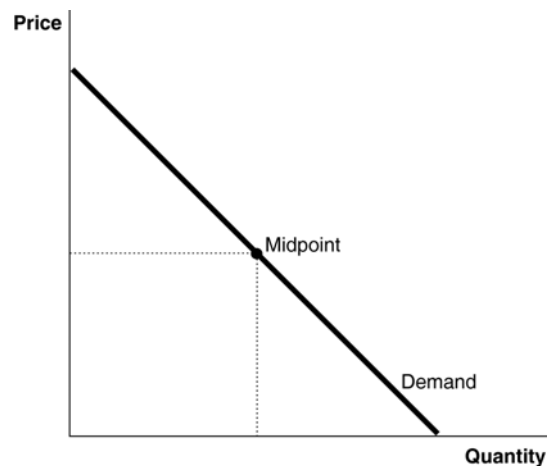


Old Exam Questions Which Cover Chapter 6 Topics

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

- 1) If the percentage increase in price is 15 percent and the value of the price elasticity of demand is -3, then quantity demanded _____
A) will increase by 5 percent. B) will decrease by 45 percent.
C) will decrease by 5 percent. D) will increase by 45 percent.
- 2) Seth is a competitive body builder. He says he has to have his 12-oz package of protein powder to "feed his muscles" every day. On the basis of this information, what can you conclude about his price elasticity of demand for protein powder?
A) It is perfectly inelastic. B) It is perfectly elastic.
C) It is elastic. D) The price elasticity is -1
- 3) In July 2008, the average price of gasoline in the United States was \$4.09 per gallon and consumers bought 6 percent less gasoline than they had during July 2007, when the average price was \$2.96 per gallon. Based on these numbers, what was the price elasticity of demand for gasoline from July 2007 to July 2008? (choose the closest answer)
A) -0.16 B) -0.26 C) -3.86 D) -6.33

Figure 6-4

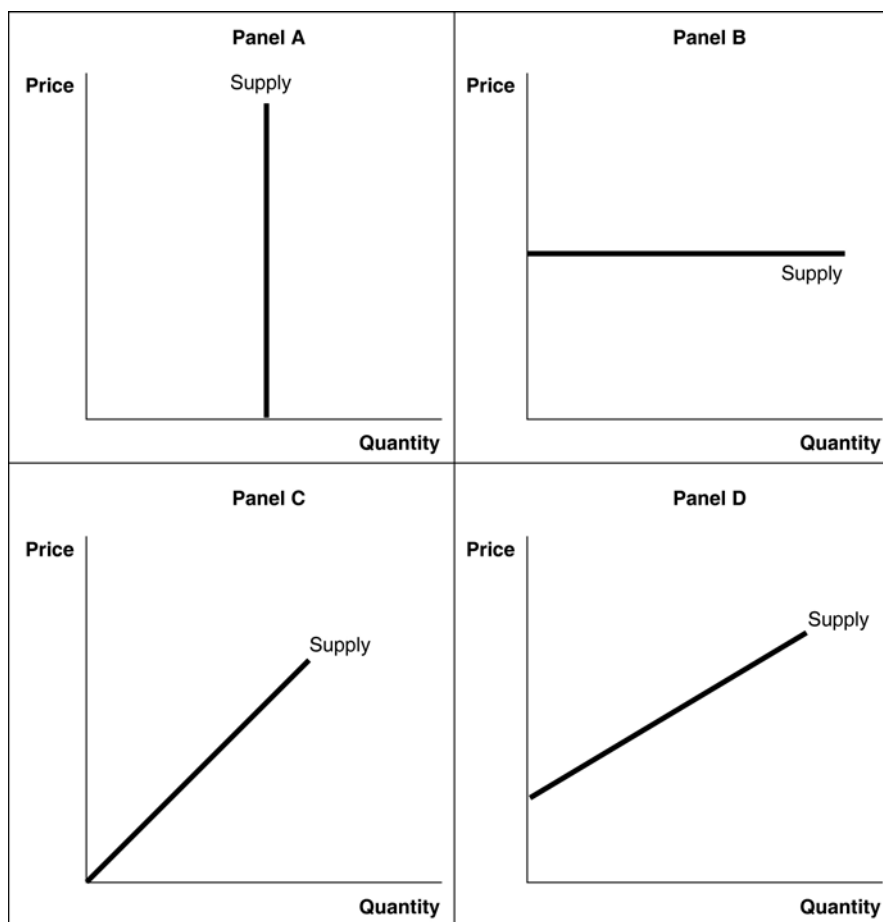


- 4) Refer to Figure 6-4. Which of the following statements is true about the price elasticity of demand?
A) At the midpoint of the demand curve, the elasticity coefficient is zero.
B) The inelastic portion of the demand curve corresponds to the segment above the midpoint.
C) The elasticity coefficient is constant along the demand curve.
D) The elastic portion of a straight-line downward sloping demand curve corresponds to the segment above the midpoint.
- 5) Refer to Figure 6-4. Which of the following statements is true about the price elasticity of demand?
A) The inelastic portion of the demand curve corresponds to the segment above the midpoint.
B) The elastic portion of the demand curve corresponds to the segment below the midpoint.
C) At the midpoint of the demand curve, demand is perfectly elastic.
D) Elasticity varies along the demand curve.
E) More than one of the above is correct.

- 6) If, for a given percentage increase in price, quantity demanded falls by a proportionately smaller percentage, then demand is _____
 A) inelastic. B) unit-elastic.
 C) elastic. D) perfectly elastic.
- 7) Which of the following statements about the price elasticity of demand is correct? _____
 A) The absolute value of the elasticity of demand ranges from zero to one.
 B) Demand is more elastic in the long run than it is in the short run.
 C) The elasticity of demand for a good in general is equal to the elasticity of demand for a specific brand of the good.
 D) Demand is more elastic the smaller the percentage of the consumer's budget the item takes up.
- 8) Jonah lives in a small town where there is only one Mexican restaurant. Which of the following is likely to be true about the price elasticity of demand for meals at the Mexican restaurant? _____
 A) Demand is likely to be perfectly inelastic.
 B) Demand is likely to be relatively inelastic.
 C) Demand is likely to be relatively elastic.
 D) Demand is likely to be perfectly elastic.
- 9) If the market for a product is broadly defined, then _____
 A) the good has many complements.
 B) the expenditure on the good is likely to make up a large share of one's budget.
 C) there are many substitutes for the product and the demand for the product is relatively elastic.
 D) there are few substitutes for the product and the demand for the product is relatively inelastic.
- 10) When demand is elastic, a fall in price causes total revenue to rise because _____
 A) the increase in quantity sold is large enough to offset the lower price.
 B) the demand curve shifts.
 C) when price falls, quantity sold increases so total revenue automatically rises.
 D) the percentage increase in quantity demanded is less than the percentage fall in price.
- 11) If a firm lowered the price of the product it sells and found that total revenue did not change, then the demand for its product is _____
 A) unit-elastic. B) perfectly elastic.
 C) relatively elastic. D) perfectly inelastic.
- 12) If the price elasticity of demand for canned soup is estimated at -1.62 . What happens to sales revenue if the price of canned soup rises? _____
 A) It falls. B) It rises by 1.62 percent.
 C) It falls by 162 percent. D) It rises.
- 13) Calculate the income elasticity if an 8 percent increase in income leads to a 4 percent increase in quantity demanded for organic produce. _____
 A) -0.66 B) 0.5 C) 1.5 D) 2

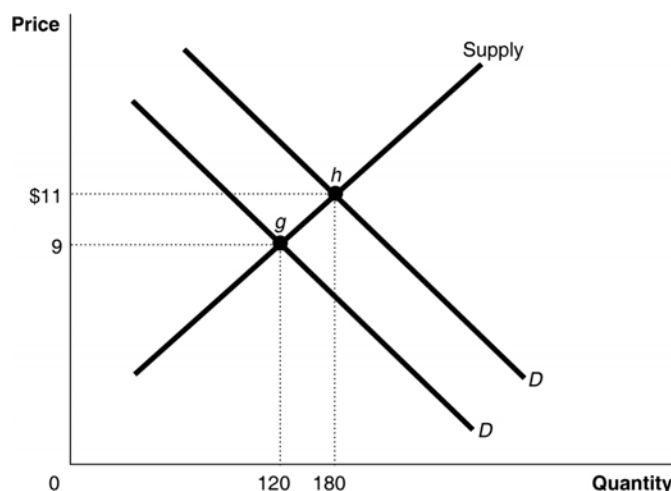
- 14) Last year, Sefton purchased 60 pounds of potatoes to feed his family of five when his household income was \$30,000. This year, his household income fell to \$20,000 and Sefton purchased 80 pounds of potatoes. All else constant, Sefton's income elasticity of demand for potatoes is 14) _____
- A) negative, so Sefton considers potatoes to be a normal good.
 - B) negative, so Sefton considers potatoes to be an inferior good.
 - C) positive, so Sefton considers potatoes to be a normal good and a necessity.
 - D) positive, so Sefton considers potatoes to be an inferior good.
- 15) Suppose Tinsel Town Videos lowers the price of its movie club membership by 10 percent and as a result, CineArts Videos experienced a 16 percent decline in its movie club membership. What is the value of the cross-price elasticity between the two movie club memberships? 15) _____
- A) -1.6
 - B) -0.625
 - C) 0.625
 - D) 1.6
- 16) Price elasticity of supply is used to gauge 16) _____
- A) how responsive suppliers are to price changes.
 - B) how responsive suppliers are to changes in future prices.
 - C) how responsive sales are to a change in input prices
 - D) how responsive suppliers are to a change in demand.
- 17) Suppose a 4 percent increase in price results in a 2 percent increase in the quantity supplied of a good. Calculate the price elasticity of supply and characterize the product. 17) _____
- A) 0.5; The product is inelastic.
 - B) 0.2; The product is inelastic.
 - C) 50%; The product is inelastic.
 - D) 2; The product is elastic.

Figure 6-6



- 18) Refer to Figure 6-6. A perfectly elastic supply curve is shown in _____
- A) Panel A. B) Panel B. C) Panel C. D) Panel D.
- 19) The price elasticity of the supply of teenage labor services is approximately 1.36. Suppose the minimum wage rises from \$6.60 per hour to \$7.00. Using the midpoint formula, calculate the approximately change in the quantity supplied of teenage labor. _____
- A) 5.9 percent
 B) 8 percent
 C) 13.6 percent
 D) There is insufficient information to answer the question.
- 20) You are the manager of a store that carries generic soft drinks. Due to a local economic recession, your customers' incomes have fallen by ten percent. The income elasticity of demand for these soft drinks is estimated to be -2. What is the change in the quantity of soft drinks you should order to satisfy the change in demand without a shortage or surplus of inventory? _____
- A) You should order 10% less soft drinks
 B) You should order 5% less soft drinks
 C) You should order 5% more soft drinks
 D) You should order 20% less soft drinks
 E) You should order 20% more soft drinks

Figure 6-7



- 21) Refer to Figure 6-7. What is the value of the price elasticity of supply between g and h ? 21) _____
 A) 0.5 B) 20 percent C) 2 D) 0.02
- 22) Bringing oil to the market is a relatively long and costly process. The whole process from exploration to pumping significant amounts of oil can take years. What does this indicate about the price elasticity of supply for oil? 22) _____
 A) The elasticity coefficient is likely to be close to zero and supply is perfectly elastic.
 B) The elasticity coefficient is likely to be very high and supply is inelastic.
 C) The elasticity coefficient is likely to be low and supply is highly inelastic.
 D) The elasticity coefficient is likely to be low and supply is highly elastic.
- 23) Suppose the demand curve for a product is represented by a typical downward-sloping curve. Now suppose the demand for this product decreases. Which of the following statements accurately predicts the resulting decrease in price? 23) _____
 A) The more elastic the supply curve, the smaller the price decrease.
 B) The more elastic the supply curve, the greater the price increase.
 C) The decrease in price will always be proportional to the magnitude of the demand shift.
 D) The increase in price is not affected by the elasticity of the supply curve.
- 24) You are the manager of a store that carries generic soft drinks. Due to a local economic boom, your customers' incomes have risen by five percent. The income elasticity of demand for these soft drinks is estimated to be -2 . What is the change in the quantity of soft drinks you should order to satisfy the change in demand without a shortage or surplus of inventory? 24) _____
 A) You should order 5% less soft drinks
 B) You should order 5% more soft drinks
 C) You should order 10% less soft drinks
 D) You should order the same number of soft drinks (i.e. no change)
 E) You should order 10% more soft drinks

25) Lucy spends all of her income on going to the movies regardless of her income level or the price of movie tickets. Thus, her income elasticity of demand for movie tickets is _____ and her price elasticity of demand for movie tickets is _____. 25) _____

- A) unit-elastic ; zero
- B) unit-elastic ; unit-elastic
- C) zero ; infinite
- D) zero ; zero
- E) infinite ; infinite

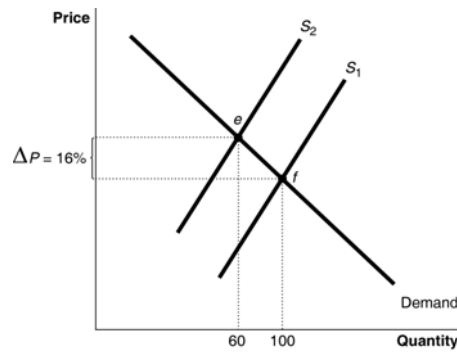
26) The price elasticity of demand for Stork ice cream is -4 . Suppose you're told that following a price increase, quantity demanded fell by 10 percent. What was the percentage change in price that brought about this change in quantity demanded? 26) _____

- A) 40 percent
- B) 2.5 percent
- C) 4 percent
- D) 25 percent
- E) 0.4 percent

27) Jenna runs a small boutique in Capitola. She tells one of her suppliers that she is willing to pay \$6 for a pair of wool hand warmers and not a dime more. On the basis of this information, what can you conclude about her price elasticity of demand for wool hand warmers? (Assume that Jenna is telling the truth.) 27) _____

- A) It is perfectly inelastic.
- B) It is perfectly elastic.
- C) It is elastic.
- D) The price elasticity coefficient is 0.

Figure 6-3



28) Refer to Figure 6-3. Using the midpoint formula, calculate the absolute value of the price elasticity of demand between e and f . 28) _____

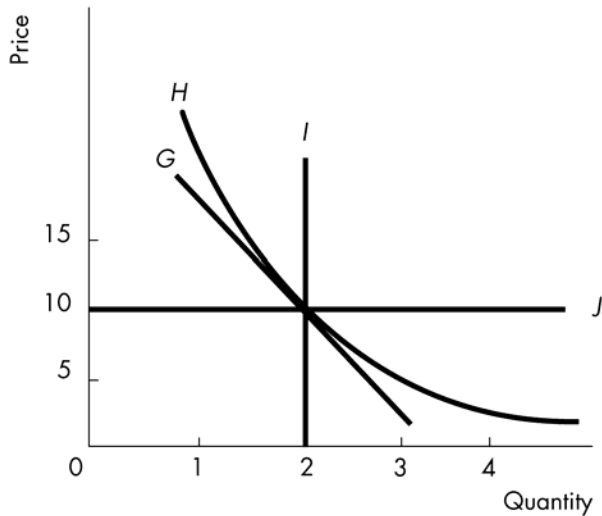
- A) 2.5
- B) 0.32
- C) 0.4
- D) 3.125
- E) 0.031

- 29) According to an article in the Wall Street Journal, hotels don't have sophisticated systems that can react quickly to changes in demand. Even if they could, many hoteliers say people don't respond that much to lower rates. "We've tested this, cutting our rates by \$50 [per night], and we didn't see an appreciable response in occupancy," says Jim Schultenover, a vice president for Ritz-Carlton. Source: Jesse Drucker, "In Times of Belt-Tightening, We Seek Reasonable Rates," Wall Street Journal, April 6, 2001. 29) _____

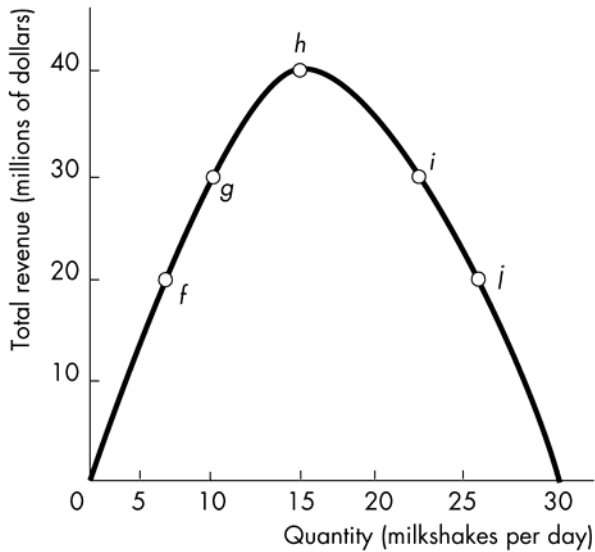
Based on the information above, the demand for hotel rooms is

- A) inelastic. B) unit-elastic.
C) elastic. D) perfectly elastic.
- 30) Which of the following would result in more elastic demand for a product? 30) _____
- A) A wide variety of substitutes are available for the good.
B) The good is a necessity.
C) The time period under consideration is short.
D) The expenditure on the good is small relative to one's budget.
E) More than one of the above is correct
- 31) As high gasoline prices persisted through 2007 and into 2008, consumers in the New York City area began driving less and using public transportation more. Over time, this caused the demand curve for gasoline to become _____ and the quantity of gasoline demanded to _____. 31) _____
- A) more elastic; fall B) less elastic; fall
C) less elastic; rise D) more elastic; rise
- 32) Suppose the demand for milk is relatively elastic. What happens to sales revenue if the government imposes a price floor which increases the actual price of milk to above the free market equilibrium price? 32) _____
- A) Sales revenue rises.
B) Sales revenue falls.
C) Sales revenue remains unchanged.
- 33) Suppose an increase in the supply of bottled water results in a decrease in total revenues from bottled water sales. This indicates that 33) _____
- A) the demand for bottled water is inelastic in the price range considered.
B) the supply of bottled water is elastic in the price range considered.
C) the supply of bottled water is inelastic in the price range considered.
D) the demand for bottled water is elastic in the price range considered.
- 34) The cross-price elasticity of demand between your company's product and another company's product is -2 . If the price of the other company's product rises by 4%, then the quantity demanded of your product will _____. Furthermore, the other company's product is a _____ for your company's product. 34) _____
- A) fall by 2% ; substitute
B) rise by 2% ; substitute
C) rise by 8% ; substitute
D) fall by 8% ; complement
E) fall by 2% ; complement

- 35) Suppose Tinsel Town Videos lowers the price of its movie club membership by 10 percent and as a result, CineArts Videos experienced a 16 percent decline in its movie club membership. What is the value of the cross-price elasticity between the two movie club memberships? 35) _____
 A) -1.6 B) 0.625 C) -0.625 D) 1.6
- 36) If an 8 percent increase in income leads to a 4 percent increase in quantity demanded for organic lettuce, then the income elasticity of demand is _____. Thus, organic lettuce is a(n) _____ good and a _____. 36) _____
 A) 0.5 ; normal ; necessity
 B) 2 ; normal ; luxury
 C) -0.5 ; normal ; necessity
 D) 0.5 ; normal ; luxury
 E) -0.5 ; inferior ; luxury
- 37) For U.S. consumers, the income elasticity of demand for fruit juice is 1.1. If the economy enters a recession next year and consumer income declines by 2.5%, what is the expected change in the quantity of fruit juice demanded next year? 37) _____
 A) +2.75% B) -2.75% C) +27.5% D) -27.5%
- 38) Suppose that the supply of a good is more elastic in the long run than in short run. Initially, the equilibrium price of this good is \$10. If the demand curve for this good shifts permanently to the right, then which of the following is most likely true? 38) _____
 A) The short run increase in the price of the product will be smaller than the long run increase in the price of the product.
 B) The short run increase in the price of the product will be larger than the long run increase in the price of the product.
 C) The short run increase in the price of the product will be equal to the long run increase in the price of the product.
- 39) Demand is elastic if a 39) _____
 A) price increase leads to an increase in the quantity demanded.
 B) relatively small price increase leads to a relatively large decrease in the quantity demanded.
 C) price increase leads to a decrease in the quantity demanded.
 D) relatively large price increase leads to a relatively small decrease in the quantity demanded.
- 40) "Last October, due to an early frost, the price of a pumpkin increased by 10 percent compared to the price in the previous Halloween seasons. As a result, the quantity demanded county-wide decreased from 2 million to 1.5 million." Based on this statement, the 40) _____
 A) demand for pumpkins is inelastic.
 B) demand for pumpkins is unit elastic.
 C) demand for pumpkins is elastic.
- 41) Along a straight-line demand curve, as the price falls the 41) _____
 A) demand becomes more elastic. B) elasticity of demand is constant.
 C) demand is always unitary elastic. D) demand becomes less elastic.



- 42) In the above figure, which demand curve illustrates perfectly elastic demand? 42) _____
 A) I B) G C) H D) J
- 43) In the above figure, which demand curve illustrates perfectly inelastic demand? 43) _____
 A) J B) I C) G D) H
- 44) The taxicab fare in Nelsonville is regulated. The fare currently charged is \$6 a ride. Nelsonville taxicab drivers want to obtain government's permission to lower the fare, which they think will increase their total revenue. From this we can conclude that the drivers believe that the demand for taxicab rides is 44) _____
 A) perfectly inelastic. B) inelastic.
 C) unit elastic. D) elastic.
- 45) If Sam wants to increase her total revenue from her sales of flowers and she knows that the demand for flowers is price inelastic, she should 45) _____
 A) lower her price to increase the demand and shift the demand curve rightward.
 B) raise her price because she knows that the percentage decrease in the quantity demanded will be smaller than the percentage increase in price.
 C) raise her price because she knows that the quantity demanded will also increase.
 D) lower her price because she knows that the percentage increase in the quantity demanded will be greater than the percentage decrease in price.
- 46) Demand is elastic when a price _____ results in total revenue _____. 46) _____
 A) fall, decreasing B) rise, increasing
 C) rise, decreasing D) fall; remaining constant



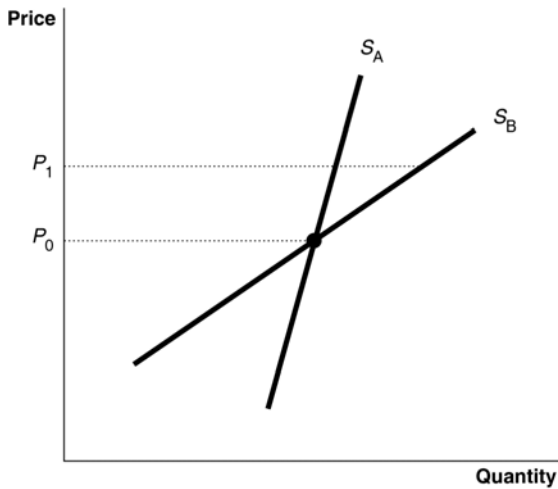
- 47) The figure above represents the behavior of total revenue as price falls along a straight-line demand curve. What is the price elasticity of demand if total revenue is given by point *f*? 47) _____
- A) Demand is unit elastic. B) Demand is inelastic.
C) Demand is elastic. D) It is impossible to determine.
- 48) The figure above represents the behavior of total revenue as price falls along a straight-line demand curve. What is the price elasticity of demand if total revenue is given by point *i*? 48) _____
- A) Demand is unit elastic. B) Demand is inelastic.
C) Demand is elastic. D) It is impossible to determine.
- 49) Which of the following statements is TRUE? 49) _____
- A) The longer the time that has elapsed since a price change, the less elastic the demand.
B) Goods or services for which a greater proportion of income is spent on the item generally have a less elastic demand.
C) Goods or services that have many close substitutes generally have a less elastic demand.
D) A narrowly defined good or service generally has a more elastic demand.
- 50) Most corn produced in the United States is used for animal feed. The demand for corn is inelastic. These facts likely mean that 50) _____
- A) there are many substitutes for corn in feeding animals.
B) there are few substitutes for corn in feeding animals.
C) there are no substitutes for corn in feeding animals.
- 51) Freezing temperatures in California have sharply reduced the supply of oranges in the U.S. You predict that the price of oranges will _____; and the more elastic the demand for oranges, the _____ will be the effect on the price. 51) _____
- A) fall; smaller B) rise; smaller C) fall; greater D) rise; greater

- 52) The cross-price elasticity of demand between your company's product and another company's product is -2 . If the price of the other company's product falls by 4%, then the quantity demanded of your product will _____. Furthermore, the other company's product is a _____ for your company's product. 52) _____
- A) rise by 8% ; complement
 - B) fall by 8% ; complement
 - C) fall by 2% ; complement
 - D) rise by 2% ; substitute
 - E) fall by 2% ; substitute
- 53) Suppose the cross-price elasticity of demand between grapefruit juice and orange juice is approximately $+6$. What does this mean? 53) _____
- A) If the price of grapefruit juice rises by \$1, 6 more cartons of orange juice will be purchased.
 - B) The demand for orange juice is 6 times more than the demand for grapefruit juice.
 - C) A 6 percent increase in the price of grapefruit juice leads to a 1 percent increase in orange juice consumption.
 - D) A 1 percent increase in the price of grapefruit juice leads to a 6 percent increase in orange juice consumption.
- 54) If an 8 percent increase in income leads to a 16 percent increase in quantity demanded for radishes, then the income elasticity of demand is _____. Thus, radishes are a(n) _____ good and a _____. 54) _____
- A) 0.5 ; normal ; neccessity
 - B) 0.5 ; normal ; luxury
 - C) 2 ; normal ; luxury
 - D) -0.5 ; inferior ; neccessity
 - E) 2 ; normal ; necessity
- 55) Suppose you have surveyed a few industries and obtained information about the income elasticity of demand for their products. If you expect that the economy is headed for a long recession, you would advise people to look for jobs in an industry with 55) _____
- A) a "low" negative income elasticity such as -0.2 .
 - B) a high positive income elasticity such as $+5$.
 - C) a low positive income elasticity such as $+0.8$.
 - D) a "high" negative income elasticity such as -4 .
- 56) The price elasticity of demand for furniture is estimated at -1.3 . This value means a one percent increase in the 56) _____
- A) price of furniture will increase the quantity of furniture demanded by 1.3 percent.
 - B) quantity of furniture demanded will increase the price of furniture by 1.3 percent.
 - C) price of furniture will decrease the quantity of furniture demanded by 1.3 percent.
 - D) quantity of furniture demanded will decrease the price of furniture by 1.3 percent.
- 57) Last year the price of corn was \$3 per bushel and the quantity of corn demanded was 8 million bushels. This year the price of corn is \$4 per bushel and the quantity of corn demanded is 7 million bushels. Assuming that the demand curve has not shifted, what is the price elasticity of demand for corn? (Negative sign dropped by convention.) 57) _____
- A) 0.29
 - B) 1
 - C) 2.14
 - D) 0.47

58) Demand is price inelastic if a relatively _____ price increase leads to a relatively _____ in the quantity demanded. 58) _____

- A) large; small increase
B) large; small decrease
C) small; large decrease
D) small; large increase

Figure 6-12



59) Refer to Figure 6–12. Suppose the diagram shows the supply curves for a product in the short run and in the long run. Which supply curve represents supply in the short run and which curve represents supply in the long run?

- A) Either S_A or S_B could represent supply in the short run; in the long run the supply curve must be a vertical line.
- B) S_B represents supply in the short run and S_A represents supply in the long run.
- C) S_A represents supply in the short run and S_B represents supply in the long run.
- D) Either S_A or S_B could represent supply in the long run; in the short run the supply curve must be a horizontal line.

60) Suppose that the demand for a product jumps around quite often (i.e. it increases, then decreases, then increases again). As a result of this demand volatility, the price of the good changes dramatically over time, but the quantity traded doesn't change very much. Which of the following is most likely true?

- A) The good is inferior, and a luxury good.
B) The supply of the good is very elastic.
C) The supply of the good is very inelastic.

61) Which of the following statements is TRUE? 61) _____

- A) A narrowly defined good or service generally has a less elastic demand.
B) Goods or services that have many close substitutes generally have a less elastic demand.
C) The longer the time that has elapsed since a price change, the less elastic the demand.
D) Goods or services for which a greater proportion of income is spent on the item generally have a more elastic demand.

62) Chicken and pork are substitutes, so the _____ elasticity of demand is _____. 62) _____

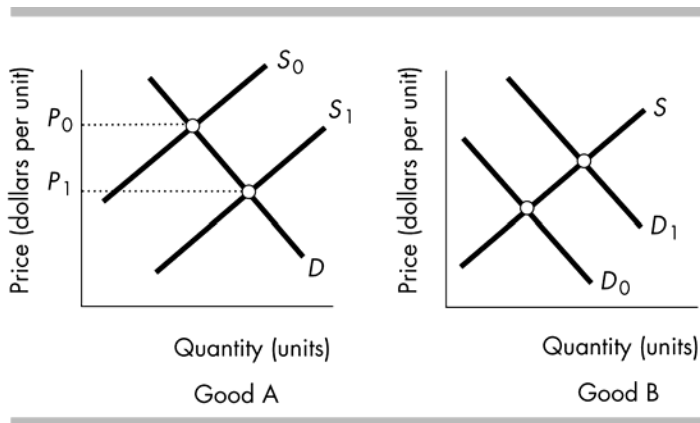
- A) cross price; negative
B) cross price; positive
C) income; positive
D) income; negative

- 67) If Sam wants to increase her total revenue from her sales of flowers and she knows that the demand for flowers is price elastic, she should
- A) raise her price because she knows that the percentage decrease in the quantity demanded will be smaller than the percentage increase in price.
 - B) raise her price because she knows that the quantity demanded will also increase.
 - C) lower her price because she knows that the percentage increase in the quantity demanded will be greater than the percentage decrease in price.
 - D) lower her price to increase the demand and shift the demand curve rightward.

67) _____

- 68) Suppose you have surveyed a few industries and obtained information about the income elasticity of demand for their products. If you expect that the economy is headed for a long recession, you would especially advise people AGAINST looking for jobs in an industry with
- A) a "low" negative income elasticity such as -0.2 .
 - B) a high positive income elasticity such as $+5$.
 - C) a low positive income elasticity such as $+0.8$.
 - D) a "high" negative income elasticity such as -4 .

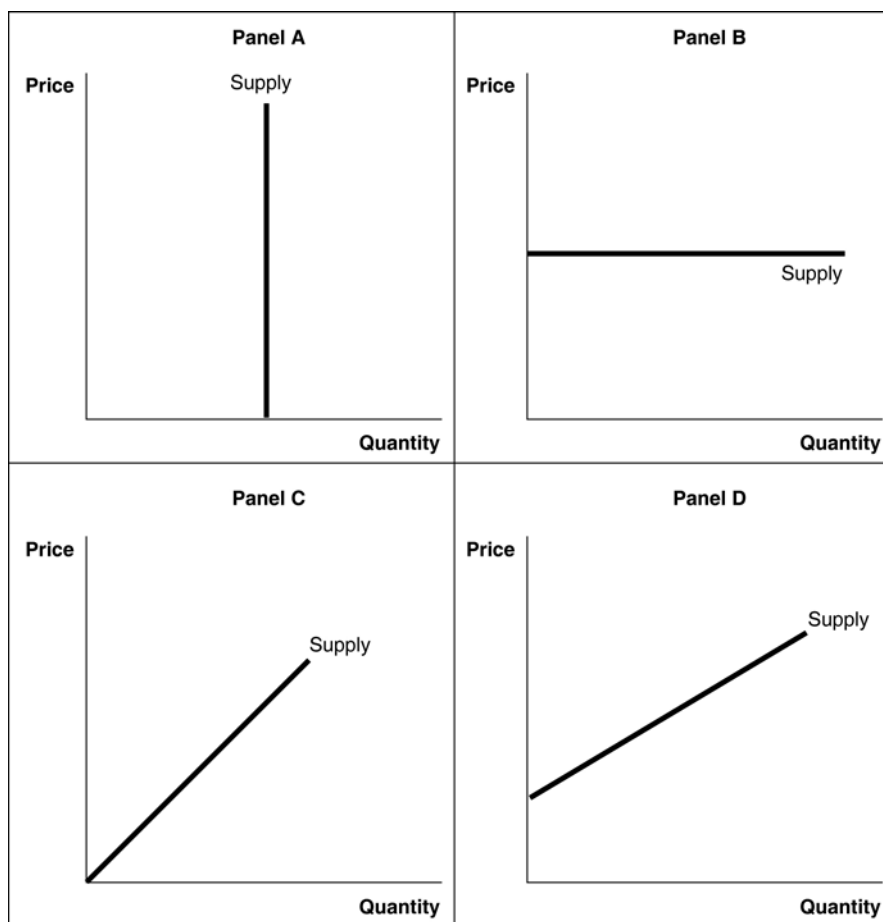
68) _____



- 69) In the above figure, if the price of good A falls from P_0 to P_1 and the demand for good B increases from D_0 to D_1 , then goods A and B
- A) are both price elastic but not perfectly price elastic.
 - B) will have a positive cross price elasticity of demand.
 - C) are inferior goods.
 - D) are normal goods.
 - E) will have a negative cross price elasticity of demand.

69) _____

Figure 6-6



- 70) Refer to Figure 6-6. A perfectly elastic supply curve is shown in _____
- A) Panel A. B) Panel B. C) Panel C. D) Panel D.
- 71) Bringing oil to the market is a relatively long and costly process. The whole process from exploration to pumping significant amounts of oil can take years. What does this indicate about the price elasticity of supply for oil? _____
- A) The elasticity coefficient is likely to be low and supply is highly inelastic.
 B) The elasticity coefficient is likely to be close to zero and supply is perfectly elastic.
 C) The elasticity coefficient is likely to be very high and supply is inelastic.
 D) The elasticity coefficient is likely to be low and supply is highly elastic.
- 72) Suppose that the demand for a product jumps around quite often (i.e. it increases, then decreases, then increases again). As a result of this demand volatility, the quantity of the good changes dramatically over time, but the price doesn't change very much. Which of the following is most likely true? _____
- A) The good is inferior, and a luxury good.
 B) The supply of the good is very inelastic.
 C) The supply of the good is very elastic.

Answer Key

Testname: 201 CHAPTER 6 OLD EXAM QUESTIONS

- 1) B
- 2) A
- 3) A
- 4) D
- 5) D
- 6) A
- 7) B
- 8) B
- 9) D
- 10) A
- 11) A
- 12) A
- 13) B
- 14) B
- 15) D
- 16) A
- 17) A
- 18) B
- 19) B
- 20) E
- 21) C
- 22) C
- 23) A
- 24) C
- 25) B
- 26) B
- 27) B
- 28) D
- 29) A
- 30) A
- 31) A
- 32) B
- 33) A
- 34) D
- 35) D
- 36) A
- 37) B
- 38) B
- 39) B
- 40) C
- 41) D
- 42) D
- 43) B
- 44) D
- 45) B
- 46) C
- 47) C
- 48) B
- 49) D
- 50) B

Answer Key

Testname: 201 CHAPTER 6 OLD EXAM QUESTIONS

- 51) B
- 52) A
- 53) D
- 54) C
- 55) D
- 56) C
- 57) D
- 58) B
- 59) C
- 60) C
- 61) D
- 62) B
- 63) A
- 64) A
- 65) B
- 66) D
- 67) C
- 68) B
- 69) E
- 70) B
- 71) A
- 72) C