Homework 1—Chapter 6.1 – 6.3

1) Price elasticity of demand is the ratio of the
A) absolute change in quantity demanded to the absolute change in price.
B) absolute change in price to the absolute change in quantity demanded.
C) percentage change in quantity demanded to the percentage change in price.
D) percentage change in price to the percentage change in quantity demanded.

2) If the price elasticity of demand for a given product is -2, this means that
A) the percentage change in quantity demanded is 2 times the percentage change in price.
B) if quantity demanded fell by 1 percent, price would fall by 2 percent.
C) if price was raised 7 percent, quantity demanded would fall by 2 percent.
D) if price was raised 7 percent, quantity demanded would rise 2 percent.
E) none of the above

3) If price elasticity of demand is 0.5, it follows that a _______ percent decrease in price would cause a _______ percent increase in quantity demanded.
A) 50; 1
B) 0.5; 1
C) 0.5; 0.5
D) 100; 500
E) 2; 1

4) If the percentage change in quantity demanded is less than the percentage change in price, demand is
A) inelastic.
B) unit elastic.
C) elastic.
D) perfectly elastic.

5) Price rises from $2 to $3, and the quantity demanded falls from 400 units to 360 units. What is the price elasticity of demand at the initial price?
A) -0.20
B) -0.51
C) -0.68
D) -2.80
E) -3.04

6) For a straight-line, downward-sloping demand curve, price elasticity of demand
A) increases as we move down and along the curve from higher to lower prices.
B) decreases as we move down and along the curve from higher to lower prices.
C) remains constant along the entire demand curve.
D) a or b depending on the actual slope of the demand curve

7) Refer to Exhibit 20-7. Which of the graphs shows a perfectly elastic demand curve?
A) (1)
B) (2)
C) (3) and (4)
D) none of the above

8) Refer to Exhibit 20-7. Which of the graphs shows a perfectly inelastic demand curve?
A) (1)
B) (2)
C) (3) and (4)
D) none of the above

9) If the demand for a good is inelastic and the price of the good decreases, then
A) total revenue increases.
B) total revenue decreases.
C) total revenue is not affected.
D) the direction of the change in total revenue cannot be determined from the information given.

10) Airlines that lower fares in an attempt to increase revenue must believe that the demand for airline service is
A) price inelastic.
B) income elastic.
C) income inelastic.
D) price elastic.
E) cross-price elastic.
11) Refer to Exhibit 20-5. Assume that the seller of X increases the price from $1.50 to $2.00, and this results in an increase in total revenue. Which of the graphs represents the demand curve for X?
   A) (1)
   B) (2)
   C) (3)
   D) all of the above

12) A good will tend to have a low price elasticity of demand if
   A) the good has few substitutes.
   B) a person spends a high percentage of his or her budget on the good.
   C) a person has a long period of time to adjust to price changes.
   D) the good is a luxury.

13) Which of the following is true?
   A) The price elasticity of demand for Royal Crown Cola is higher than the price elasticity of demand for soft drinks in general.
   B) The price elasticity of demand for Royal Crown Cola is lower than the price elasticity of demand for soft drinks in general.
   C) The price elasticity of demand for Royal Crown Cola is equal to the price elasticity of demand for soft drinks in general.
   D) It is invalid to make interproduct elasticity comparisons.

14) If the cross elasticity of demand for good A with respect to good B is +2.7, then good A is
   A) an inferior good.
   B) a normal good.
   C) a substitute for good B.
   D) a complement to good B.

15) Cross elasticity of demand measures the responsiveness of changes in the quantity _______ of one good to changes in _________.
   A) demanded; the price of the same good
   B) demanded; income
   C) demanded; the price of another good
   D) supplied; the price of the same good
   E) none of the above

16) Refer to Exhibit 20-4. As a consequence of the depicted change in the supply of X, the demand curve for Y shifted from D1 to D2. It follows that
   A) X and Y are substitutes.
   B) X and Y are complements.
   C) X and Y are inferior goods.
   D) demand for Y is price elastic.

17) If Jack bought 21 CDs last year when his income was $30,000 and he buys 23 CDs this year when his income is $35,000, then his income elasticity of demand is __________ which means that CDs are a(n) __________ good for Jack.
   A) +1.69; normal
   B) -1.69; inferior
   C) +0.57; normal
   D) +0.57; inferior
   E) -0.44; inferior

18) Price elasticity of supply is the percentage change in the quantity __________ of a good divided by the percentage change in _________.
   A) demanded; the price of the good
   B) supplied; the price of the good
   C) demanded; the price of another good
   D) supplied; the price of another good
   E) demanded; income