QUIZ 4 ANSWERS

1) If the price elasticity of demand is 0.5, then a 10 percent increase in price results in a
A) 5 percent decrease in quantity demanded.
B) 5 percent increase in quantity demanded.
C) 50 percent reduction in quantity demanded.
D) 5 percent decrease in total revenues.

2) Suppose that the quantity of a good demanded rises from 90 units to 110 units when the price falls from $1.20 to 80 cents per unit. The price elasticity of demand for this product is
A) 4.0 B) 0.5 C) 2.0 D) 1.0

3) If per capita income increases by 10 percent and household expenditures on fur coats increase by 15 percent, one can conclude that the price elasticity of demand for fur coats is
A) not determinable from the information given.
B) elastic.
C) positive
D) inelastic.

4) A perfectly horizontal demand curve shows that the own-price elasticity of demand is
A) infinite.
B) less than one.
C) zero.
D) unity.

5) A vertical demand curve shows that the own-price elasticity of demand is
A) not defined.
B) infinity.
C) unity.
D) zero.

6) The price elasticity of demand for a product tends to be greater the
A) more close substitutes for it there are.
B) lower its price.
C) more broadly the product is defined.
D) fewer close substitutes for it there are.

7) Suppose you are shown two demand curves that are drawn on the same scale. One of the demand curves is steeper than the other. Which of the following could explain the difference in slopes?
A) The steeper one is short run and the flatter one is long run
B) The steeper one is probably the demand curve for a luxury good.
C) The steeper one has a higher income elasticity of demand.
D) The flatter one is for a good with no close substitutes.

8) If total revenue for a product rises and falls directly with a product's price, then demand for this product has an elasticity of
A) less than one.
B) direct proportions.
C) greater than one.
D) one.

9) Suppose the current level of output of some good is k. If market demand is inelastic at that quantity, total revenues would be higher if output was
A) maximized.
B) minimized.
C) greater than k.
D) less than k.

10) If the demand for some good fluctuates, but supply is constant, then which of the following combinations would generally yield the greatest price fluctuations?
A) small demand fluctuations and inelastic supply
B) large demand fluctuations and inelastic supply
C) small demand fluctuations and elastic supply
D) large demand fluctuations and elastic supply

11) Which of the following statements concerning demand is correct?
A) The more basic an item in the consumption pattern of households, the higher will be its income elasticity.
B) Cross-elasticities of demand can be used to help determine whether specific products are inferior.
C) A positive income-elasticity of demand is typically found for a good that is the cheaper and less satisfactory of a number of commodities, all of which satisfy more or less the same need.
D) Any one of a group of close substitutes will tend to have an elastic demand, even though the demand for the group as a whole is inelastic.

12) If a producer knew his product to be an inferior good and if he knew average household income was falling, he would
A) increase output because in order to increase incomes.
B) close down, because inferior goods are the first to be eliminated from household budgets when income falls.
C) increase output because the demand for his product would rise.
D) keep his output the same.

13) If two goods, X and Y, have a negative cross-elasticity of demand, then we know that they
A) are both inferior goods.
B) are both normal goods.
C) are complements.
D) are substitutes.

14) The price of apples at a local market rises from $2.95 to $3.05 per kilo, and as a result the quantity of oranges that households purchase increases from 3950 to 4050 kilos/week. The cross-price elasticity is
A) -1.33.
B) -0.75.
C) 0.75.
D) 1.33.

15) The price elasticity for a downward-sloping straight-line demand curve varies from ________ at the quantity axis to ________ at the price axis.
A) zero; infinity
B) infinity; zero
C) one; negative one
D) one; infinity