

Homework 1

Part 1:

1. The value of 8 represents a more elastic response to the changes in prices for air travel, since it is more of a luxury than a necessity. The value of 0.2 for gasoline shows a more inelastic response to the change in price, since gasoline is more of a commodity.
2. The sign represents the change in either the price or the demand. The magnitude represents how responsive the quantity demanded is.
3. The Total Revenue Test helps estimate the price elasticity of demand by observing the change in total revenue based on the change of the price of the goods.

Part 2:

1.

a. Price elasticity of demand = $\frac{10\%}{5\%} = 2$

b. Cross elasticity of demand = $\frac{+15\%}{-5\%} = -3$

2.

a. Price elasticity of demand = $\frac{\frac{600 \text{ boxes} - 1000 \text{ boxes}}{\frac{1}{2}(600 \text{ boxes} + 1000 \text{ boxes})}}{\frac{\$6 - \$4}{\frac{1}{2}(\$6 + \$4)}} = 1.25$

b. The demand of the plums is elastic.