Assignment 1
Fundamentals of Economics

Q1. Calculate the elasticity of demand for the demand curve: P= 100-5Q at each of the following price and quantity levels:

- P =90 and Q=2
- P = 50 and Q = 10
- P=5 and Q=19

Q2. The Serpell Report (1983) on Railway Finances in England measured price elasticity of demand for rail services on some routes to be fairly inelastic (-0.15); hence, suggested fares rise of 40% for London Commuters. In this case, work out the revenue effect if fares are raised from £10 to £14 and daily 1000 passengers are travelling on this route. Should the authorities accept this suggestion?

Q3. Panavision, a TV manufacturing company, is planning to increase the price of its television sets by 10% next year. The economic report of the country has forecasted rise in per capita income by 5% during this period. Panavision economic advisor has estimated price elasticity for the TV set at (-1.4) and income elasticity at 2.2. The Panavision currently sells 50,000 TV sets.

- Give the forecast for the sales in next period
- Is it advisable to raise the price when each TV set is currently priced at Rs.10000.

Q4. Do you think the price elasticity of demand for Ford sport-utility vehicles (SUVs) will increase, decrease, or remain the same when each of the following events occurs? Explain your answer.

a. Other car manufacturers, such as General Motors, decide to make and sell SUVs.

b. SUVs produced in foreign countries are banned from the American market.

c. Due to ad campaigns, Americans believe that SUVs are much safer than ordinary passenger cars.

d. The time period over which you measure the elasticity lengthens. During that longer time, new models such as four-wheel-drive cargo vans appear.