## Critical Thinking Questions

25.

Transatlantic air travel in business class has an estimated elasticity of demand of 0.62, while transatlantic air travel in economy class has an estimated price elasticity of 0.12. Why do you think this is the case?

26.

What is the relationship between price elasticity and position on the demand curve? For example, as you move up the demand curve to higher prices and lower quantities, what happens to the measured elasticity? How would you explain that?

27.

Can you think of an industry (or product) with near infinite elasticity of supply in the short term? That is, what is an industry that could increase Qs almost without limit in response to an increase in the price?

28.

Would you expect supply to play a more significant role in determining the price of a basic necessity like food or a luxury like perfume? Explain. *Hint*: Think about how the price elasticity of demand will differ between necessities and luxuries.

29.

A city has built a bridge over a river and it decides to charge a toll to everyone who crosses. For one year, the city charges a variety of different tolls and records information on how many drivers cross the bridge. The city thus gathers information about elasticity of demand. If the city wishes to raise as much revenue as possible from the tolls, where will the city decide to charge a toll: in the inelastic portion of the demand curve, the elastic portion of the demand curve, or the unit elastic portion? Explain.

30.

In a market where the supply curve is perfectly inelastic, how does an excise tax affect the price paid by consumers and the quantity bought and sold?

31.

Economists define normal goods as having a positive income elasticity. We can divide normal goods into two types: Those whose income elasticity is less than one and those whose income elasticity is greater than one. Think about products that would fall into each category. Can you come up with a name for each category?

32.

Suppose you could buy shoes one at a time, rather than in pairs. What do you predict the cross-price elasticity for left shoes and right shoes would be?