Chapter 5—Elasticity and Its Application

MULTIPLE CHOICE

1. In general, elasticity is
   a. the friction that develops between buyers and sellers in a market.
   b. a measure of how much government intervention is prevalent in a market.
   c. a measure of how competitive a market is.
   d. a measure of how much buyers and sellers respond to changes in market conditions.

   ANS: D DIF: Easy REF: 92

2. If a good is a necessity, demand for the good would tend to be
   a. elastic.
   b. horizontal.
   c. unit elastic.
   d. inelastic.

   ANS: D DIF: Average REF: 92

3. If a good is a luxury, demand for the good would tend to be
   a. inelastic.
   b. elastic.
   c. unit elastic.
   d. horizontal.

   ANS: B DIF: Average REF: 92

4. The elasticity of demand for luxuries tends to be
   a. greater than 1.
   b. less than 1.
   c. equal to 1.
   d. equal to 0.

   ANS: A DIF: Average REF: 92

5. If a person only occasionally enjoys a cup of coffee, his demand for coffee would be
   a. horizontal.
   b. inelastic.
   c. unit elastic.
   d. elastic.

   ANS: D DIF: Average REF: 92

6. A person who has high cholesterol and must exercise an hour every day has what type of demand for exercise equipment?
   a. elastic
   b. unit elastic
   c. inelastic
   d. weak

   ANS: C DIF: Average REF: 92

7. Werthers candy tends to have an elastic demand because

a. the candy market is too broadly defined.
b. there are many close substitutes for Werthers.
c. Werthers are considered by some to be a necessity.
d. it is usually eaten quickly and therefore the time horizon is short.

ANS: B DIF: Average REF: 92

8. There are very few, if any, good substitutes for motor oil. Therefore,
a. the supply of motor oil would tend to be price elastic.
b. the demand for motor oil would tend to be price elastic.
c. the demand for motor oil would tend to be price inelastic.
d. the demand for motor oil would tend to be income elastic.

ANS: C DIF: Average REF: 92

9. Holding all other forces constant, when the price of gasoline rises, the number of gallons of gasoline demanded would fall substantially over a ten-year period because
a. buyers tend to be much less sensitive to a change in price when given more time to react.
b. buyers will have substantially more income over a ten-year period.
c. buyers tend to be much more sensitive to a change in price when given more time to react.
d. None of these answers are correct.

ANS: C DIF: Average REF: 92

10. A good will have a more inelastic demand
a. the greater the availability of close substitutes.
b. the narrower the definition of the market.
c. the longer the period of time.
d. if it is considered a necessity.

ANS: D DIF: Average REF: 92

11. When the price of bubble gum is $0.50, the quantity demanded is 400 packs per day. When the price falls to $0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, you know that the demand for bubble gum is
a. inelastic.
b. elastic.
c. unit elastic.
d. perfectly inelastic.

ANS: B DIF: Challenging REF: 94

12. The midpoint method is used to compute elasticity because it
a. automatically computes a positive number instead of a negative number.
b. uses the same equation that is used to compute slope.
c. gives the same answer regardless of the direction of change.
d. automatically rounds quantities to the nearest whole unit.

ANS: C DIF: Average REF: 94

13. Suppose there is a 6 percent increase in the price of good X and a resulting 6 percent decrease in the quantity of X demanded. Price elasticity of demand for X is
a. 1.
b. 6.
c. 0.
d. infinite.

ANS: A DIF: Average REF: 93

14. Suppose the price of Twinkies is reduced from $1.45 to $1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is
    a. 2.00.
    b. 1.55.
    c. 1.00.
    d. .64.

    ANS: D DIF: Challenging REF: 94

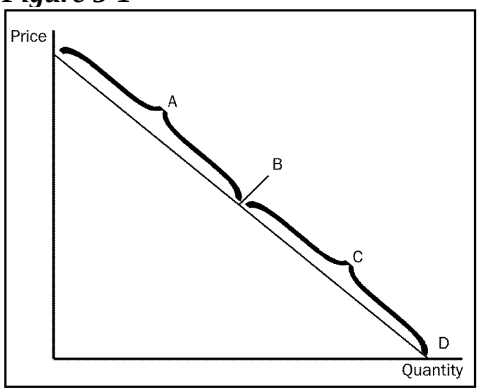
15. If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price would result in a
    a. 4.0 percent decrease in the quantity demanded.
    b. 10 percent decrease in the quantity demanded.
    c. 40 percent decrease in the quantity demanded.
    d. 400 percent decrease in the quantity demanded.

    ANS: C DIF: Challenging REF: 94

16. If a 15 percent increase in price causes a 30 percent decrease in quantity demanded, this product might
    a. have no close substitute.
    b. be a luxury.
    c. be part of a broadly defined market.
    d. be in a short time horizon.

    ANS: B DIF: Challenging REF: 93

Figure 5-1



17. **Refer to Figure 5-1**. The section of the demand curve labeled A represents the
    a. elastic section of the demand curve.
    b. inelastic section of the demand curve.
    c. unit elastic section of the demand curve.
    d. perfectly elastic section of the demand curve.

    ANS: A DIF: Average REF: 98

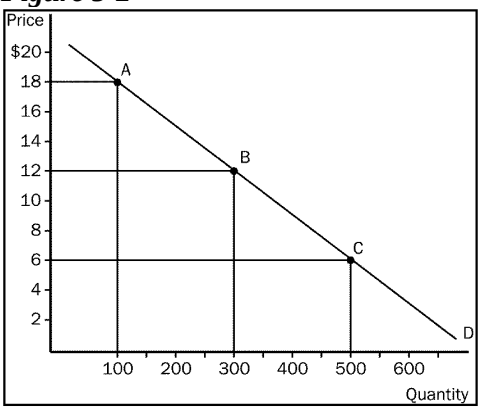
18. **Refer to Figure 5-1**. The point on the demand curve labeled B represents the
    a. elastic section of the demand curve.
    b. inelastic section of the demand curve.
    c. unit elastic section of the demand curve.
    d. perfectly elastic section of the demand curve.

ANS: C DIF: Average REF: 98

19. **Refer to Figure 5-1**. The section of the demand curve labeled C represents the
    a. elastic section of the demand curve.
    b. perfectly elastic section of the demand curve.
    c. unit elastic section of the demand curve.
    d. inelastic section of the demand curve.

    ANS: D DIF: Average REF: 98

Figure 5-2



20. **Refer to Figure 5-2**. The elasticity of demand from point A to point B, using the midpoint method would be
    a. 1.
    b. 1.5.
    c. 2.
    d. 2.5.

    ANS: D DIF: Average REF: 98

21. **Refer to Figure 5-2**. The elasticity of demand from point B to point C, using the midpoint method would be
    a. 0.5.
    b. 0.75.
    c. 1.0.
    d. 1.3.

    ANS: B DIF: Average REF: 98

22. **Refer to Figure 5-2**. If the price decreased from $18 to $6, what would happen to total revenue?
    a. Total revenue would increase by $1200 and demand would be elastic.
    b. Total revenue would increase by $800 and demand would be elastic.
    c. Total revenue would decrease by $1200 and demand would be inelastic.
    d. Total revenue would decrease by $800 and demand would be inelastic.

    ANS: A DIF: Challenging REF: 98

23. When the price of kittens was $25 each, the pet shop sold 20 per month. When they raised the price to $35 each, they sold 14 per month. The elasticity of demand for kittens would be
    a. 1.66.
    b. 1.06.

c. 0.94.
d. 0.60.

ANS: B DIF: Challenging REF: 94

24. When the local used bookstore prices economics books at $15.00 each, they generally sell 70 per month. If they lower the price to $7.00 each they sell 90. Given this, we know that the elasticity of demand for economics books is
a. 2.91, so this store should lower price to raise total revenue.
b. 2.91, so this store should raise price to raise total revenue.
c. 0.34, so this store should lower price to raise total revenue.
d. 0.34, so this store should raise price to raise total revenue.

ANS: D DIF: Challenging REF: 94

25. Elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the demand curve will be
a. steeper.
b. further to the right.
c. flatter.
d. closer to the vertical axis.

ANS: C DIF: Average REF: 94

26. The flatter the demand curve through a given point, the
a. greater the price elasticity of demand.
b. smaller the price elasticity of demand.
c. closer the price elasticity of demand will be to the slope of the curve.
d. more equal the price elasticity of demand will be to the slope of the curve.

ANS: A DIF: Challenging REF: 94

27. The smaller the price elasticity of demand the
a. closer the price elasticity of demand will be to the slope of the curve.
b. flatter the demand curve will be through a given point.
c. steeper the demand curve will be through a given point.
d. more equal the price elasticity of demand will be to the slope of the curve.

ANS: C DIF: Challenging REF: 95

28. In the case of perfectly inelastic demand,
a. quantity demanded stays the same regardless of price changes.
b. huge changes in quantity demanded result from very small changes in the price.
c. the change in quantity demanded exactly equals the change in price.
d. the change in quantity demanded will be twice the change in price.

ANS: A DIF: Challenging REF: 95

29. A perfectly inelastic demand curve will be
a. negatively sloped, because buyers decrease their purchases when the price rises.
b. vertical, because buyers purchase the same amount whether the price rises or falls.
c. positively sloped, because buyers respond by increasing their purchases when price rises.
d. horizontal, because buyers increase their purchases by huge amounts with slight changes in price.

ANS: B DIF: Challenging REF: 95

30. When small changes in price lead to infinite changes in quantity demanded, demand is perfectly
    a. elastic and will be horizontal.
    b. inelastic and will be horizontal.
    c. elastic and will be vertical.
    d. inelastic and will be vertical.

    ANS: A DIF: Challenging REF: 95

31. As elasticity of demand increases the demand curve gets
    a. flatter and the price elasticity of demand will be less than 1.
    b. steeper and the price elasticity of demand will be greater than 1.
    c. flatter and the price elasticity of demand will be greater than 1.
    d. steeper and the price elasticity of demand will be less than 1.

    ANS: C DIF: Challenging REF: 95

32. When quantity moves proportionally the same amount as price, demand is
    a. relatively elastic and the price elasticity of demand is 1.
    b. perfectly elastic and the price elasticity of demand is 1.
    c. perfectly inelastic and the price elasticity of demand is less than 1.
    d. unit elastic and the price elasticity of demand is 1.

    ANS: D DIF: Challenging REF: 95

33. When the price elasticity of demand is perfectly inelastic, the elasticity
    a. is zero and the demand curve is vertical.
    b. is zero and the demand curve is horizontal.
    c. approaches infinity and the demand curve is vertical.
    d. approaches infinity and the demand curve is horizontal.

    ANS: A DIF: Challenging REF: 95

34. Alice says that she would buy one banana split a day regardless of the price. If she is telling the truth,
    a. Alice's demand for banana splits is perfectly inelastic.
    b. Alice's price elasticity of demand for banana splits is 1.
    c. Alice's income elasticity of demand for banana splits is negative.
    d. None of the above answers is correct.

    ANS: A DIF: Average REF: 95

35. Which of the following would have the most elastic demand?
    a. clothing
    b. blue jeans
    c. Levi jeans
    d. All three would have the same elasticity of demand since they are all related.

    ANS: C DIF: Average REF: 95

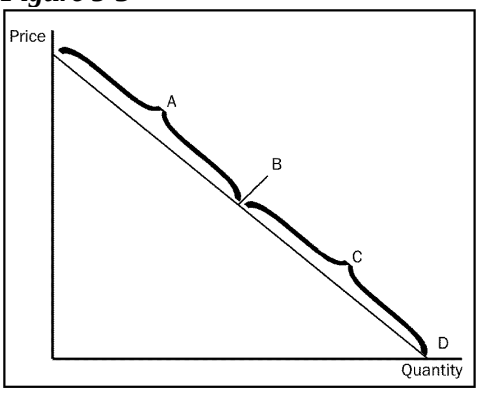
36. How does total revenue change as one moves down a linear demand curve?
    a. It increases.
    b. It decreases.
    c. It first increases, then decreases.
    d. It is unaffected by a movement along the demand curve.

    ANS: C DIF: Challenging REF: 98

37. On a downward-sloping linear demand curve, total revenue would be at a maximum at the
    a. midpoint of the demand curve.
    b. lower end of the demand curve.
    c. upper end of the demand curve.
    d. It is impossible to tell without knowing prices and quantities demanded.

    ANS: A DIF: Average REF: 98

Figure 5-3



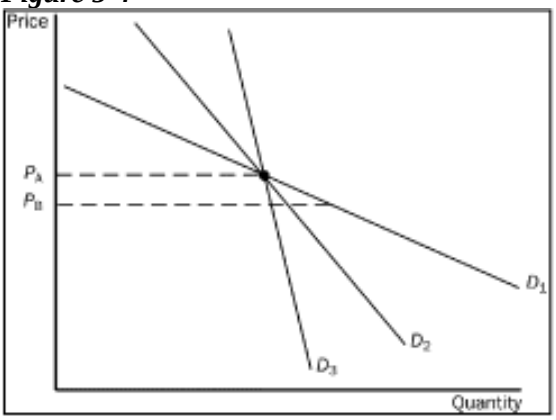
38. **Refer to Figure 5-3**. If price falls in the A range of the demand curve we can expect total revenue to
    a. increase.
    b. decrease.
    c. stay the same.
    d. decrease, then increase.

    ANS: A DIF: Challenging REF: 98

39. **Refer to Figure 5-3**. If price falls in the C range of the demand curve we can expect total revenue to
    a. increase.
    b. decrease.
    c. stay the same.
    d. decrease, then increase.

    ANS: B DIF: Challenging REF: 98

Figure 5-4



40. **Refer to Figure 5-4**. As price falls from P_A to P_B, which demand curve is most elastic?

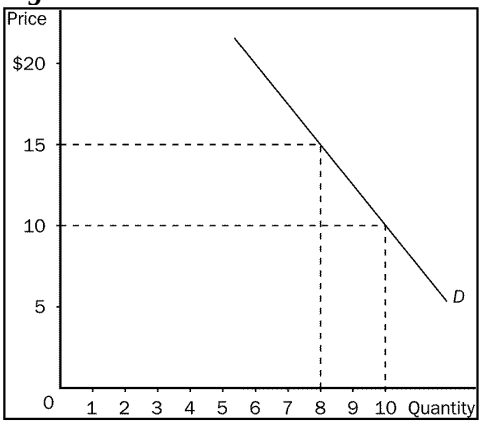
a. D_1
b. D_2
c. D_3
d. All of the above are equally elastic.

ANS: A DIF: Challenging REF: 95

41. **Refer to Figure 5-4**. As price falls from P_A to P_B, which demand curve is least elastic?
a. D_1
b. D_2
c. D_3
d. All of the above are equally elastic.

ANS: C DIF: Challenging REF: 95

Figure 5-6



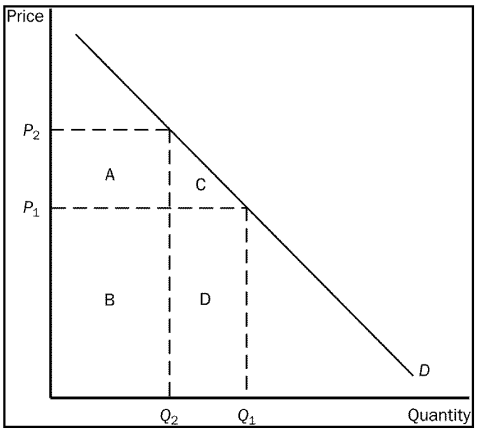
42. **Refer to Figure 5-6**. If price increases from $10 to $15, total revenue will
a. increase by $20, so demand must be inelastic.
b. increase by $5, so demand must be inelastic.
c. decrease by $20, so demand must be elastic.
d. decrease by $10, so demand must be elastic.

ANS: A DIF: Challenging REF: 97

43. **Refer to Figure 5-6**. The price elasticity of this demand curve between $10 and $15 is
a. unit elastic.
b. elastic.
c. inelastic.
d. perfectly elastic.

ANS: C DIF: Challenging REF: 97

Figure 5-7



44. **Refer to Figure 5-7**. The total revenue at P1 is represented by area(s)
    a. B + D
    b. A + B
    c. C + D
    d. D

    ANS: A DIF: Average REF: 97

45. **Refer to Figure 5-7**. Total revenue at P2 would be represented by area(s)
    a. B + D
    b. A + B
    c. C + D
    d. D

    ANS: B DIF: Average REF: 97

46. The local pizza restaurant makes such great bread sticks that consumers do not respond much to a change in the price. If the owner is only interested in increasing revenue, he should
    a. lower the price of the bread sticks.
    b. leave the price of the bread sticks alone.
    c. raise the price of the bread sticks.
    d. reduce costs.

    ANS: C DIF: Average REF: 97

47. When demand is elastic in the current price range,
    a. an increase in price would increase total revenue because the decrease in quantity demanded is less than the increase in price.
    b. an increase in price would decrease total revenue because the decrease in quantity demanded is greater than the increase in price.
    c. a decrease in price would decrease total revenue because the increase in quantity demanded is smaller than the decrease in price.
    d. a decrease in price would not affect the total revenue.

    ANS: B DIF: Challenging REF: 97

48. When demand is elastic the price elasticity is
    a. greater than 1, and price and total revenue will move in opposite directions.
    b. less than 1, and price and total revenue will move in the same direction.
    c. less than 1, and price and total revenue will move in opposite directions.
    d. greater than 1, and price and total revenue will move in the same direction.

ANS: A DIF: Challenging REF: 97

49. If the demand curve is linear and downward sloping, which of the following would NOT be correct?
    a. The upper part of the demand curve is more elastic than the lower part.
    b. Elasticity will change with a movement down the curve.
    c. The lower part of the demand curve would be less elastic than the upper part.
    d. Slope will change with a movement down the curve.

    ANS: D DIF: Challenging REF: 97

50. For a vertical demand curve, slope
    a. is undefined and elasticity equals 0.
    b. equals 0 and elasticity is undefined.
    c. and elasticity are both undefined.
    d. and elasticity are both equal to 0.

    ANS: A DIF: Challenging REF: 95

51. For a horizontal demand curve, slope
    a. is undefined and elasticity equals 0.
    b. equals 0 and elasticity is undefined.
    c. and elasticity are both undefined.
    d. and elasticity are both equal to 0.

    ANS: B DIF: Challenging REF: 95

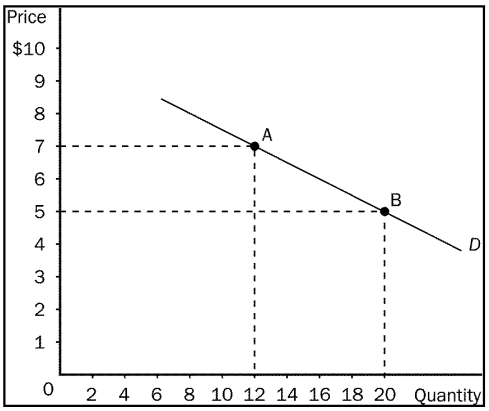
52. Along a linear demand curve, slope
    a. and elasticity are both constant.
    b. changes but elasticity is constant.
    c. and elasticity both change.
    d. is constant but elasticity changes.

    ANS: D DIF: Challenging REF: 98

53. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises by 4 percent, the number of candy bars demanded falls to 46 candy bars. According to the midpoint method, this means that the
    a. demand for candy bars in this price range is elastic.
    b. demand for candy bars in this price range is inelastic.
    c. price elasticity of demand for candy bars is 0.
    d. demand for candy bars is unit elastic.

    ANS: A DIF: Challenging REF: 97

Figure 5-8



54. **Refer to Figure 5-8**. Between point A and point B we know that
    a. the slope is equal to 1/4 and elasticity is equal to 2/3.
    b. the slope is equal to 1/4 and elasticity is equal to 3/2.
    c. the slope is equal to 3/2 and elasticity is equal to 1/4.
    d. the slope is equal to 2/3 and elasticity is equal to 1/4.

    ANS: B DIF: Challenging REF: 98

55. The difference between slope and elasticity is that
    a. slope measures actual changes and elasticity measures percentage changes.
    b. slope measures percentage changes and elasticity measures actual changes.
    c. slope measures changes in quantity demanded more accurately than elasticity.
    d. there is no difference between slope and elasticity calculations.

    ANS: A DIF: Average REF: 98

56. Last year, Sheila bought 6 pairs of shoes when her income was $40,000. This year, her income is $50,000 and she purchased 10 pairs of shoes. All else constant, it is obvious that Sheila
    a. prefers shoes to boots.
    b. considers shoes to be an inferior good.
    c. considers shoes to be a normal good.
    d. has a price-inelastic demand for shoes.

    ANS: C DIF: Average REF: 92

57. When the rental price of DVD movies is $4, Denise rents five per month. When the price is $3, she rents nine per month. Denise's demand for DVD rentals is
    a. elastic and the curve would be relatively flat.
    b. elastic and the curve would be relatively steep.
    c. inelastic and the curve would be relatively flat.
    d. inelastic and the curve would be relatively steep.

    ANS: A DIF: Challenging REF: 94

58. Last year, Joan bought 50 pounds of hamburger when the household income was $40,000. This year, the household income was only $30,000 and Joan bought 60 pounds of hamburger. All else constant Joan's income elasticity of demand for hamburger is
    a. positive, so Joan considers hamburger to be an inferior good.
    b. positive, so Joan considers hamburger to be a normal good and a necessity.
    c. negative, so Joan considers hamburger to be an inferior good.
    d. negative, so Joan considers hamburger to be a normal good.

ANS: C DIF: Average REF: 102

59. You and your college roommate eat three packages of Ramen noodles each week. After graduation last month, both of you were hired at several times your college income. You still enjoy Ramen noodles very much and buy even more, but your roommate plans to buy other foods she prefers more. When looking at income elasticity of demand for Ramen noodles, yours would
    a. be negative and your roommate's would be positive.
    b. be positive and your roommate's would be negative.
    c. be zero and your roommate's would approach infinity.
    d. approach infinity and your roommate's would be zero.

    ANS: B DIF: Average REF: 102

Table 5-1

Income	Quantity of Good X Purchased	Quantity of Good Y Purchased
$30,000	2	20
$40,000	5	10

60. **Refer to Table 5-1**. Using the midpoint method, what is the income elasticity of good Y?
    a. -3.33
    b. -2.33
    c. 1.33
    d. 2.33

    ANS: B DIF: Challenging REF: 102

61. **Refer to Table 5-1**. Good X is
    a. very price elastic.
    b. an inferior good.
    c. underpriced.
    d. a normal good.

    ANS: D DIF: Easy REF: 102

62. **Refer to Table 5-1**. Good Y is
    a. not related to income.
    b. an inferior good.
    c. price inelastic.
    d. a normal good.

    ANS: B DIF: Average REF: 102

63. If the cross-price elasticity of two goods is negative, then those two goods are
    a. substitutes.
    b. complements.
    c. normal goods.
    d. inferior goods.

    ANS: B DIF: Easy REF: 103

64. If the cross-price elasticity of demand is 1.25, then the two goods would be
    a. complements.
    b. luxuries.
    c. normal goods.

d. substitutes.

ANS: D DIF: Easy REF: 103

65. Food and clothing tend to have
    a. small income elasticities because consumers, regardless of their incomes, choose to buy these goods.
    b. small income elasticities because consumers will buy proportionately more at higher income levels than they will at low income levels.
    c. large income elasticities because they are necessities.
    d. large income elasticities because they are relatively cheap.

    ANS: A DIF: Challenging REF: 103

66. Suppose the price elasticity of demand for basketballs is 1.20. A 15 percent increase in price will result in
    a. an 18 percent decrease in the quantity of basketballs demanded.
    b. a 15 percent decrease in the quantity of basketballs demanded.
    c. an 8 percent reduction in the number of basketballs demanded.
    d. a 12.5 percent reduction in the number of basketballs demanded.

    ANS: A DIF: Challenging REF: 94

67. Get Smart University is contemplating increasing tuition to enhance revenue. If GSU feels that raising tuition would enhance revenue, they are
    a. necessarily ignoring the law of demand.
    b. assuming that the demand for university education is elastic.
    c. assuming that the demand for university education is inelastic.
    d. assuming that the supply of university education is elastic.

    ANS: C DIF: Challenging REF: 97

68. In the long run which of the following would NOT be a reason why the elasticity of supply is elastic?
    a. Firms can build new factories.
    b. Firms can hire additional workers.
    c. New firms can enter the market.
    d. Firms can sell less at lower prices without losing profits.

    ANS: D DIF: Average REF: 103

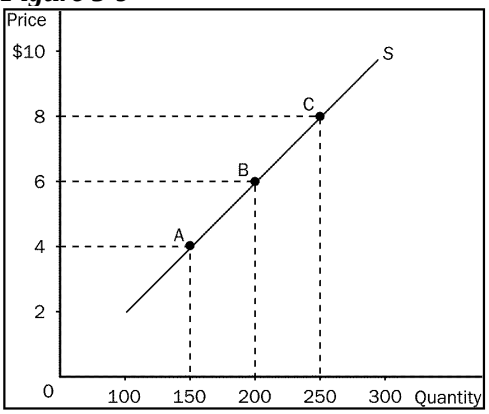
69. Holding all else constant, if a pencil manufacturer increases production by 20 percent when the market price of pencils increases from $0.50 to $0.60, then the price elasticity of supply, using the midpoint method, must be
    a. elastic, since elasticity is equal to 1.11.
    b. inelastic, since elasticity is equal to 1.11.
    c. inelastic, since elasticity is equal to .90.
    d. elastic, since elasticity is equal to .90.

    ANS: A DIF: Challenging REF: 103

70. If the quantity supplied responds only slightly to changes in price, then
    a. supply is said to be elastic.
    b. increases in supply resulting from an increase in price will not shift the supply curve very much.
    c. supply is said to be inelastic.
    d. supply is said to be unit elastic.

ANS: C DIF: Average REF: 103

Figure 5-9



71. **Refer to Figure 5-9**. The elasticity of supply from point A to point C, using the midpoint method would be approximately
    a. 2.67.
    b. 1.33.
    c. 0.75.
    d. 0.375.

    ANS: C DIF: Challenging REF: 103

72. Suppose that an increase in the price of carrots from $1.20 to $1.40 per pound raises the amount of carrots that carrot farmers produce from 1.2 million pounds to 1.6 million pounds. Using the midpoint method, what would be the elasticity of supply?
    a. 2.00
    b. 1.86
    c. 0.54
    d. 0.50

    ANS: B DIF: Challenging REF: 103

73. An increase in the price of pure chocolate morsels from $2.25 to $2.45 causes Nestle to increase production from 125 bags per minute to 145 bags per minute. We know that the elasticity of supply is
    a. elastic and equal to 1.74.
    b. elastic and equal to 0.57.
    c. inelastic and equal to 0.57.
    d. inelastic and equal to 1.74.

    ANS: A DIF: Challenging REF: 103

74. If a 30 percent change in price causes a 15 percent change in quantity supplied, then the price elasticity of supply is
    a. 1/2 and supply is elastic.
    b. 1/2 and supply is inelastic.
    c. 2 and supply is inelastic.
    d. 2 and supply is elastic.

    ANS: B DIF: Challenging REF: 103

75. When a supply curve is relatively flat,

a. the supply is relatively elastic.
b. the supply is relatively inelastic.
c. sellers are not at all responsive to a change in price.
d. quantity supplied changes slightly when the price changes.

ANS: A DIF: Average REF: 104

76. If an increase in the price of a good results in an increase in total revenue for the firm, then the supply of the good must be
a. unit elastic.
b. inelastic.
c. elastic.
d. Nothing can be said about price elasticity of supply from the information given.

ANS: D DIF: Challenging REF: 104

77. As elasticity rises
a. the supply curve gets flatter.
b. the supply curve gets steeper.
c. quantity supplied responds less to a change in price.
d. elasticity gets closer to zero.

ANS: A DIF: Average REF: 104

78. If two supply curves pass through the same point and one is steep and the other is flat, which of the following would be correct?
a. The flatter supply curve is more inelastic.
b. The steeper supply curve is more inelastic.
c. The elasticity of supply will be the same for both curves.
d. It is impossible to tell the elasticity of supply for either curve unless you are given actual numbers to compute the elasticity of both curves.

ANS: B DIF: Challenging REF: 104

79. If the elasticity of supply of a product is 2.5, we know that supply is
a. inelastic.
b. elastic.
c. unit elastic.
d. perfectly inelastic.

ANS: B DIF: Average REF: 104

80. Which of the following would NOT be true of a perfectly elastic supply curve?
a. The elasticity of supply approaches infinity.
b. The supply curve is horizontal.
c. Very small changes in price lead to large changes in quantity supplied.
d. The firm would likely be operating in the short run.

ANS: D DIF: Challenging REF: 104

81. A linear supply curve has a
a. constant slope and changing elasticity of supply.
b. changing slope and a constant elasticity of supply.
c. both a constant slope and a constant elasticity of supply.
d. both a changing slope and a changing elasticity of supply.

ANS: A DIF: Challenging REF: 104

82. Which of the following would be true as the elasticity of supply approaches infinity?
    a. Very small changes in price will lead to very large changes in quantity supplied.
    b. Very large changes in price will lead to very small changes in quantity supplied.
    c. Very small changes in price will lead to no change in quantity supplied.
    d. Very large changes in price will lead to no change in quantity supplied.

    ANS: A DIF: Challenging REF: 104

83. Some firms experience elastic supply curves at low levels of quantity supplied and more inelastic supply curves at higher levels of quantity supplied because
    a. at low levels of quantity supplied, firms have idle capacity.
    b. at high levels of quantity supplied, firms incur higher production costs.
    c. as low levels of quantity supplied, per unit production costs are less than at high levels of quantity supplied.
    d. Both a and b are correct.
    e. Both a and c are correct.

    ANS: D DIF: Challenging REF: 104

Table 5-2

	Supply Curve A		Supply Curve B		Supply Curve C	
Price	$1.00	$2.00	$1.00	$3.00	$2.00	$5.00
Quantity Supplied	500	600	600	900	400	700

84. **Refer to Table 5-2**. Which of the following would represent a more inelastic supply curve?
    a. supply curve A
    b. supply curve B
    c. supply curve C
    d. There is no difference in the elasticity of the 3 supply curves.

    ANS: A DIF: Challenging REF: 104

85. The discovery of a new hybrid wheat would tend to increase the supply of wheat. Under what conditions would wheat farmers realize an increase in revenue?
    a. if the supply of wheat is elastic
    b. if the supply of wheat is inelastic
    c. if the demand for wheat is inelastic
    d. if the demand for wheat is elastic

    ANS: D DIF: Challenging REF: 106

86. If wheat farmers know that the demand for wheat is inelastic, and they want to increase their total revenue, they should all
    a. plant more wheat so that they would be able to sell more each year.
    b. increase spending on fertilizer in an attempt to produce more on the acres they farm.
    c. reduce the number of acres they plant in wheat.
    d. use better machinery.

    ANS: C DIF: Challenging REF: 106

87. A decrease in supply will cause the largest increase in price when
    a. both supply and demand are inelastic.

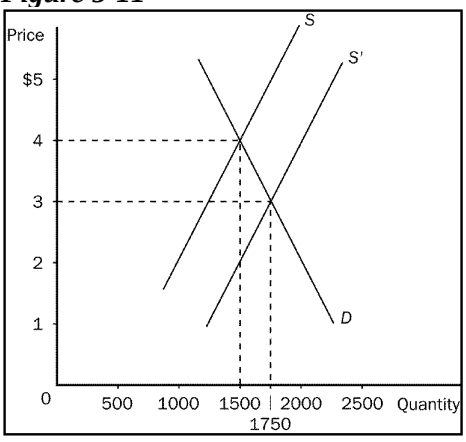
b. both supply and demand are elastic.
c. demand is elastic and supply is inelastic.
d. demand is inelastic and supply is elastic.

ANS: A DIF: Challenging REF: 108

88. A decrease in supply will cause the smallest increase in price when
a. both supply and demand are inelastic.
b. demand is elastic and supply is inelastic.
c. both supply and demand are elastic.
d. demand is inelastic and supply is elastic.

ANS: C DIF: Challenging REF: 98

Figure 5-11



89. **Refer to Figure 5-11**. When a new, more productive strawberry was developed which caused supply to increase, strawberry farmers were
a. helped, since although price fell, total revenue increased, due to an inelastic demand curve.
b. hurt, since both price and total revenue fell due to an elastic demand curve.
c. hurt, since both price and total revenue fell due to an inelastic demand curve.
d. helped, since although price fell, total revenue increased, due to an elastic demand curve.

ANS: C DIF: Challenging REF: 103

90. **Refer to Figure 5-11**. When a new, more productive strawberry was developed which caused supply to increase, strawberry farmers' total revenue
a. fell from $6000 to $5250 since demand is elastic.
b. fell from $6000 to $5250 since demand is inelastic.
c. rose from $5250 to $6000 since demand is elastic.
d. fell from $6000 to $5250 since supply is elastic.

ANS: B DIF: Challenging REF: 103