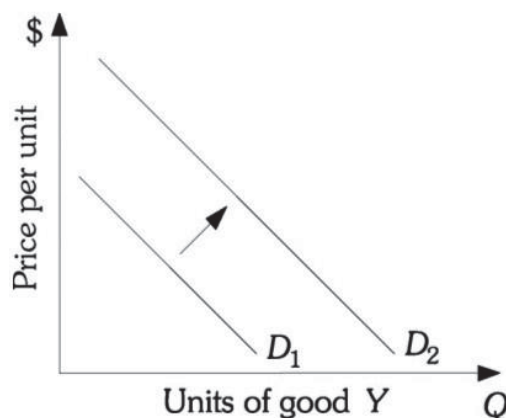


Figure 5.5

13) Refer to Figure 5.5. As the price of good W decreased, the demand for good Y shifted from D_1 to D_2 . The cross-price elasticity of demand between W and Y is

- A) positive.
- B) negative.
- C) zero.
- D) indeterminate from this information.

14) A mass transit authority charges subway fares of \$2.50 during morning rush hours but only \$1.50 during late morning non-rush hours. Economists explain the fare difference by the fact that the demand for subway rides during the morning rush hours is _____, but during the late morning it is _____.

- A) more elastic; more inelastic
- B) perfectly elastic; perfectly inelastic
- C) more inelastic; more elastic
- D) unit elastic; relatively inelastic

15) Which of the following, if true, would most effectively back the argument that raising cigarette taxes reduces the number of people who smoke cigarettes?

- A) The demand for cigarettes is relatively inelastic.
- B) The demand for cigarettes is relatively elastic.
- C) The supply for cigarettes is relatively inelastic.
- D) The supply for cigarettes is relatively elastic.