Elasticity

(a) Define price elasticity of demand and the income elasticity of demand. (3)

(b) Answer the following questions on the basis of the following table:

Point	Price of Oil ($)	Price of Car ($)	Demand for Car
A	100	5000	1800
B	90	4500	2600
C	85	3800	3900
D	75	3000	5600

i. Calculate the price elasticity of demand for car from point A to point B. Interpret your answer. (3)

ii. Calculate cross-price elasticity of demand for car from point D to point A. Based on your answer identify whether the goods are complements or substitutes. (4)

MCQ

1. Perfectly elastic demand is__________

(a) horizontal (b) vertical (c) diagonal (d) downward

2. Perfectly inelastic demand is__________

(a) horizontal (b) vertical (c) diagonal (d) downward

3. Perfectly elastic supply is___________

(a) horizontal (b) vertical (c) diagonal (d) upward

4. Perfectly inelastic demand is____________

(a) horizontal (b) vertical (c) diagonal (d) upward

5. The more time consumers have to adjust to a price change, the _____________ is the demand for that good.

(a) more inelastic (b) more elastic (c) perfectly elastic (d) none

6. The less time consumers have to adjust to a price change, the _____________ is the demand for that good.

(a) more inelastic (b) more elastic (c) perfectly elastic (d) none

7. If there is a 1 percent price cut increases the quantity demanded by 1 percent then demand is___________

(a) elastic (b) inelastic (c) unit elastic (d) perfectly inelastic

8. If there is a 1 percent price cut increases the quantity demanded by 2 percent then demand is___________

(a) elastic (b) inelastic (c) unit elastic (d) perfectly inelastic

9. If there is a 1 percent price cut increases the quantity demanded by 0.8 percent then demand is___________

(a) elastic (b) inelastic (c) unit elastic (d) perfectly inelastic

10. Cross price elasticity of demand for complementary goods is_________

(a) positive (b) zero (c) negative (4) none

11. Suppose that two goods have a cross-price elasticity of demand of 0.8. This means that these goods are____________

(a) Normal (b) Inferior (c) Complementary (d) Substitute

12. A perfectly inelastic demand is represented graphically by a:

(a) relatively steep demand curve (b) relatively flat demand curve

(c) vertical demand curve (d) horizontal demand curve

13. Demand tends to be more inelastic if the good is a______

(a) luxury good (b) necessary good (c) both (d) none

14. Suppose that consumers' income rise by 2% and this causes demand for a good to increase by 6%. What is the income elasticity of demand?

(a) 2 (b) 3 (c) 0.3 (d) 0.2