

*Economics: Canada in the Global Environment, 7e (Parkin)*  
Chapter 4 Elasticity

4.1 Price Elasticity of Demand

- 1) A price elasticity of demand of 2 means that a 10 percent increase in price will result in a
- A) 2 percent decrease in quantity demanded.
  - B) 20 percent decrease in quantity demanded.
  - C) 5 percent decrease in quantity demanded.
  - D) 2 percent increase in quantity demanded.
  - E) 20 percent increase in quantity demanded.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

- 2) The price elasticity of demand is a units-free measure of the responsiveness of the \_\_\_\_\_ when all other influences on buying plans remain the same.
- A) quantity demanded to a change in the price of a substitute or complement
  - B) quantity demanded to a change in income
  - C) quantity demanded of a good to a change in its price
  - D) price to a change in quantity demanded
  - E) none of the above

Answer: C

Diff: 1

Topic: Price Elasticity of Demand

- 3) The concept used by economists to indicate the responsiveness of the quantity demanded of a good to a change in its price is the
- A) cross elasticity of demand.
  - B) income elasticity of demand.
  - C) substitute elasticity of demand.
  - D) price elasticity of demand.
  - E) elasticity of supply.

Answer: D

Diff: 1

Topic: Price Elasticity of Demand

- 4) If a 10 percent rise in price leads to an 8 percent decrease in quantity demanded, the price elasticity of demand is
- A) 0.8.
  - B) 1.25.
  - C) 8.
  - D) 0.125.
  - E) 80.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

5) If a large percentage drop in the price level results in a small percentage increase in the quantity demanded,

- A) demand is inelastic.
- B) demand is elastic.
- C) demand is unit elastic.
- D) the price elasticity of demand is close to infinity.
- E) the price elasticity of demand is zero.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

6) The price of apples falls by 5 percent and quantity of apples demanded increases by 6 percent. We conclude that the demand for apples is

- A) perfectly elastic.
- B) unit elastic.
- C) elastic.
- D) perfectly inelastic.
- E) inelastic.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

7) The price of oranges rises by 3 percent and quantity of oranges demanded decreases by 3 percent. We conclude that the demand for oranges is

- A) inelastic.
- B) elastic.
- C) perfectly inelastic.
- D) perfect elastic.
- E) unit elastic.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

8) The price of plums falls by 7 percent and quantity of plums demanded increases by 6.75 percent. We conclude that the demand for plums is

- A) inelastic.
- B) perfectly elastic.
- C) perfectly inelastic.
- D) elastic.
- E) unit elastic.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

9) The price of good A falls by 10 percent and quantity of good A demanded does not change. We conclude that the demand for good A is

- A) perfectly elastic.
- B) inelastic.
- C) perfectly inelastic.
- D) elastic.
- E) unit elastic.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

10) Which one of the following illustrates an inelastic demand?

- A) A 10 percent rise in price leads to a 5 percent decrease in quantity demanded.
- B) A 10 percent rise in price leads to a 20 percent decrease in quantity demanded.
- C) A price elasticity of demand equal to infinity.
- D) A price elasticity of demand equal to 1.0.
- E) A price elasticity of demand equal to 2.0.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

11) Which one of the following illustrates an elastic demand?

- A) A 10 percent rise in price leads to a 5 percent decrease in quantity demanded.
- B) A 10 percent rise in price leads to a 20 percent decrease in quantity demanded.
- C) A price elasticity of demand equal to 0.2.
- D) A price elasticity of demand equal to 1.0.
- E) A price elasticity of demand equal to zero.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

12) If a 12 percent fall in price results in an 8 percent increase in quantity demanded, the price elasticity of demand equals

- A) 0.96.
- B) 0.12.
- C) 0.67.
- D) 1.5.
- E) 0.8.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

13) The demand for good A is unit elastic if

- A) a 5 percent fall in the price of A results in an infinite increase in the quantity of A demanded.
- B) a 5 percent rise in the price of A results in a 10 percent decrease in the quantity of A demanded.
- C) any increase in the price of A results in a 1 percent decrease in the quantity of A demanded.
- D) a 5 percent rise in the price of A results in no change in the quantity of A demanded.
- E) a 5 percent rise in the price of A results in a 5 percent decrease in the quantity of A demanded.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

14) Demand is inelastic if

- A) a small change in price results in a large change in quantity demanded.
- B) the quantity demanded is very responsive to a change in price.
- C) the price elasticity of demand is 0.2.
- D) the price does not change when supply increases.
- E) a 10 percent change in price results in a 1 percent change in the quantity supplied.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

15) If the demand curve for a good is a horizontal line, then the good has

- A) zero income elasticity.
- B) price elasticity of demand equal to zero.
- C) infinite price elasticity of demand.
- D) a price elasticity of demand that is likely to rise in the short run.
- E) a price elasticity of demand that is likely to fall in the short run.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

16) If a 10 percent rise in the price of goods leads to a 10 percent decrease in quantity demanded, the demand curve for this good

- A) is vertical.
- B) is horizontal.
- C) has slope equal to 1.
- D) is a straight line with slope equal to 10.
- E) none of the above.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

17) A unit elastic demand

A) means that the ratio of a change in quantity demanded to a change in price is equal to 1.

B) means that the ratio of a percentage change in quantity demanded to a percentage change in price is equal to 1.

C) means that the ratio of a change in price to a change in quantity demanded is equal to 1.

D) is illustrated by a horizontal demand curve.

E) is illustrated by a vertical demand curve.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

18) Suppose a rise in the price of a good from \$6.50 to \$7.50 leads to a decrease in the quantity demanded from 10,500 to 9,500 units. In this range of demand, the price elasticity of demand is

A) 14.

B) 7.

C) 1,000.

D) 1.

E) 0.7.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

19) A fall in the price of a good from \$11.50 to \$8.50 results in an increase in the quantity demanded from 19,200 to 20,800 units. The price elasticity of demand is

A) 0.27.

B) 3.75.

C) 0.08.

D) 8.0.

E) 30.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

20) A fall in the price of a good from \$10.50 to \$9.50 results in an increase in the quantity demanded from 18,800 to 21,200 units. The price elasticity of demand is

A) 0.8.

B) 1.25.

C) 1.2.

D) 8.0.

E) 2.4.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

21) Suppose the quantity of root beer demanded decreases from 105,000 litres per week to 95,000 litres per week when the price rises by 5 percent. The price elasticity of demand

- A) is 2.0.
- B) is 0.5.
- C) is 10.
- D) is inelastic.
- E) cannot be computed unless we know the original price and the new price.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

22) Suppose that the price elasticity of demand for bottled water in Sackville, New Brunswick is 1.5, while the price elasticity of demand for bottled water in Prince Albert, Saskatchewan is 0.93. This implies that the demand in Sackville is \_\_\_\_\_ and demand in Prince Albert is \_\_\_\_\_.

- A) unit elastic; unit elastic
- B) perfectly elastic; inelastic
- C) inelastic; elastic
- D) elastic; inelastic
- E) elastic; unit elastic

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

23) Suppose the government of Nova Scotia wants to reduce the consumption of electricity by 5 percent. The price elasticity of demand for electricity is 0.40. You advise the Nova Scotia government to

- A) raise the price of electricity by 12.5 percent.
- B) raise the price of electricity by 2 percent.
- C) lower the price of electricity by 12.5 percent.
- D) stay away from the market for electricity and let the market mechanism fix the problem.
- E) lower the price of electricity by 2 percent.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

24) Suppose the Lethbridge Computer Company decides to increase the quantity of computers it sells by 6 percent. If the price elasticity of demand is 3.5, the company must

- A) raise the price of a computer by 1.714 percent.
- B) raise the price of a computer by 0.21 percent.
- C) lower the price of a computer by 0.21 percent.
- D) lower the price of a computer by 1.714 percent.
- E) lower the price of a computer by 0.58 percent.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

25) If the demand for salmon in Cape Breton Nova Scotia is unit elastic, the price elasticity of demand for salmon equals

- A) 1.0.
- B) 100.0.
- C) 0.10.
- D) zero.
- E) 10.0.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

26) At a price of \$15, Jack's quantity demanded of good A is the same as when the price rises to \$16. Jack's demand for good A is

- A) elastic.
- B) inelastic.
- C) perfectly elastic.
- D) unit elastic.
- E) perfectly inelastic.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

27) Which one of the following will yield a measured price elasticity of demand of 5.0? A 10 percent rise in price results in a

- A) 10 percent decrease in quantity demanded.
- B) 5 percent decrease in quantity demanded.
- C) 2 percent decrease in quantity demanded.
- D) 50 percent decrease in quantity demanded.
- E) 0.5 percent decrease in quantity demanded.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

Use the table below to answer the following questions.

Table 4.1.1  
Demand schedule for good A.

Price (dollars per unit)	Quantity demanded (units)
9.00	0
8.00	2,000
7.00	4,000
6.00	6,000
5.00	8,000
4.00	10,000
3.00	12,000
2.00	14,000
1.00	16,000
0	18,000

28) Refer to Table 4.1.1. The price elasticity of demand when the price rises from \$6 a unit to \$7 a unit is

- A) 1.0.
- B) 2.0.
- C) 2.6.
- D) 0.5.
- E) 1.3.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

29) Refer to Table 4.1.1. Demand is unit elastic when the price falls from

- A) \$8 to \$7.
- B) \$7 to \$6.
- C) \$6 to \$5.
- D) \$5 to \$4.
- E) \$4 to \$3.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

30) Refer to Table 4.1.1. If the price of good A falls from \$4 to \$3,

- A) total revenue will increase.
- B) total revenue will remain constant.
- C) demand is elastic in this range.
- D) demand is unit elastic in this range.
- E) demand is inelastic in this range.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand



31) For which one of the following will demand be the most price inelastic?

- A) milk
- B) Happy Cow brand milk
- C) Happy Cow brand milk in Regina
- D) Happy Cow brand milk at Ralph's Grocery Store in Regina
- E) All of the above will exhibit the same price elasticity of demand

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

32) For which one of the following is demand likely to be most inelastic?

- A) diamonds
- B) insulin for a diabetic
- C) potatoes
- D) gasoline
- E) books

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

33) Demand will be more inelastic the

- A) higher the income level.
- B) lower the income level.
- C) longer the passage of time after a price increase.
- D) fewer good substitutes that are available.
- E) larger the fraction of income spent on the good.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

34) Demand will be more elastic the

- A) higher the income level.
- B) lower the income level.
- C) longer the passage of time after a price increase.
- D) fewer substitutes are available.
- E) smaller the fraction of income spent on the good.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

Use the figure below to answer the following question.

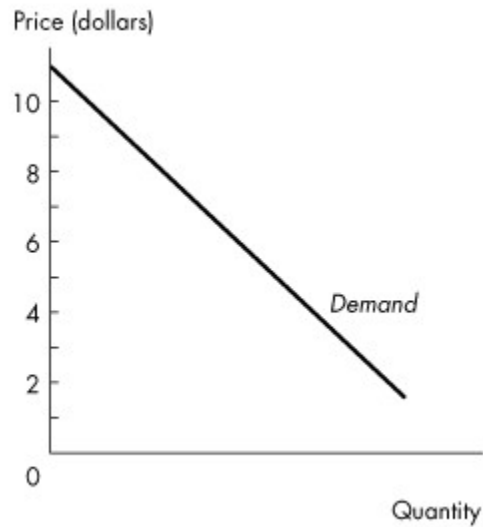


Figure 4.1.1

- 35) Figure 4.1.1 illustrates a linear demand curve. Comparing the price elasticity in the \$2 to \$3 price range with the elasticity in the \$8 to \$9 range, we can conclude
- A) that demand is more elastic in the \$8 to \$9 price range.
  - B) that demand is more elastic in the \$2 to \$3 price range.
  - C) that the price elasticity of demand is the same in both price ranges.
  - D) nothing without numerical information about quantities.
  - E) that the price elasticity of demand is zero in both price ranges because the demand curve is a straight-line demand curve.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Use the figure below to answer the following questions.

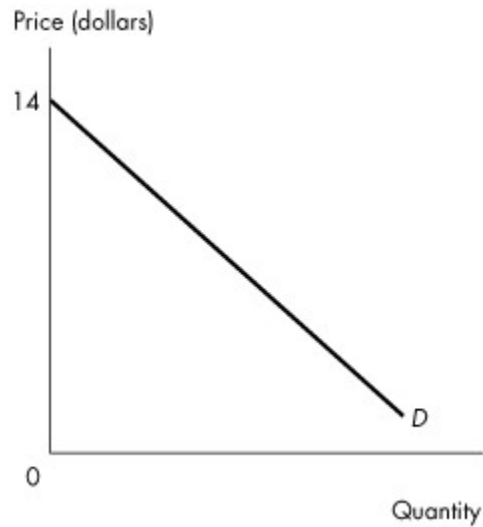


Figure 4.1.2

36) Figure 4.1.2 illustrates a linear demand curve. If the price falls from \$13 to \$11,

- A) total revenue increases.
- B) total revenue decreases.
- C) total revenue remains unchanged.
- D) total revenue initially increases then decreases.
- E) total revenue initially decreases then increases.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

37) Figure 4.1.2 illustrates a linear demand curve. If the price falls from \$4 to \$2,

- A) total revenue increases.
- B) total revenue decreases.
- C) total revenue remains unchanged.
- D) the quantity demanded increases by more than 10 percent.
- E) the percentage change in quantity demanded is more than the percentage change in price.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

38) The quantity of apples demanded decreases by 8 percent when the price rises by 8 percent. The demand for apples is

- A) unit elastic.
- B) inelastic.
- C) elastic.
- D) perfectly elastic.
- E) perfectly inelastic.

Answer: A

Diff: 1

Topic: Price Elasticity of Demand

39) A perfectly vertical demand curve indicates that the price elasticity of demand for the good is

- A) zero.
- B) greater than zero but less than 1.
- C) 1.
- D) greater than 1.
- E) negative.

Answer: A

Diff: 1

Topic: Price Elasticity of Demand

Source: Study Guide

40) Factors that influence the elasticity of demand include

- A) the closeness of substitutes.
- B) the price of complements.
- C) income.
- D) preferences.
- E) the price of substitutes and complements.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

41) A given percentage rise in the price of a good is likely to result in a larger percentage decrease in the quantity of the good demanded

- A) the shorter the passage of time.
- B) the larger the proportion of income spent on it.
- C) the harder it is to obtain good substitutes.
- D) all of the above.
- E) none of the above.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

42) Suppose a fall in the price of a good from \$10 to \$8 leads to an increase in quantity demanded from 20 to 24 units. The price elasticity of demand is

- A) 1.
- B) 9/11.
- C) 11/9.
- D) 2.0.
- E) 4.5/11.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

43) For which one of the following will demand be the most price elastic?

- A) daily newspapers
- B) Ontario newspapers
- C) Toronto newspapers
- D) The Toronto Star
- E) Each of the above will exhibit the same price elasticity of demand

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

44) Suppose this coming winter France will have unusually bad weather, and that next year's wine crop will be substantially reduced. Select the best statement.

- A) The French wine supply will increase as price rises.
- B) If the demand for French wine is elastic, wine producers will experience an increase in total revenue.
- C) The initial change in the market will create a surplus of French wine.
- D) In the final equilibrium, price and quantity will be higher.
- E) none of the above

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

Use the table below to answer the following question.

Table 4.1.2

Price per Volleyball	Quantity Demanded
\$19	55
\$21	45

45) Refer to Table 4.1.2. The table shows two points on the demand curve for volleyballs. What is the price elasticity of demand between these two points?

- A) 2.5.
- B) 2.0.
- C) 0.5.
- D) 0.4.
- E) none of the above

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

46) If the price elasticity of demand is 2, then a 1 percent fall in price

- A) doubles the quantity demanded.
- B) decreases the quantity demanded by half.
- C) increases the quantity demanded by 2 percent.
- D) decreases the quantity demanded by 2 percent.
- E) increases the quantity demanded by 0.5 percent.

Answer: C

Diff: 1

Topic: Price Elasticity of Demand

Source: Study Guide

47) The demand for a good will be more price inelastic,

- A) the higher is its price.
- B) the larger is the percentage of income spent on it.
- C) the longer is the passage of time.
- D) the smaller the supply of the good.
- E) the fewer substitutes are available for the good.

Answer: E

Diff: 1

Topic: Price Elasticity of Demand

48) A union leader who claims that "higher wages increase living standards without causing unemployment" believes that the demand for labour is

- A) income elastic.
- B) income inelastic.
- C) perfectly elastic.
- D) perfectly inelastic.
- E) unit elastic.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

49) Business people speak about price elasticity of demand without using the actual term. Which one of the following statements reflects elastic demand for a good?

- A) "A price cut won't help me. It won't increase sales, and I'll just get less money for each unit."
- B) "I don't think a price cut will make any difference to my bottom line. What I may gain from selling more I would lose on the lower price."
- C) "My customers are real bargain hunters. Since I set my prices just a few cents below my competitors, customers have flocked to the store, and sales are booming."
- D) "With the recent economic recovery, people have more income to spend and sales are booming, even at the previous prices."
- E) none of the above

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

50) Business people speak about price elasticity of demand without using the actual term. Which one of the following statements reflects inelastic demand for a good?

- A) "A price cut won't help me. It won't increase sales, and I'll just get less money for each unit."
- B) "I don't think a price cut will make any difference to my bottom line. What I may gain from selling more I would lose on the lower price."
- C) "My customers are real bargain hunters. Since I set my prices just a few cents below my competitors, customers have flocked to the store, and sales are booming."
- D) "With the recent economic recovery, people have more income to spend and sales are booming, even at the previous prices."
- E) both A and B

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

- 51) If a rise in price results in a decrease in total revenue, then the price elasticity of demand is
- A) negative.
  - B) zero.
  - C) greater than zero but less than 1.
  - D) equal to 1.
  - E) greater than 1.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

- 52) Suppose that Simon Fraser University decides to raise tuition fees to increase the total revenue it receives from students. This policy works only if the demand for a Simon Fraser University education is

- A) unit elastic.
- B) inelastic.
- C) elastic.
- D) greater than the demand for a University of Western Ontario education.
- E) perfectly elastic.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

- 53) The demand for a good is perfectly elastic when the price elasticity of demand is

- A) equal to infinity.
- B) between infinity and 1.
- C) equal to 1.
- D) between 1 and zero.
- E) equal to zero.

Answer: A

Diff: 1

Topic: Price Elasticity of Demand

- 54) When the price elasticity of demand is \_\_\_\_\_, demand for the good is perfectly inelastic.

- A) equal to infinity
- B) greater than 1
- C) equal to 1
- D) between 1 and zero
- E) equal to zero

Answer: E

Diff: 1

Topic: Price Elasticity of Demand



55) When the price elasticity of demand is \_\_\_\_\_, demand for the good is elastic.

- A) equal to infinity
- B) greater than 1
- C) equal to 1
- D) between 1 and zero
- E) equal to zero

Answer: B

Diff: 1

Topic: Price Elasticity of Demand

56) When the price elasticity of demand is \_\_\_\_\_, demand for the good is unit elastic.

- A) equal to infinity
- B) greater than 1
- C) equal to 1
- D) between 1 and zero
- E) equal to zero.

Answer: C

Diff: 1

Topic: Price Elasticity of Demand

57) When the price elasticity of demand is \_\_\_\_\_, demand for the good is inelastic.

- A) equal to infinity
- B) greater than 1
- C) equal to 1
- D) between 1 and zero
- E) equal to zero

Answer: D

Diff: 1

Topic: Price Elasticity of Demand

58) The price elasticity of demand for airplane travel one year in advance of the departure date is most likely to be

- A) equal to infinity.
- B) equal to zero.
- C) between zero and 1.
- D) equal to 1.
- E) greater than 1.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

59) The price elasticity of demand for airplane travel one week in advance of the departure date is most likely to be

- A) equal to infinity.
- B) equal to zero.
- C) between zero and 1.
- D) equal to 1.
- E) greater than 1.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

60) If a price decrease results in an increase in total revenue, then demand is

- A) inelastic.
- B) unit elastic.
- C) perfectly inelastic.
- D) equal to supply.
- E) elastic.

Answer: E

Diff: 1

Topic: Price Elasticity of Demand

61) Suppose Swiss Chalet in Moncton knows that the demand for their half-chicken meals is elastic. If the manager wants to increase total revenue from half-chicken meal sales, he should

- A) lower the price of a half-chicken meal.
- B) not change the price of a half-chicken meal.
- C) raise the price of a half-chicken meal.
- D) decrease the supply of half-chicken meals.
- E) hire fewer employees.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

62) As a result of Hurricane Katrina, the supply curve of apples shifted leftward, the equilibrium price of apples rose, and total revenue fell. This suggests that the price elasticity of demand for apples is

- A) perfectly inelastic.
- B) elastic.
- C) inelastic.
- D) unit elastic.
- E) perfectly elastic.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

63) Suppose the Nunavut government decides to repair Iqaluit roads. One way to generate sufficient funds for this plan is to increase taxes on gasoline. The government will be able to raise total revenue from gasoline sales only if the demand for gasoline is

- A) perfectly elastic.
- B) equal to the supply of gasoline.
- C) unit elastic.
- D) inelastic.
- E) elastic.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

64) Which of the following will have the most elastic demand?

- A) frozen desserts
- B) ice cream
- C) strawberry ice cream
- D) a banana split made with strawberry and chocolate ice cream
- E) a banana split with Nestle strawberry and chocolate ice cream

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

65) Suppose your annual income is \$65 000 and your favourite TV Guide magazine costs you \$28 a year. Your demand for the TV Guide magazine is likely to be

- A) perfectly elastic.
- B) inelastic.
- C) unit elastic.
- D) elastic.
- E) elastic -- the same as your demand for all other goods.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

66) The longer the time that has elapsed since a price change the more time consumers will have to respond to price changes. As a result, demand becomes

- A) zero.
- B) more inelastic.
- C) more elastic.
- D) perfectly inelastic.
- E) unit elastic.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

- 67) The price of gasoline rises by 25 percent and remains fixed at the new higher level. Choose the correct statement.
- A) The demand for gasoline will increase after consumers adjust their consumption behaviour to the new higher price.
  - B) The demand for gasoline will decrease after consumers adjust their consumption behaviour to the new higher price.
  - C) Initially after the price change, the price elasticity of demand will be less elastic than it will be a few years after the price change.
  - D) The price elasticity of demand for gasoline will decrease in the future.
  - E) Initially after the price change, the price elasticity of demand will be more elastic than it will be a few years after the price change.

Answer: C

Diff: 3

Topic: Price Elasticity of Demand

- 68) The demand for a good is price elastic if
- A) a rise in price results in an increase in total revenue.
  - B) a fall in price results in a decrease in total revenue.
  - C) a rise in price results in a decrease in total revenue.
  - D) the good is a necessity.
  - E) the demand for the good is very insensitive to changes in price.

Answer: C

Diff: 1

Topic: Price Elasticity of Demand

- 69) The demand for a good is price inelastic if
- A) a rise in price results in an increase in total revenue.
  - B) a rise in price results in a decrease in total revenue.
  - C) an increase in income results in a decrease in total revenue.
  - D) an increase in income results in an increase in total revenue.
  - E) the good is a luxury.

Answer: A

Diff: 1

Topic: Price Elasticity of Demand

- 70) If the demand for a good is unit elastic, then a 5 percent increase in price results in
- A) a 5 percent increase in total revenue.
  - B) a 5 percent decrease in total revenue.
  - C) no change in total revenue.
  - D) an increase in total revenue greater than 5 percent.
  - E) an increase in total revenue less than 5 percent.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

71) Total revenue from the sale of a good will decrease if

- A) income increases and the good is normal.
- B) its price rises and demand is elastic.
- C) its price rises and demand is inelastic.
- D) income falls and the good is an inferior good.
- E) its price falls and demand is elastic.

Answer: B

Diff: 1

Topic: Price Elasticity of Demand

72) If Saudi Arabia argues that an increase in the supply of oil will decrease total revenue, then Saudi Arabia believes the demand for oil is

- A) income inelastic.
- B) income elastic.
- C) elastic.
- D) inelastic.
- E) unit elastic.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

73) Suppose there is an increase in the cost of resources used in the production of good A. Then

- A) if the price of A rises, we know the demand for A is elastic.
- B) if the total revenue from sales of A rises, we know the demand for A is elastic.
- C) if the total revenue from sales of A falls, we know the demand for A is elastic.
- D) total revenue will increase because the price of A must rise.
- E) total revenue must fall because the quantity bought and sold of A must fall.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

74) When the price of peanut butter rises by 4 percent, total revenue decreases by 8 percent. The demand for peanut butter

- A) is elastic.
- B) is inelastic.
- C) is unit elastic.
- D) has a price elasticity equal to  $1/2$ .
- E) has a price elasticity equal to 2.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

75) If price elasticity of demand is zero, then as the price falls

- A) total revenue does not change.
- B) quantity demanded does not change.
- C) quantity demanded falls to zero.
- D) total revenue increases from zero.
- E) None of the above occurs.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

76) A technological breakthrough lowers the cost of photocopiers. If the demand for photocopiers is price inelastic, we predict that photocopier sales

- A) fall and total revenue increases.
- B) fall and total revenue decreases.
- C) rise and total revenue increases.
- D) rise and total revenue decreases.
- E) rise, but changes in total revenue will depend on elasticity of supply.

Answer: D

Diff: 1

Topic: Price Elasticity of Demand

Source: Study Guide

77) A decrease in tuition fees will decrease the university's total revenue if the price elasticity of demand for university education is

- A) negative.
- B) greater than zero but less than 1.
- C) equal to 1.
- D) greater than 1.
- E) less than the elasticity of supply.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

78) If the demand for orange juice is price elastic then a severe frost, which destroys large quantities of oranges will

- A) lower the equilibrium price but increase total consumer spending on juice.
- B) decrease the equilibrium quantity and decrease total consumer spending on juice.
- C) decrease both the equilibrium quantity and the price of juice.
- D) raise the equilibrium price as well as total consumer spending for juice.
- E) raise the equilibrium price but leave total consumer spending for juice constant.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

79) Tina and Brian work for the same recording company. Tina claims they would be better off by raising the price of their CDs, while Brian claims they would be better off by lowering the price. We can conclude that

- A) Tina thinks the demand for CDs has price elasticity of demand zero and Brian thinks price elasticity of demand equals 1.
- B) Tina thinks the demand for CDs has price elasticity of demand equal to 1 and Brian thinks price elasticity of demand equals zero.
- C) Tina thinks the demand for CDs is price elastic and Brian thinks it is price inelastic.
- D) Tina thinks the demand for CDs is price inelastic and Brian thinks it is price elastic.
- E) Tina and Brian should stick to singing and forget about economics.

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

Use the figure below to answer the following question.

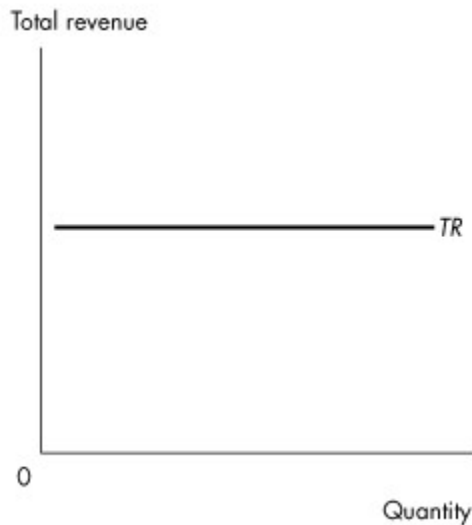


Figure 4.1.3

80) Given the relationship shown in Figure 4.1.3 between total revenue from the sale of a good and the quantity of the good sold, then

- A) this is an inferior good.
- B) this is a normal good.
- C) the price elasticity of demand is zero.
- D) demand for this good is perfectly elastic.
- E) the price elasticity of demand is 1.

Answer: E

Diff: 2

Topic: Price Elasticity of Demand

Source: Study Guide

81) If the Canucks lower ticket prices and find that total revenue does not change, then the price elasticity of demand for tickets is

- A) zero.
- B) greater than zero but less than 1.
- C) equal to 1.
- D) greater than 1.
- E) negative.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

82) A good has a price elasticity of demand equal to 2. If new imports lower its price from \$1.20 to \$0.80, the percentage change in quantity demanded will be

- A) an increase of 80 percent.
- B) a decrease of 80 percent.
- C) a decrease of 40 percent.
- D) an increase of 2 percent.
- E) an increase of 40 percent.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

83) Total revenue is more likely to rise when the price rises if

- A) there are few substitutes for the good.
- B) a high proportion of income is spent on the good.
- C) some extended period of time passes.
- D) all of the above.
- E) none of the above.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

84) Total revenue is more likely to rise when the price falls if

- A) there are few substitutes for the good.
- B) a low proportion of income is spent on the good.
- C) some extended period of time passes.
- D) all of the above.
- E) none of the above.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand



85) If the demand for good Z is perfectly inelastic, then the demand curve for good Z is

- A) vertical.
- B) horizontal.
- C) upward sloping.
- D) downward sloping.
- E) initially upward sloping and then downward sloping.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

86) Suppose the demand curve for good X is horizontal. This shows that the demand for good X is

- A) unit elastic.
- B) inelastic.
- C) perfectly elastic.
- D) perfect inelastic.
- E) elastic.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

87) If the price elasticity of demand is zero, then demand is

- A) elastic.
- B) inelastic.
- C) perfectly inelastic.
- D) perfectly elastic.
- E) unit elastic.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

Use the table below to answer the following question.

Table 4.1.3

	Price of Jolt	Price of Coke	Income Level	Jolt Sales
2000	\$1.00/can	\$1.00/can	\$25,000	15,000 cases
2001	\$1.00/can	\$1.40/can	\$25,000	25,000 cases
2002	\$1.00/can	\$1.40/can	\$35,000	15,000 cases
2003	\$1.40/can	\$1.40/can	\$35,000	5,000 cases

88) Refer to Table 4.1.3. The price elasticity of demand for Jolt is

- A) 1.
- B) 2.5.
- C) 3.0.
- D) 0.33.
- E) cannot be calculated because income is not constant.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

89) Suppose a rise of 8 percent in the price of bison meat in Saskatchewan reduces the consumption of bison meat by 24 percent. Such a price rise will induce consumers to spend

- A) more of their income on bison.
- B) the same amount of their income on bison as before.
- C) less of their income on bison.
- D) more on products that are complements of bison.
- E) zero dollars on bison meat.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

Use the table below to answer the following question.

Table 4.1.4

Price (dollars per chip)	Quantity Demanded (millions of chips per year)
200	50
250	45
300	40
350	35
400	30

90) Refer to Table 4.1.4. The table shows the demand schedule for computer chips. As the price rises from \$200 a chip to \$300 a chip, total revenue \_\_\_\_\_. So at a price of \$250 a chip, demand is \_\_\_\_\_.

- A) falls; inelastic
- B) rises; inelastic
- C) falls; rises
- D) rises; elastic
- E) rises; unit elastic

Answer: B

Topic: Price Elasticity of Demand

Source: MyEconLab

Use the table below to answer the following question.

Table 4.1.5

Price (dollars per night)	Quantity demanded (rooms per night)
200	10,000
250	8,000
400	5,000
500	4,000
800	2,500

91) Refer to Table 4.1.5. The demand for hotel rooms is \_\_\_\_\_ because \_\_\_\_\_.

- A) inelastic; if the price is set low enough, total revenue will decrease
- B) elastic; if the price is set high enough, total revenue will decrease
- C) unit elastic; a price cut leaves total revenue unchanged. Total revenue never reaches a maximum
- D) decreasing as the price falls; the demand curve for hotel rooms is a straight-line demand curve
- E) inelastic; if the price is set low enough, total revenue will increase

Answer: C

Topic: Price Elasticity of Demand

Source: MyEconLab

92) When the price of a good increased by 5 percent, the quantity demanded of it decreased 10 percent. The price elasticity of demand is \_\_\_\_\_. A price rise will \_\_\_\_\_ total revenue.

- A) 2.0; decrease
- B) 0.5; decrease
- C) 2.0; increase
- D) 0.5; increase
- E) -2.0; decrease

Answer: A

Topic: Price Elasticity of Demand

Source: MyEconLab

93) When the price of a good increased by 6 percent, the quantity demanded of it decreased 3 percent. Most likely, this good \_\_\_\_\_ and \_\_\_\_\_.

- A) is a necessity; has poor substitutes
- B) has poor substitutes; is a luxury
- C) is a necessity; has good substitutes
- D) is a luxury; is narrowly defined
- E) is a luxury; has experienced a recent price change

Answer: A

Topic: Price Elasticity of Demand

Source: MyEconLab

## 4.2 More Elasticities of Demand

Use the table below to answer the following questions.

Table 4.2.1			
	Quantity Demanded	Price	Income
Year	(units)	(dollars)	(dollars)
2007	25,000	1	4,000
2008	15,000	3	4,000
2009	5,000	3	6,000

1) Consider the information in Table 4.2.1. Select the best statement.

- A) The price elasticity of demand is 0.5.
- B) The price elasticity of demand is 2.0.
- C) The price elasticity of demand is 1.33.
- D) The price elasticity of demand is 2.5.
- E) We cannot calculate the price elasticity of demand because both income and price are changing at the same time.

Answer: A

Diff: 2

Topic: More Elasticities of Demand

2) Consider the information in Table 4.2.1. Select the best statement.

- A) The income elasticity of demand is -2.5.
- B) The income elasticity of demand is 2.5.
- C) The income elasticity of demand is -3.33.
- D) The income elasticity of demand is 3.33.
- E) We cannot calculate the income elasticity of demand because both income and price are changing at the same time.

Answer: A

Diff: 2

Topic: More Elasticities of Demand

3) The income elasticity of demand equals the percentage change in \_\_\_\_\_ other things remaining the same.

- A) price divided by the percentage change in income
- B) price divided by the percentage change in quantity demanded
- C) income divided by the percentage change in quantity demanded
- D) quantity demanded divided by the percentage change in price
- E) quantity demanded divided by the percentage change in income

Answer: E

Diff: 1

Topic: More Elasticities of Demand

4) If the quantity of carrots demanded increases by a small percentage when income increases by a large amount, we know that the demand for carrots is

- A) price elastic.
- B) price inelastic.
- C) income inferior.
- D) income elastic.
- E) income inelastic.

Answer: E

Diff: 1

Topic: More Elasticities of Demand

5) If the quantity of carrots demanded increases by a large percentage when income increases by a small amount, we know that the demand for carrots is

- A) price elastic.
- B) price inelastic.
- C) income inferior.
- D) income inelastic.
- E) income elastic.

Answer: E

Diff: 1

Topic: More Elasticities of Demand

- 6) Which one of the following must be true if demand is income inelastic?
- A) A large percentage increase in income will result in a small percentage increase in quantity demanded.
  - B) A small percentage increase in income will result in a large percentage increase in quantity demanded.
  - C) An increase in income will decrease the quantity demanded.
  - D) The good is an inferior good.
  - E) A percentage rise in price increases the quantity demanded by a smaller percentage.

Answer: A

Diff: 1

Topic: More Elasticities of Demand

- 7) Which one of the following must be true if demand is income elastic?
- A) A large percentage increase in income will result in a small percentage increase in quantity demanded.
  - B) A small percentage increase in income will result in a large percentage increase in quantity demanded.
  - C) An increase in income will decrease the quantity demanded.
  - D) The good is an inferior good.
  - E) A percentage change in price will lead to a larger percentage change in quantity demanded.

Answer: B

Diff: 1

Topic: More Elasticities of Demand

- 8) If a turnip is an inferior good then
- A) a small decrease in income decreases the quantity of turnips demanded at the current price by a large amount.
  - B) a large decrease in income decreases the quantity of turnips demanded at the current price by a small amount.
  - C) an increase in income increases the quantity demanded at the current price.
  - D) an increase in income decreases the quantity demanded at the current price.
  - E) turnips taste awful.

Answer: D

Diff: 2

Topic: More Elasticities of Demand

- 9) If a turnip is a normal good then
- A) a small decrease in income decreases the quantity of turnips demanded at the current price by a large amount.
  - B) a large decrease in income decreases the quantity of turnips demanded at the current price by a small amount.
  - C) an increase in income increases the quantity demanded at the current price.
  - D) an increase in income decreases the quantity demanded at the current price.
  - E) an increase in price decreases the quantity demanded.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

10) Fred's income increases from \$1,950 per week to \$2,050 per week. As a result, he decides to increase the number of movies he attends each month by 10 percent. Fred's demand for movies is

- A) price elastic.
- B) price inelastic.
- C) income elastic.
- D) income inelastic.
- E) income inferior.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

11) Fred's income increases from \$840 per week to \$1,160 per week. As a result, he decides to purchase 24 percent more bubble gum each week. The income elasticity of Fred's demand for bubble gum is

- A) 0.32.
- B) 1.33.
- C) 24.
- D) 0.24.
- E) 0.75.

Answer: E

Diff: 2

Topic: More Elasticities of Demand

12) Fred's income increases from \$800 per week to \$1,200 per week. As a result, he decides to purchase 40 percent more bubble gum each week. The income elasticity of Fred's demand for bubble gum is

- A) 0.40.
- B) 40.
- C) 1.0.
- D) 0.12.
- E) 10.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

13) Suppose that a 20 percent increase in income increases the quantity of good A demanded from 19,200 to 20,800 units. The income elasticity of demand for good A is

- A) 0.05.
- B) 0.8.
- C) 0.4.
- D) 1.2.
- E) 2.0.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

14) If a 10 percent increase in income results in a 5 percent increase in quantity demanded, what is the income elasticity of demand?

- A) 0.5
- B) -0.5
- C) 2.0
- D) -2.0
- E) 1.5

Answer: A

Diff: 1

Topic: More Elasticities of Demand

Source: Study Guide

15) If a 10 percent increase in income results in a 10 percent decrease in the consumption of widgets, then

- A) the price elasticity of demand for widgets equals 1.
- B) the income elasticity of demand for widgets is negative.
- C) the income elasticity of demand for widgets equals 1.
- D) widgets are a normal good.
- E) the price elasticity demand for widgets is negative.

Answer: B

Diff: 2

Topic: More Elasticities of Demand

16) Luxury goods tend to have income elasticities of demand that are

- A) greater than 1.
- B) greater than zero but less than 1.
- C) less than the income elasticities of demand for necessary goods.
- D) negative.
- E) first positive and then negative as income increases.

Answer: A

Diff: 2

Topic: More Elasticities of Demand

Source: Study Guide

17) If a 4 percent decrease in income (at a constant price) results in a 2 percent decrease in the consumption of dweedles then

- A) the income elasticity of demand for dweedles is negative.
- B) dweedles are a necessity and a normal good.
- C) dweedles are a luxury and a normal good.
- D) dweedles are an inferior good.
- E) both A and D.

Answer: B

Diff: 2

Topic: More Elasticities of Demand

Source: Study Guide



- 18) The cross elasticity of demand between any two goods is defined as the
- A) percentage change in the quantity demanded of one good divided by the percentage change in the price of the other good.
  - B) change in the price elasticity of demand for one good divided by the change in the price elasticity of demand for the other good.
  - C) percentage change in the quantity of a good demanded divided by the percentage change in its price.
  - D) percentage change in the quantity of a good demanded divided by the percentage change in income.
  - E) percentage change in the price of one good divided by the percentage change in the price of the other good.

Answer: A

Diff: 1

Topic: More Elasticities of Demand

- 19) If the cross elasticity of demand between goods A and B is positive, then
- A) the demands for A and B are both price elastic.
  - B) the demands for A and B are both price inelastic.
  - C) A and B are complements.
  - D) A and B are substitutes.
  - E) A and B are independent goods.

Answer: D

Diff: 1

Topic: More Elasticities of Demand

- 20) If the cross elasticity of demand between goods A and B is negative, then
- A) the demands for A and B are both price elastic.
  - B) the demands for A and B are both price inelastic.
  - C) A and B are complements.
  - D) A and B are substitutes.
  - E) A and B are independent goods.

Answer: C

Diff: 1

Topic: More Elasticities of Demand

- 21) If the cross elasticity of demand between beef and bison is 1.5, then a 3 percent increase in the price of beef will lead to
- A) a 4.5 percent increase in the quantity of bison demanded.
  - B) a 4.5 percent decrease in the quantity of bison demanded.
  - C) a 2 percent increase in the quantity of bison demanded.
  - D) a 2 percent decrease in the quantity of bison demanded.
  - E) a 0.5 percent increase in the quantity of bison demanded.

Answer: A

Diff: 2

Topic: More Elasticities of Demand

22) If the quantity of chicken demanded increases by 1.25 percent when the price of beef increases by 2.5 percent, the cross elasticity of demand between chicken and beef is

- A) 3.125.
- B) -3.125.
- C) -0.5.
- D) 2.0.
- E) 0.5.

Answer: E

Diff: 2

Topic: More Elasticities of Demand

23) An economic measure that indicates when the demands for two or more goods are related is

- A) the income elasticity of demand.
- B) the price elasticity of demand.
- C) the substitute elasticity of demand.
- D) the cross elasticity of demand.
- E) the normal elasticity of demand.

Answer: D

Diff: 1

Topic: More Elasticities of Demand

24) If a rise in the price of good B increases the demand for good A, then

- A) A and B are substitutes.
- B) A and B are complements.
- C) the cross elasticity of demand between A and B is negative.
- D) A is a resource used in the production of B.
- E) the demand for A is price elastic.

Answer: A

Diff: 2

Topic: More Elasticities of Demand

25) If an increase in the supply of good A increases the demand for good B, then

- A) the demands for A and B are independent.
- B) the elasticity of supply for good A is greater than 1.
- C) A and B are complements.
- D) A and B are substitutes.
- E) the demand for A is price elastic.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

- 26) If an increase in the supply of good A decreases the demand for good B, then
- A) the demands for A and B are independent.
  - B) the elasticity of supply for good A is greater than 1.
  - C) A and B are complements.
  - D) A and B are substitutes.
  - E) the demand for A is price elastic.

Answer: D

Diff: 2

Topic: More Elasticities of Demand

- 27) A rise in the price of good A shifts the
- A) demand curve for good B rightward if the cross elasticity of demand between A and B is negative.
  - B) demand curve for good B rightward if the cross elasticity of demand between A and B is positive.
  - C) supply curve of B rightward if the cross elasticity of demand between A and B is negative.
  - D) supply curve of B rightward if the cross elasticity of demand between A and B is positive.
  - E) demand curve for B rightward if the income elasticity of demand for B is positive.

Answer: B

Diff: 2

Topic: More Elasticities of Demand

- 28) If the cross elasticity of demand between peanut butter and jelly is negative, then
- A) a rise in the price of peanut butter results in a rise in the equilibrium price of jelly.
  - B) a rise in the price of peanut butter results in a fall in the equilibrium price of jelly.
  - C) a rise in the price of peanut butter has no effect on the equilibrium price of jelly.
  - D) a fall in the price of peanut butter results in a fall in the equilibrium price of jelly.
  - E) peanut butter and jelly are substitutes.

Answer: B

Diff: 3

Topic: More Elasticities of Demand

- 29) Suppose a fall from \$110 to \$90 in the price of playing golf on a public golf course results in an increase in the quantity of golf balls demanded (at the current price of golf balls) from 9,950 units to 10,050 units. The cross elasticity of demand of playing golf with respect to the price of golf balls is
- A) -0.05.
  - B) -0.1.
  - C) 0.01.
  - D) 0.08.
  - E) 0.05.

Answer: A

Diff: 2

Topic: More Elasticities of Demand

30) A fall in the price of X from \$6 to \$4 results in an increase in the quantity of Y demanded (at the current price of Y) from 900 to 1,100 units. What is the cross elasticity of demand between X and Y?

- A) 0.5.
- B) -0.5.
- C) 2.
- D) -2.
- E) Either A or B, depending on whether X and Y are substitutes or complements.

Answer: B

Diff: 2

Topic: More Elasticities of Demand

31) If good A is a substitute for good B, then the cross elasticity of demand is

- A) 12.
- B) infinity.
- C) positive.
- D) zero.
- E) less than zero.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

32) If good A is a complement of good B, then the cross elasticity of demand is

- A) 12.
- B) infinity.
- C) positive.
- D) zero.
- E) negative.

Answer: E

Diff: 2

Topic: More Elasticities of Demand

Use the table below to answer the following questions.

Table 4.2.2

	Price of Jolt	Price of Coke	Income Level	Jolt Sales
2006	\$1.00/can	\$1.00/can	\$25,000	15,000 cases
2007	\$1.00/can	\$1.40/can	\$25,000	25,000 cases
2008	\$1.00/can	\$1.40/can	\$35,000	15,000 cases
2009	\$1.40/can	\$1.40/can	\$35,000	5,000 cases

33) Refer to Table 4.2.2. The cross elasticity of demand for Jolt with respect to the price of Coke is

- A) 0.75.
- B) 1.5.
- C) 0.40.
- D) 10.
- E) cannot be calculated because income is not constant.

Answer: B

Diff: 3

Topic: More Elasticities of Demand

34) Refer to Table 4.2.2. The income elasticity of demand for Jolt is

- A) +0.67.
- B) -0.67.
- C) +1.5.
- D) -1.5.
- E) cannot be calculated because the price of Coke is not constant.

Answer: D

Diff: 2

Topic: More Elasticities of Demand

35) Refer to Table 4.2.2. All of the following statements regarding Jolt are true except

- A) it has an elastic demand.
- B) it is an inferior good.
- C) it is a substitute for Coke.
- D) it has a negative cross elasticity of demand with respect to Coke.
- E) none of the above.

Answer: D

Diff: 2

Topic: More Elasticities of Demand

36) The cross elasticity of demand for good A with respect to the price of good B is -1.5. A 10 percent rise in the price of good B will lead to

- A) an increase of 1.5 percent in the quantity of A demanded.
- B) an increase of 15 percent in the quantity of A demanded.
- C) a decrease of 15 percent in the quantity of A demanded.
- D) an increase of 6.7 percent in the quantity of A demanded.
- E) a decrease of 6.7 percent in the quantity of A demanded.

Answer: C

Diff: 2

Topic: More Elasticities of Demand

37) A good has an income elasticity of +0.5. An increase in income from \$15,000 to \$25,000 will lead to a

- A) 2.5 percent increase in the quantity demanded of the good.
- B) 5 percent increase in the quantity demanded of the good.
- C) 5 percent decrease in the quantity demanded of the good.
- D) 25 percent decrease in the quantity demanded of the good.
- E) 25 percent increase in the quantity demanded of the good.

Answer: E

Diff: 2

Topic: More Elasticities of Demand

38) Business people speak about cross elasticity of demand without using the actual term.

Which one of the following statements reflects cross elasticity of demand?

- A) "A price cut won't help me. It won't increase sales, and I'll just get less money for each unit."
- B) "I don't think a price cut will make any difference to my bottom line. What I may gain from selling more I would lose on the lower price."
- C) "My customers are real bargain hunters. Since I set my prices just a few cents below my competitors, customers have flocked to the store and sales are booming."
- D) "With the recent economic recovery, people have more income to spend and sales are booming, even at the previous prices."
- E) "Since the price of gasoline fell at the neighbouring station, my milk sales have been booming."

Answer: E

Diff: 2

Topic: More Elasticities of Demand

39) Business people speak about income elasticity of demand without using the actual term. Which one of the following statements reflects income elasticity of demand?

- A) "A price cut won't help me. It won't increase sales, and I'll just get less money for each unit."
- B) "I don't think a price cut will make any difference to my bottom line. What I may gain from selling more I would lose on the lower price."
- C) "My customers are real bargain hunters. Since I set my prices just a few cents below my competitors, customers have flocked to the store and sales are booming."
- D) "With the recent economic recovery, people have more income to spend and sales are booming, even at the previous prices."
- E) both A and B

Answer: D

Diff: 2

Topic: More Elasticities of Demand

40) A negative value for

- A) price elasticity of supply implies an upward-sloping supply curve.
- B) cross elasticity of demand implies that the goods are complements.
- C) price elasticity of demand implies an inferior good.
- D) income elasticity of demand implies a normal good.
- E) income elasticity of demand implies an error in your calculation.

Answer: B

Diff: 2

Topic: More Elasticities of Demand

Source: Study Guide

41) If Mr. Brown's income increases by 12 percent and as a result his quantity demanded of music downloads increases by 4 percent, Mr. Brown's income elasticity of demand for music downloads is

- A) 3.0.
- B) 0.33.
- C) -0.33.
- D) -3.0.
- E) 48.0.

Answer: B

Diff: 2

Topic: More Elasticities of Demand

- 42) When the price of a bicycle falls from \$220 to \$180 and other things remain the same
- I. the quantity of bicycles demanded increases from 150 to 250 an hour.
  - II. the quantity of skateboards demanded decreases from 125 to 75 an hour.
  - III. the quantity of bicycle helmets demanded increases from 170 to 230 an hour.

Bicycle helmets and bicycles are \_\_\_\_\_ because a fall in the price of a bicycle brings \_\_\_\_\_ in the quantity demanded of bicycle helmets. The cross elasticity of demand for bicycle helmets with respect to bicycles is \_\_\_\_\_.

- A) complements; an increase; -1.5
- B) substitutes; a decrease; 1.5
- C) substitutes; an increase; -0.67
- D) complements; a decrease; 0.67
- E) complements; an increase; 1.5

Answer: A

Topic: More Elasticities of Demand

Source: MyEconLab

- 43) When Erika's income increases by 6 percent, her demand for tickets to professional hockey games increases by 3 percent. Erika's demand for tickets is income \_\_\_\_\_. For Erika, hockey tickets are \_\_\_\_\_ good.

- A) elastic; a normal
- B) inelastic; an inferior
- C) elastic; an inferior
- D) inelastic; a normal
- E) inelastic; a normative

Answer: D

Topic: More Elasticities of Demand

Source: MyEconLab

- 44) When the price of a bicycle falls from \$220 to \$180 and other things remain the same
- I. the quantity demanded of bicycles increases from 150 to 250 an hour
  - II. the quantity demanded of skateboards decreases from 125 to 75 an hour
  - III. the quantity demanded of bicycle helmets increases from 170 to 230 an hour.

Skateboards and bicycles are \_\_\_\_\_ because a fall in the price of a bicycle brings \_\_\_\_\_ in the quantity demanded of skateboards. The cross elasticity of demand for skateboards with respect to bicycles is \_\_\_\_\_.

- A) complements; an increase; -0.4
- B) complements; a decrease; 0.4
- C) substitutes; an increase; -2.5
- D) substitutes; a decrease; 2.5
- E) substitutes; a decrease; 0.4

Answer: D

Topic: More Elasticities of Demand

Source: MyEconLab



### 4.3 Elasticity of Supply

1) The elasticity of supply is a units-free measure of the responsiveness of the

- A) quantity demanded to a change in supply.
- B) quantity supplied to a change in demand.
- C) quantity supplied to a change in price.
- D) price of one good to a change in the quantity supplied of a second good.
- E) quantity supplied of one good to a change in the price of another good.

Answer: C

Diff: 1

Topic: Elasticity of Supply

2) Supply is elastic if

- A) a small percentage change in price results in a large percentage change in quantity supplied.
- B) a large percentage change in price results in a small percentage change in quantity supplied.
- C) a small percentage change in demand results in a large percentage change in quantity supplied.
- D) the good is an inferior good.
- E) the good is a normal good.

Answer: A

Diff: 1

Topic: Elasticity of Supply

3) If a large percentage fall in the price of good A results in a small percentage decrease in the quantity supplied, then

- A) demand is elastic.
- B) demand is inelastic.
- C) demand is income inelastic.
- D) supply is inelastic.
- E) supply is elastic.

Answer: D

Diff: 1

Topic: Elasticity of Supply

Use the figure below to answer the following question.

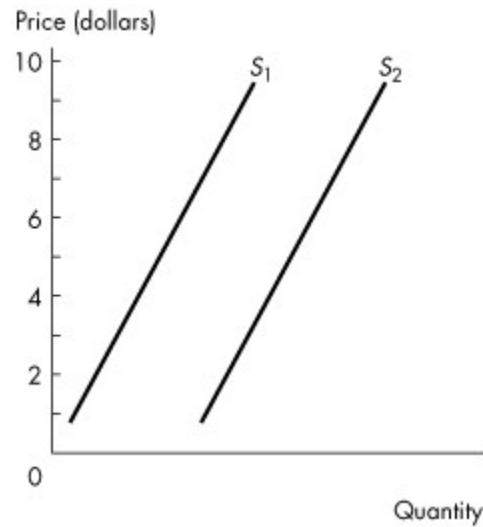


Figure 4.3.1

- 4) The two supply curves in Figure 4.3.1 are parallel. Between \$7 to \$8,
- A)  $S_1$  is more elastic than  $S_2$ .
  - B)  $S_1$  is more inelastic than  $S_2$ .
  - C)  $S_1$  and  $S_2$  have the same elasticity.
  - D)  $S_1$  is steeper than  $S_2$ .
  - E)  $S_1$  is flatter than  $S_2$ .

Answer: A

Diff: 3

Topic: Elasticity of Supply

- 5) If a rise in the price of good A from \$9 to \$11 results in an increase from 9,500 to 10,500 units supplied, then
- A) supply is elastic.
  - B) supply is inelastic.
  - C) supply is unit elastic.
  - D) demand is elastic.
  - E) supply is perfectly inelastic.

Answer: B

Diff: 2

Topic: Elasticity of Supply

6) If a rise in the price of good A from \$9 to \$11 results in an increase in quantity supplied from 4,000 to 6,000 units, the elasticity of supply is

- A) 0.5.
- B) 0.8.
- C) 1.0.
- D) 2.0.
- E) 20.0.

Answer: D

Diff: 2

Topic: Elasticity of Supply

7) If a 10 percent increase in price results in a 9 percent increase in quantity supplied,

- A) the good is a normal good.
- B) the good is an inferior good.
- C) supply is unit elastic.
- D) supply is inelastic.
- E) supply is elastic.

Answer: D

Diff: 2

Topic: Elasticity of Supply

8) If a 10 percent increase in price results in an 18 percent increase in quantity supplied, the elasticity of supply is

- A) 0.3.
- B) 0.6.
- C) 1.2.
- D) 1.8.
- E) 9.0.

Answer: D

Diff: 2

Topic: Elasticity of Supply

9) Suppose the price of a television set rises by 10 percent. Which one of the following would we expect to be the most elastic following such a price change?

- A) the momentary supply of television sets
- B) the short-run supply of television sets
- C) the long-run supply of television sets
- D) the momentary demand for television sets
- E) the normal demand for television sets

Answer: C

Diff: 1

Topic: Elasticity of Supply

10) A vertical supply curve

- A) is impossible except in the long run.
- B) implies an elasticity of supply equal to zero.
- C) implies an elasticity of supply equal to infinity.
- D) indicates that suppliers are unwilling to produce the good.
- E) indicates a shortage of the good.

Answer: B

Diff: 2

Topic: Elasticity of Supply

11) A horizontal supply curve

- A) is impossible except in the long run.
- B) implies an elasticity of supply equal to zero.
- C) implies an elasticity of supply equal to infinity.
- D) indicates that suppliers are unwilling to produce the good.
- E) indicates there is a fixed quantity of the good that can be supplied.

Answer: C

Diff: 1

Topic: Elasticity of Supply

12) Short-run supply is

- A) more elastic than momentary supply but less elastic than long-run supply.
- B) less elastic than momentary supply but more elastic than long-run supply.
- C) less elastic than both momentary and long-run supply.
- D) more elastic than both momentary and long-run supply.
- E) as elastic as either the momentary or the long-run supply.

Answer: A

Diff: 1

Topic: Elasticity of Supply

13) Supply is inelastic if

- A) a small percentage change in price results in a large percentage change in quantity supplied.
- B) a large percentage change in price results in a small percentage change in quantity supplied.
- C) the good is a normal good.
- D) the good is an inferior good.
- E) the good has many substitutes.

Answer: B

Diff: 2

Topic: Elasticity of Supply

14) If a rise in the price of good A from \$100 to \$120 results in an increase in quantity supplied from 10,000 to 12,000 units, then the elasticity of supply is

- A) 0.625.
- B) 0.8.
- C) 1.25.
- D) 0.2.
- E) 1.0.

Answer: E

Diff: 1

Topic: Elasticity of Supply

15) Long-run supply is

- A) more elastic than momentary supply but less elastic than short-run supply.
- B) less elastic than momentary supply but more elastic than short-run supply.
- C) less elastic than both momentary and short-run supply.
- D) more elastic than both momentary and short-run supply.
- E) none of the above.

Answer: D

Diff: 2

Topic: Elasticity of Supply

Source: Study Guide

16) A sudden, end-of-summer heat wave increases the demand for air conditioners and catches suppliers with no reserve inventories. The momentary supply for air conditioners is

- A) perfectly elastic.
- B) perfectly inelastic.
- C) elastic.
- D) shown by an upward-sloping curve.
- E) shown by a horizontal curve.

Answer: B

Diff: 2

Topic: Elasticity of Supply

Source: Study Guide

17) When price rises from \$1.50 to \$2.50, quantity supplied increases from 9,000 to 11,000 units. What is the price elasticity of supply?

- A) 0.4.
- B) 0.8.
- C) 2.5.
- D) 4.0.
- E) -0.4

Answer: A

Diff: 2

Topic: Elasticity of Supply

Source: Study Guide

18) Preferences for brussels sprouts increase. The price of brussels sprouts will not change if the price elasticity of

- A) demand is 0.
- B) demand is 1.
- C) supply is 0.
- D) supply is 1.
- E) supply is infinity.

Answer: E

Diff: 3

Topic: Elasticity of Supply

Source: Study Guide

19) The elasticity of supply for airplane travel one year in advance of the departure date is most likely to be

- A) substantially lower than -1.
- B) between -1 and zero.
- C) between zero and 1.
- D) around 1.
- E) substantially greater than 1.

Answer: E

Diff: 2

Topic: Elasticity of Supply

20) The elasticity of supply for airplane travel one day in advance of the departure date is most likely to be

- A) substantially lower than -1.
- B) between -1 and zero.
- C) between zero and 1.
- D) around 1.
- E) substantially greater than 1.

Answer: C

Diff: 2

Topic: Elasticity of Supply

21) Goods that can be produced using rare productive resources have a \_\_\_\_\_ elasticity of supply. The greater the amount of time available after a price change, the \_\_\_\_\_ is the elasticity of supply.

- A) low; smaller
- B) high; greater
- C) high; smaller
- D) low; greater
- E) high; more inelastic

Answer: D

Topic: Elasticity of Supply

Source: MyEconLab

22) You are told that a 5 percent increase in the price of a good increases the quantity supplied by 10 percent after one month. Supply of this good is \_\_\_\_\_. This good is most likely produced using productive resources that are \_\_\_\_\_.

- A) inelastic; plentiful or easily obtained
- B) decreasing; unique or rare
- C) elastic; plentiful or easily obtained
- D) unit elastic; unique or rare
- E) elastic; unique or rare

Answer: C

Topic: Elasticity of Supply

Source: MyEconLab

23) In the market for farm crops momentary supply is \_\_\_\_\_. In the market for farm crops, short-run supply is \_\_\_\_\_.

- A) less elastic than short-run supply; less elastic than long-run supply
- B) more elastic than short-run supply; more elastic than long-run supply
- C) negative; positive
- D) positive; negative
- E) perfectly elastic; perfectly inelastic

Answer: A

Topic: Elasticity of Supply

Source: MyEconLab