

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question on the accompanying scantron.

- 1) The price elasticity of demand equals the magnitude of _____
A) the slope of the demand curve.
B) the percentage change in the price of a good divided by the percentage change in the quantity demanded.
C) the inverse of the slope of the demand curve.
D) the percentage change in the quantity demanded of a good divided by the percentage change in its price.
- 2) When the price of a movie ticket increases from \$5 to \$7, the quantity of tickets demanded decreases from 600 to 400 a day. What is the price elasticity of demand for movie tickets? _____
A) 2.32 B) 1.20 C) 1.00 D) 0.83
- 3) A local pizzeria raised its price from \$9 to \$11 for each pizza and the sales of its pizza decreased from 150 to 100 per day. What is the price elasticity of demand in this case? _____
A) -1/2 B) 1/2 C) -2 D) 2
- 4) If the demand for a good is elastic, that means that when price increases _____
A) the quantity demanded will decrease by a greater percentage than the price increased.
B) the quantity demanded will decrease by a smaller percentage than the price increased.
C) the demand will decrease.
D) the quantity demanded will increase.
- 5) When the percentage change in the quantity demanded is less than the percentage change in the price, then _____
A) demand is unit elastic. B) demand is elastic.
C) demand is inelastic. D) the good is an inferior good.
- 6) If the demand curve is a downward sloping straight line, the price elasticity of demand always _____
A) decreases with movements upward to the left along the demand curve.
B) increases as the demand curve shifts leftward.
C) increases with movements upward to the left along the demand curve.
D) increases as the demand curve shifts rightward.
- 7) According to the total revenue test, a price cut increases total revenue if demand is _____
A) inelastic. B) elastic.
C) perfectly inelastic. D) unit elastic.

- 8) If University of Nebraska increased its season football ticket sales from 43,000 to 47,000 when it lowered price from \$350.00 to \$300.00, then its demand for season tickets must be 8) _____
- A) inelastic because total revenue increased when the price was lowered.
 - B) elastic because total revenue increased when the price was lowered.
 - C) inelastic because total revenue decreased when the price was lowered.
 - D) elastic because total revenue decreased when the price was lowered.
- 9) In 1973 and again in 1979, the Organization of Petroleum Exporting Countries (OPEC) raised the world price of crude oil and increased their revenue as well. Which of the following is a true statement regarding these OPEC price hikes? 9) _____
- A) Their revenue would have increased regardless of income elasticity or price elasticity because oil is an imported product for most nations.
 - B) Their revenue only increased because oil was already very expensive.
 - C) Their revenue increased because the demand for oil was income inelastic.
 - D) Their revenue increased because the demand for oil was price inelastic.
- 10) The price elasticity of demand for corn is 0.4. A new hybrid of corn is discovered and all farmers start to use it, which increases the quantity of corn they can produce from each acre. What happens to the farmers' total revenue? 10) _____
- A) The total revenue will not change.
 - B) The total revenue will increase.
 - C) The total revenue will decrease.
 - D) There is not enough information to determine what happens to the total revenue.
- 11) If the price of gasoline fell from \$1.35 to \$1.25 per gallon, your expenditure on gasoline would increase if your price elasticity of demand for gasoline equals 11) _____
- A) 1.1.
 - B) 0.9.
 - C) 1.0.
 - D) Total revenue would increase at all of the above elasticities.
- 12) The closer the substitutes for a good, the 12) _____
- A) more elastic is the demand for the good.
 - B) less elastic is the demand for the good.
 - C) smaller the degree of substitutability between the goods.
 - D) larger the proportion of income that is spent on the good.
- 13) For many goods, the price elasticity of demand increases over time after a price hike because 13) _____
- A) the ability to find good substitutes for the product whose price rose increases over time.
 - B) inflation causes all prices and incomes to increase over time.
 - C) consumer incomes tend to increase over time.
 - D) ALL of the above answers are correct.

- 14) If peanut butter and jelly are complements their cross elasticity of demand must be 14) _____
A) a number between zero and one.
B) a positive number that might be greater than 1.
C) infinitely high.
D) a negative number.
- 15) The income elasticity of demand is _____ for a normal good and _____ for an inferior good. 15) _____
A) positive; negative
B) negative; negative
C) positive; positive
D) negative; positive
- 16) A supply curve that is horizontal reflects a supply that 16) _____
A) is elastic.
B) is unit elastic.
C) is inelastic.
D) has a zero elasticity.
- 17) Joe receives consumer surplus on the new computer he buys if 17) _____
A) the price of the computer is marked down by 25 percent.
B) the price of the computer is less than the marginal benefit he receives from buying the computer.
C) the price of the computer is equal to his willingness to pay for the computer.
D) he pays for the computer with money he earned from the stock market.
- 18) Stefano has just completed an original oil painting. After considering the production costs for brushes, paint, canvas, and the value of Stefano's labor time, the opportunity cost of the painting is \$1,000. Lucky Stefano. One art lover paid him \$1,500. How much producer surplus did Stefano obtain? 18) _____
A) The amount of producer surplus cannot be determined from the information given.
B) \$500
C) \$1,500
D) \$1,000
- 19) Resource use is efficient when production is such that marginal social benefit is 19) _____
A) equal to marginal social cost.
B) greater than marginal social cost.
C) at its maximum value.
D) less than marginal social cost.
- 20) _____ can prevent the efficient allocation of resources. 20) _____
A) Competitive markets
B) Marginal cost
C) The equilibrium price
D) Price floors

- 21) The decrease in consumer surplus and producer surplus that results from an inefficient level of production is called the _____ 21) _____
A) external benefit. B) big tradeoff.
C) external cost. D) deadweight loss.
- 22) When a deadweight loss occurs in a market, we can be certain that _____ 22) _____
A) the market is a monopoly. B) there underproduction in the market.
C) the entire society experiences a loss. D) taxes have been imposed in a market.
- 23) A rent ceiling results in a shortage. As a result, which of the following do you expect? _____ 23) _____
A) Discrimination as landlords choose their tenants, possibly based on race, age, or gender.
B) The shortage will persist as long as the ceiling is in effect.
C) A black market for apartments whereby higher rents are obtained through various other charges.
D) All of the above would be expected.
- 24) A price floor is _____ 24) _____
A) a price below which a seller cannot legally sell.
B) a price above which a seller cannot legally sell.
C) a price that creates a surplus of the good if it is set above the equilibrium price.
D) Both answers A and C are correct.
- 25) Suppose the equilibrium wage is \$10 per hour. An effective _____ would be set at _____. 25) _____
A) price ceiling; \$10 per hour B) price floor; \$8 per hour
C) price floor; \$12 per hour D) price ceiling; \$12 per hour

Answer Key

Testname: MICRO QUIZ 3

- 1) D
ID: micec7b 5-2
Diff: 0
Topic: The Price Elasticity of Demand
- 2) B
ID: micec7b 5-15
Diff: 0
Topic: Calculating Elasticity
- 3) D
ID: micec7b 5-21
Diff: 0
Topic: Calculating Elasticity
- 4) A
ID: micec7b 5-38
Diff: 0
Topic: Inelastic and Elastic Demand
- 5) C
ID: micec7b 5-45
Diff: 0
Topic: Inelastic and Elastic Demand
- 6) C
ID: micec7b 5-56
Diff: 0
Topic: Elasticity Along a Straight-Line Demand Curve
- 7) B
ID: micec7b 5-67
Diff: 0
Topic: Total Revenue and Elasticity
- 8) C
ID: micec7b 5-73
Diff: 0
Topic: Total Revenue and Elasticity
- 9) D
ID: micec7b 5-79
Diff: 0
Topic: Total Revenue and Elasticity
- 10) C
ID: micec7b 5-92
Diff: 0
Topic: Total Revenue and Elasticity
- 11) A
ID: micec7b 5-108
Diff: 0
Topic: Your Expenditure and Your Elasticity
- 12) A
ID: micec7b 5-113
Diff: 0
Topic: Factors That Influence the Price Elasticity of Demand
- 13) A
ID: micec7b 5-120
Diff: 0
Topic: Factors That Influence the Price Elasticity of Demand

Answer Key

Testname: MICRO QUIZ 3

14) D

ID: micec7b 5-143

Diff: 0

Topic: Cross Elasticity of Demand

15) A

ID: micec7b 5-172

Diff: 0

Topic: Income Elasticity of Demand

16) A

ID: micec7b 5-194

Diff: 0

Topic: Elasticity of Supply

17) B

ID: micec7b 6-31

Diff: 0

Topic: Consumer Surplus

18) B

ID: micec7b 6-55

Diff: 0

Topic: Producer Surplus

19) A

ID: micec7b 6-62

Diff: 0

Topic: Efficiency of Competitive Markets

20) D

ID: micec7b 6-79

Diff: 0

Topic: Obstacles to Efficiency, Price Floor

21) D

ID: micec7b 6-83

Diff: 0

Topic: Deadweight Loss

22) C

ID: micec7b 6-86

Diff: 0

Topic: Deadweight Loss

23) D

ID: micec7b 7-6

Diff: 0

Topic: A Regulated Housing Market

24) D

ID: micec7b 7-54

Diff: 0

Topic: Price Floor

25) C

ID: micec7b 7-62

Diff: 0

Topic: The Minimum Wage