QUIZ 4 VERSION 1

1) 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) 1.5 B) 4.0 C) 1.0 D) 0.5 E) 2.0

2) If the price elasticity of demand is 2.7, a 10 percent increase in the price of the good results in
A) a 2.7 percent increase in the quantity demanded.
B) a 27 percent decrease in the quantity demanded.
C) There is not enough information to answer this question.
D) a 2.7 percent decrease in the quantity demanded.
E) a 27 percent increase in the quantity demanded.

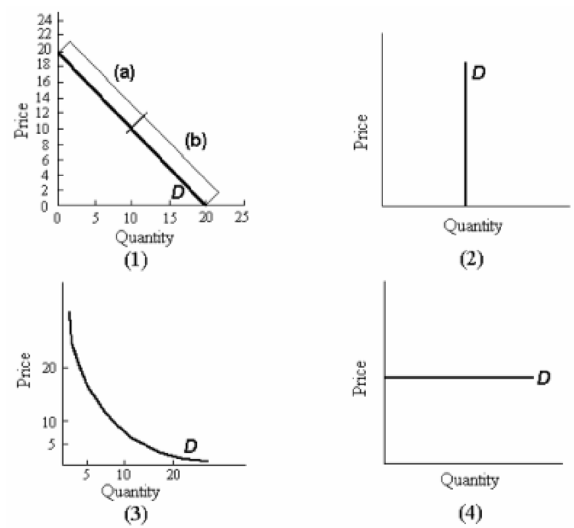

FIGURE 1

3) Refer to Figure 1. In diagram 1, the elasticity of demand over the price range $14 to $16 is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

4) Refer to Figure 1. In diagram 3, the elasticity of demand over the price range $10 to $20 is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

5) If demand is perfectly elastic at all prices, then the demand curve is
A) a straight line.
B) a parabola.
C) upward sloping.
D) perfectly horizontal.
E) a rectangular hyperbola.

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

7) Normal goods
A) have negative income elasticity of demand.
B) have positive income elasticity of demand.
C) have negative elasticity of supply.
D) do not have elasticity of demand.
E) are sometimes also inferior goods.

8) An increase in income will
A) always increase the demand for turnips.
B) increase the demand for turnips if turnips are inferior goods.
C) increase the demand for turnips if turnips are normal goods.
D) decrease the demand for turnips if turnips have a very low price.
E) increase the supply of turnips.

9) Suppose the cross-elasticity of demand between two goods, X and Y, is negative. If the price of X decreases, the quantity demanded will
A) rise for both goods.
B) rise for X and fall for Y.
C) fall for both goods.
D) not change.
E) fall for X and rise for Y.

10) Which of the following numbers could represent a coefficient of cross price elasticity of demand for unrelated goods?
A) -5.0   B) -0.1   C) 0   D) 1.0   E) 1.5

QUIZ 4 **VERSION 2**

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

The demand schedule for museum admissions in a small city

Price (per visit per person)	*Quantity Demanded (thousands of person-visits per year)*
$10	2
$ 8	4
$ 6	6
$ 4	8
$ 2	10

Table 1

2) According to Table 1, between the prices of $8 and $10, the elasticity of demand is
A) 1. B) 2. C) 3. D) 1/3. E) 2/3.

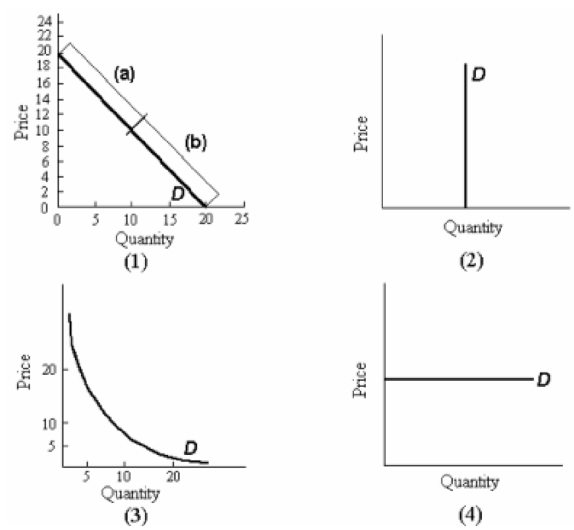

FIGURE 1

3) Refer to Figure 1. In diagram 1, the elasticity of demand over price range $12 to $14 is
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

4) Refer to Figure 1. In diagram 3, the elasticity of demand over the price range $5 to $10 is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

5) Price elasticity of demand
A) is lower for an entire group of related products than it is for a particular product in that group.
B) is greater than one if the percentage increase in the of a commodity's price is greater than the percentage decline in quantity demanded.
C) usually increases over time.
D) is a positive number because price and quantity demanded move in the same direction.
E) is very small when good substitutes are readily available for the commodity.

6) If demand is inelastic, it is expected that an increase in price will cause total expenditure to
A) remain constant.
B) increase.
C) decrease.
D) fall to zero.
E) be negative.

7) For a normal good, the quantity demanded
A) does not change when income rises or falls.
B) rises when income rises.
C) rises when income falls.
D) falls when income rises.
E) responds inversely to changes in income.

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

9) 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 complements.
C) are substitutes.
D) are both normal goods.
E) each have a price elasticity greater than one.

10) 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.   E) 1.5.

QUIZ 4 VERSION 3

1) Suppose that the quantity of beer demanded falls from 103 000 litres per week to 97 000 litres per week as a result of a 10 percent increase in its price. The price elasticity of demand for beer is
A) 1.03.
B) 0.6.
C) 6.0.
D) 1.97.
E) impossible to compute unless we know the before and after prices.

2) Which of the following illustrates elastic demand?
A) A 10 percent increase in price causes a 20 percent decrease in quantity demanded.
B) A 10 percent increase in price causes a 10 percent reduction in quantity demanded.
C) a price elasticity of 1.0
D) A 10 percent increase in price causes a 5 percent decrease in quantity demanded.
E) a price elasticity of 0.8

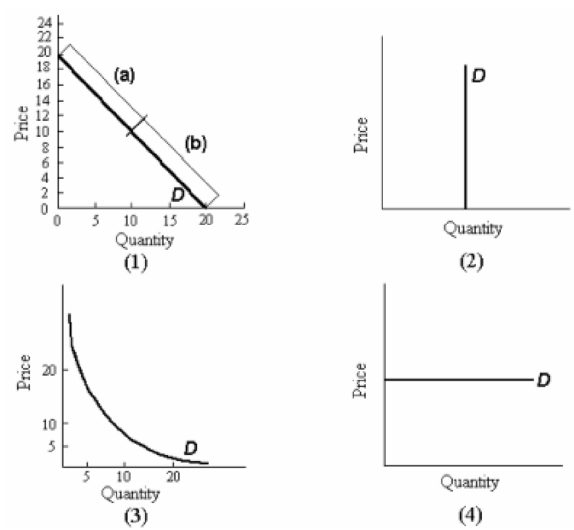

FIGURE 1

3) Refer to Figure 1. In diagram 1, the elasticity of demand over price ranges under $10 is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

4) Refer to Figure 1. In diagram 2, the elasticity of demand is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

5) 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 has a higher income elasticity of demand.
B) The steeper one is probably the demand curve for a luxury good.
C) It is not possible to compare the slopes of different demand curves.
D) The flatter one is for a good with no close substitutes.
E) The steeper one is short run and the flatter one is long run.

6) When a product's price has an inverse relationship with total expenditure, then demand has an price elasticity of
A) inverse proportions.
B) zero.
C) greater than one.
D) less than one.
E) one.

7) For an inferior good, the quantity demanded
A) rises when income falls.
B) falls when income falls.
C) responds directly to changes in income.
D) does not change when income rises or falls.
E) rises when income rises.

8) An inferior good has
A) a negative price elasticity of demand.
B) a positive income elasticity of demand and a price elasticity of demand greater than 1.
C) a negative income elasticity of demand.
D) an income elasticity of demand greater than zero but less than 1.
E) a positive income elasticity of demand.

9) If two goods, X and Y, have a positive cross-elasticity of demand, then we know that they
A) each have a price elasticity greater than one.
B) are both normal goods.
C) are complements.
D) are both inferior goods.
E) are substitutes.

10) Suppose that as price increases from $4.00 to $5.00 the quantity supplied of some product rises from 500 to 1000 units. The price elasticity of supply for this product is
A) 1.0. B) 2.0. C) 0.33. D) 3.0. E) 2.5.

QUIZ 4 VERSION 4

1) Suppose that the quantity demanded of skipping ropes rises from 1250 to 1750 units when the price falls from \$1.25 to \$0.75 per unit. The price elasticity of demand for this product is
A) 2/3. B) 2. C) 1. D) 3/2. E) 1/3.

2) 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) elastic.
B) inelastic.
C) not determinable from the information given.
D) unity.
E) positive.

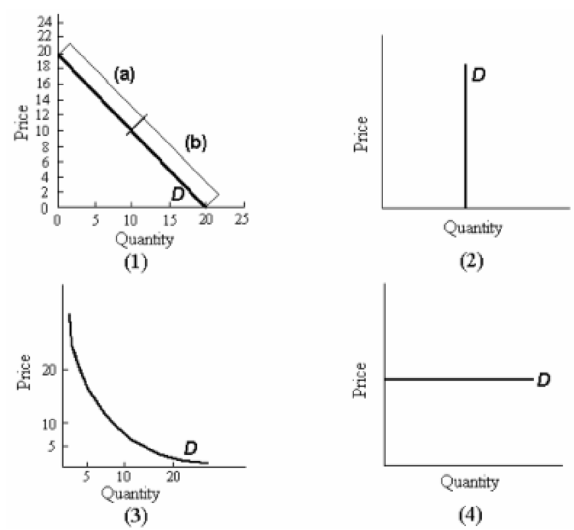

FIGURE 1

3) Refer to Figure 1. In diagram 1, the elasticity of demand at \$10 is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

4) Refer to Figure 1. In diagram 4, the elasticity of demand over the price range \$5 to \$10 is
A) 0.
B) less than 1.
C) 1.
D) greater than 1.
E) infinity.

5) With a downward-sloping straight-line demand curve price elasticity of demand is
A) increasing to the midpoint of the curve and then decreasing.
B) rising continuously with price increases.
C) indeterminate.
D) constant everywhere on it.
E) decreasing continuously with price increases.

6) If the total revenue of clothing manufacturers decreases when the price of clothing falls, the price elasticity of demand is
A) greater than one (demand is elastic).
B) exactly zero.
C) unity (demand is unit elastic).
D) not determinable from the information given.
E) less than one (demand is inelastic).

7) Suppose the supply curve for breakfast cereals is upward sloping. Suppose also that as average household income increases we observe a fall in the price of breakfast cereal. We can conclude that breakfast cereal is a(n)
A) luxury good.
B) necessity good.
C) substitute good.
D) inferior good.
E) normal good.

8) If the price of gasoline rises from $0.75 to $0.84 per litre, and as a result the sales of Honda Civics increases from 1200 to 1350 units per month, then gasoline and Hondas are
A) normal goods.
B) unrelated goods.
C) inferior goods.
D) substitutes.
E) complements.

9) Suppose the cross-elasticity of demand for two goods, X and Y, is positive. If the price of Y falls, then quantity demanded will
A) fall for X and rise for Y.
B) fall for both goods.
C) rise for both goods.
D) remain the same for both goods.
E) rise for X and fall for Y.

10) If the income elasticity of demand for a good is 2.4, a 10 percent increase in income results in
A) a 2.4 percent increase in the quantity demanded.
B) a 24 percent decrease in quantity demanded.
C) a 240 percent increase in the quantity demanded.
D) a 24 percent increase in the quantity demanded.
E) a 240 percent decrease in quantity demanded.

QUIZ 4 VERSION 1
Answer Section

1) D

2) B

3) D

4) C

5) D

6) C

7) B

8) C

9) A

10) C

QUIZ 4 VERSION 2
Answer Section

1) B

2) C

3) D

4) C

5) C

6) B

7) B

8) E

9) B

10) C

QUIZ 4 VERSION 3
Answer Section

1) B

2) A

3) B

4) A

5) E

6) C

7) A

8) C

9) E

10) D

QUIZ 4 VERSION 4
Answer Section

1) A

2) C

3) C

4) E

5) B

6) E

7) D

8) D

9) A

10) D