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Test Bank:

***Economics Today, 18e* (Miller)**

Chapter 19 Demand and Supply Elasticity

19.1 Price Elasticity

1) The price elasticity of demand is a measure of
A) the responsiveness of the quantity demanded of a good to a changes in the price of the good.
B) the quantity demanded of a good at a given price.
C) the demand for a product holding prices constant.
D) the horizontal shift in the demand curve when the price of a good changes.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

2) Suppose that when the price of milk rises 10%, the quantity demanded of milk falls 2%. Based on this information, what is the approximate absolute price elasticity of demand for milk?
A) 5.0
B) 0.2
C) 0.5
D) 2.0
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge
3) The price elasticity of demand measures
A) the consumers' sensitivity to a price change.
B) the producers' sensitivity to a price change.
C) how much the market price changes in response to a change in demand.
D) how much the demand changes in response to a change in income.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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4) A good's price elasticity of demand can be calculated by using the formula of
A) percentage change in price divided by percentage change in quantity demanded.
B) percentage change in quantity demanded divided by percentage change in price.
C) percentage change in price divided by percentage change in income.
D) absolute change in quantity demanded divided by absolute change in price.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
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5) Which of the following statements about demand and price elasticity of demand is TRUE?
A) As the demand curve has a positive slope, the price elasticity of demand is positive.
B) As the demand curve has a negative slope, the price elasticity of demand is negative.
C) As the demand curve has a positive slope, the price elasticity of demand is negative.
D) As the demand curve has a negative slope, the price elasticity of demand is positive.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
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6) The price elasticity of demand shows
A) the relationship between market price and household income.
B) the proportionate amount by which the quantity demanded changes in response to a proportionate change in price.
C) the quantity demanded at a given price.
D) the proportionate amount by which the price changes in response to a proportionate change in quantity demanded.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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7) The price elasticity of demand is
A) always positive, so there is no reason to consider the absolute value of the price elasticity of demand.
B) always negative, but by convention, economists typically express the price elasticity of demand as an absolute value.
C) always equal to -1, which by convention economists typically express as an absolute value, or 1.
D) always equal to zero, so there is no reason to consider the absolute value of the price elasticity of demand.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
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8) If the absolute price elasticity of demand for good Y is 0.5, when there is a 20 percent increase in price, we can conclude that quantity demanded
A) has fallen by 100 percent.
B) has fallen by 1 percent.
C) has fallen by 10 percent.
D) has fallen by 4 percent.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

9) When economists want to obtain a measure of the responsiveness of quantity demanded to changes in price, they use
A) the slope of the demand curve.
B) the price elasticity of demand.
C) only the percentage change in quantity demanded.
D) the cross-price elasticity of demand.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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10) If the price elasticity of demand for good A is -1, then a 1% increase in
A) consumer income will result in a 1% decrease in the demand for good A.
B) consumer income will result in a 1% increase in the demand for good A.
C) the market price of good A will result in a 1% increase in the quantity demanded of good A.
D) the market price of good A will result in a 1% decrease in the quantity demanded of good A.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
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11) The formal definition of price elasticity of demand is
A) change in quantity demanded divided by change in price.
B) quantity demanded divided by price.
C) percentage change in quantity demanded divided by percentage change in price.
D) quantity demanded multiplied by price and divided by 100.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
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12) If price decreases by 10 percent and quantity demanded increases by 30 percent, the price elasticity of demand will be
A) 0.333.
B) 3.
C) 30.
D) 300.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

13) If the absolute price elasticity of demand is 2.0, a 5 percent decrease in price will increase quantity demanded by
A) 10 percent.
B) 20 percent.
C) 25 percent.
D) 5 percent.
Answer: A
Diff: 1
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14) A 2 percent rise in the price of a good leads to a 10 percent decrease in quantity demanded. The absolute price elasticity of demand is
A) 5.
B) 10.
C) 0.1.
D) 1.0.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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15) An absolute price elasticity of demand equal to 0.4 indicates that a
A) 4 percent increase in price leads to a 10 percent decrease in quantity demanded.
B) 1 percent increase in price leads to a 4 percent decrease in quantity demanded.
C) 0.4 percent decrease in price leads to a 1 percent increase in quantity demanded.
D) 10 percent decrease in price leads to a 4 percent increase in quantity demanded.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
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16) Even though price elasticity of demand is always_________, by convention its absolute value is always discussed as a_________.
A) negative; prime number
B) positive; negative number
C) a fraction; whole number
D) negative; positive number
Answer: D
Diff: 2
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17) When the price of a soft drink from the campus vending machine was $0.60 per can, 100 cans were sold each day. After the price increased to $0.75 per can, sales dropped to 85 cans per day. Over this range, the absolute price elasticity of demand for soft drinks was approximately equal to
A) 0.15.
B) 0.60.
C) 0.73.
D) 1.67.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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18) Six months ago, the price of gasoline was $2.20 per gallon. Now, the price is $2.40 per gallon. In response to this price increase, the number of gallons of gasoline purchased has declined by 2 percent. Based on this information, what is the absolute price elasticity ofdemand for gasoline?
A) 4.35
B) 1.20
C) 0.23
D) 0.10
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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19) The local baseball stadium's concession stands previously sold hot dogs for 80 cents apiece. At that price, when a baseball fan went to watch a baseball game, he bought 2 hotdogs. But now that the stadium has a "dime-a-dog night," he has purchased 6 hot dogs. What is the approximate value of this individual's absolute price elasticity of demand for hot dogs?
A) 0.64
B) 0.80
C) 1.00
D) 1.56
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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20) Suppose the quantity demanded of ice cream cones increases from 400 to 425 cones a day when the price is reduced from $1.50 to $1.25. In this situation, the elasticity of demand, calculated using the average method, is
A) 3.
B) 1.
C) 0.33.
D) 1.33.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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21) The quantity of raspberries sold at a local store increases from 100 pints to 1,500 pints when the price is reduced from $4.00 to $1.00. In this situation, the absolute price elasticity of demand for raspberries is approximately
A) 0.69.
B) 6.7.
C) 1.46.
D) 4.3.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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22) Suppose that the price of eggs increases from 75 cents to $1.00 per dozen and as a result a typical farmer experiences a decrease in egg sales from 300 to 200 dozen per week. Using the method of average values, the absolute price elasticity of demand is
A) 1.4.
B) 0.8.
C) 3.0.
D) 1.75.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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23) If the price of good A increases from $15 to $20 per unit and quantity demanded falls from 150 to 100 units, then by using the method of average values, we can calculate the absolute price elasticity of demand to be
A) 2.6.
B) 0.75.
C) 1.4.
D) 2.4.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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24) When price is $5 per unit, quantity demanded is 12 units. When price is $6 per unit, quantity demanded is 8 units. The value of the absolute price elasticity of demand is approximately
A) 2.20.
B) 4.00.
C) 1.82.
D) 0.36.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
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Price Per Unit	Quantity Demanded Per Week
$5.5	20
$6.0	18
$6.5	16
$7.0	14
$7.5	12
$8.0	10

25) According to the above table, what is the absolute price elasticity of demand if price falls from $8.00 to $7.50?
A) 4.00
B) 2.82
C) 1.80
D) 1.21
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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26) According to the above table, what is the absolute price elasticity of demand when price rises from $5.50 to $6?
A) 4.00
B) 2.23
C) 1.21
D) 0.50
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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27) The price elasticity of demand measures
A) the responsiveness of quantity demanded to a change in price.
B) the responsiveness of price to a change in competition.
C) the change in quantity demanded due to a change in price of a substitute good.
D) the change in price due to a change in demand.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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28) The responsiveness of quantity demanded of a good to changes in its price is the
A) cross elasticity of demand.
B) price elasticity of supply.
C) income elasticity.
D) price elasticity of demand.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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29) The word best associated with price elasticity of demand is
A) relative.
B) total.
C) absolute.
D) cumulative.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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30) The price elasticity of demand is measured by the
A) percentage change in quantity demanded divided by the percentage change in price.
B) percentage change in price divided by the percentage change in quantity demanded.
C) change in quantity demanded divided by the change in price.
D) change in price divided by the change in quantity demanded.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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31) The actual value of the price elasticity of demand is always
A) positive because of the law of demand.
B) negative because of the law of demand.
C) positive because of diminishing marginal utility.
D) negative because percentages can only be negative.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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32) A 10 percent increase in the price of tablets leads to a 10 percent decrease in the quantity demanded of tablets. The absolute price elasticity of demand for tablets is
A) 3.
B) 0.3.
C) 1.
D) 10.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

33) A 10 percent increase in the price of neckties leads to a 5 percent decrease in the quantity demanded of neckties. The absolute price elasticity of demand is
A) 3.
B) 0.33.
C) 0.5.
D) 2.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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34) A 3 percent increase in the price of cotton leads to a 6 percent decrease in the quantity demanded of cotton. The absolute price elasticity of demand is
A) 3.
B) 2.
C) 0.5.
D) 0.33.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

35) A 2 percent increase in the price of neckties leads to a 5 percent decrease in the quantity demanded of neckties. The absolute price elasticity of demand is
A) 2.5.
B) 1.
C) 0.4.
D) 0.2.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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36) A value of the absolute price elasticity of demand equal to 0.6 indicates that
A) a 6 percent increase in price leads to a 10 percent decrease in quantity demanded.
B) a 10 percent increase in price leads to a 6 percent decrease in quantity demanded.
C) a 0.6 percent increase in price leads to a 1 percent decrease in quantity demanded.
D) a 1 percent increase in price leads to a 6 percent decrease in quantity demanded.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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37) A value of the absolute price elasticity of demand equal to 0.25 indicates that
A) a 5% decrease in price leads to a 2% increase in quantity demanded.
B) a 2% decrease in price leads to a 25% increase in quantity demanded.
C) a 1% decrease in price leads to a 2.5% increase in quantity demanded.
D) a 0.25% decrease in price leads to a 1% increase in quantity.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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38) A value of the absolute price elasticity of demand equal to 0.5 indicates that
A) a 0.5% decrease in price leads to a 1% increase in quantity demanded.
B) a 2% decrease in price leads to a 25% increase in quantity demanded.
C) a 1% increase in price leads to a 5% decrease in quantity demanded.
D) a 1% increase in price leads to a 0.5% decrease in quantity demanded.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

39) Absolute price elasticities are calculated for four commodities, and the values are: 0.009; 1.0; 3.3; and 4.1. Which indicates the most price-responsive situation?
A) 0.009
B) 1.0
C) 3.3
D) 4.1
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

40) The value of the absolute price elasticity of demand for good X is 4. The absolute price elasticity for good Y is 1. Which good's quantity demanded is more responsive to a change in price?
A) Good X
B) Good Y
C) They are equally responsive.
D) Not enough information is given.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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41) The value of the absolute price elasticity of demand for good X is 3. The absolute price elasticity for good Y is 2. Which good's quantity demanded is less responsive to a change in price?
A) Good X
B) Good Y
C) They are equally responsive.
D) Not enough information is given.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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42) The less sensitive quantity demanded is to a change in price, the
A) smaller a change in price must be to induce a certain change in quantity demanded.
B) greater the absolute price elasticity of demand.
C) smaller the absolute price elasticity of demand.
D) closer the absolute price elasticity of demand is to one.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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43) Wheat is sold in world markets, usually priced in terms of bushels. In the market for wheat, the price elasticity of demand for wheat would be expressed as
A) the number of bushels of wheat sold.
B) the number of whatever currency is used in purchasing the wheat.
C) the number of dollars spent on wheat.
D) a unitless number.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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44) Relative percentage changes are used in measuring price elasticity of demand, so that
A) it does not matter whether price increases or decreases when calculating the elasticity.
B) it does not matter what units are used to measure prices or quantities.
C) we always obtain a positive number.
D) larger numbers indicate greater responsiveness.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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45) The actual value of price elasticity of demand
A) measures the relative change in quantity demanded when there is a change in price.
B) will change when the units good is measured in changes.
C) varies with changes in supply.
D) is always negative.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

46) The absolute price elasticity of demand for good X is 1.2 when price is measured in dollars. If price were measured in cents, the price elasticity elasticity of demand would equal
A) 1200.
B) 12.
C) 1.2.
D) 0.012.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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47) The price elasticity of demand can be computed as
A) change in total utility/change in quantity.
B) change in price/change in quantity demanded.
C) percentage change in quantity demanded/percentage change in price.
D) change in quantity demanded/change in price.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
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Price Per Unit	Quantity Demanded Per Week
$10.00	25
9.50	30
9.00	35
8.50	40
8.00	45
7.50	50
7.00	55
6.50	60
6.00	65
5.50	70
5.00	75

48) Refer to the above table. What is the absolute price elasticity of demand if a price falls from $7 to $6.50?
A) 0.85
B) 1.08
C) 1.17
D) 0.92
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
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49) Refer to the above table. What is the absolute price elasticity of demand if a price falls from $7.50 to $7?
A) 10
B) 1.38
C) 0.724
D) 0.1
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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50) Refer to the above table. What is the absolute price elasticity of demand when a price rises from $9 to $9.50?
A) 0.35
B) 0.55
C) 2.57
D) 2.85
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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51) Refer to the above table. What is the absolute price elasticity of demand when a price rises from $8 to $8.50?
A) 5.15
B) 1.94
C) 0.515
D) 0.194
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
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52) Refer to the above table. What is the absolute price elasticity of demand when price changes from $5.50 to $5.00?
A) 0.72
B) 0.79
C) 1.38
D) 5.0
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
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53) Refer to the above table. Demand is least price elastic at a price of
A) $10.00.
B) $7.50.
C) $7.00.
D) $5.00.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
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54) Refer to the above table. Demand is unit elastic between the prices of
A) $5.00 & $10.00.
B) $6.00 & $7.00.
C) $6.00 & $6.50.
D) $7.00 & $7.50
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
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55) Refer to the above table. What is the absolute price elasticity of demand when price changes from $6.00 to $6.50?
A) 1.60
B) 1.00
C) 0.65
D) 0.60
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
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56) Price elasticity of demand is the responsiveness of
A) the quantity demanded to a change in price.
B) demand to a change in supply.
C) demand to a change in income.
D) demand for a good to a change in the demand for another good.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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57) The price elasticity of demand is the
A) percentage change in quantity demanded divided by the percentage change in price.
B) change in quantity demanded divided by the change in price.
C) percentage change in price divided by the percentage change in quantity demanded.
D) change in price divided by the change in quantity demanded.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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58) The result of the calculation of the price elasticity of demand is
A) always positive.
B) always negative.
C) sometimes positive, sometimes negative.
D) always greater than one.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

59) Price elasticity of demand basically measures
A) the reliability of a product.
B) the responsiveness of consumers to price changes.
C) the variability of price changes.
D) the percentage change in market price as a result of a change in demand.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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60) If the price of gasoline increased by 5% and consumers responded by purchasing 1% less gasoline, the absolute value of price elasticity of demand for gasoline would equal
A) 0.1.
B) 0.5.
C) 1.5.
D) 0.2.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
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61) If the price of a cola increased by 12% and consumers responded by purchasing 20% less cola, the absolute value of price elasticity of demand for cola would be
A) 0.20.
B) 0.80.
C) 1.67.
D) 2.40.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

62) When discussing the price elasticity of demand we generally refer to the absolute price elasticity of demand by consumers. This means that we will
A) disregard the law of demand.
B) ignore its relationship to demand.
C) disregard the minus sign.
D) consider absolute rather than relative changes.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

63) The price elasticity of demand measures
A) changes in demand.
B) how responsive producers are to a change in demand.
C) how responsive consumers are to a change in price.
D) how responsive consumers are to a change in income.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

64) If the absolute price elasticity of demand is 2, a 10 percent increase in the price will cause
A) the quantity demanded to decrease by 2 percent.
B) the quantity demanded to decrease by 20 percent.
C) the quantity demanded to decrease by 5 percent.
D) the quantity demanded to decrease by 0.2 percent.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

65) If the absolute price elasticity of demand is 0.2, a 10 percent increase in the price will cause
A) the quantity demanded to decrease by 2 percent.
B) the quantity demanded to decrease by 20 percent.
C) the quantity demanded to decrease by 5 percent.
D) the quantity demanded to decrease by 0.2 percent.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

66) Consider the following data:

Price of A	Quantity Demanded of A
$5	6
$4	10

The absolute value of the price elasticity of demand for product A is
A) 0.44.
B) 1.80.
C) 0.56.
D) 2.25.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

67) If the price of oil goes up by 50% and the quantity demanded goes down by 25%, the absolute value of the price elasticity of demand is
A) 0.25.
B) 0.50.
C) 0.75.
D) 1.00.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

68) The price elasticity of demand is
A) always negative.
B) sometimes positive.
C) always positive.
D) constant along the demand curve.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

69) Owners of a coffee shop finds that they can sell 150 donuts a day when the price of a donut is $1.20. When they price donuts at $1, they sell 170 donuts. The absolute value of the price elasticity of demand for donuts is
A) 0.69.
B) 1.45.
C) 1.00.
D) infinity.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

70) If the absolute price elasticity of demand for a product is greater than 1, then
A) consumers are relatively insensitive to price changes.
B) consumers are relatively sensitive to price changes.
C) there is a positive relationship between price changes and total revenue.
D) producers are relatively insensitive to price changes.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

71) If the absolute price elasticity of demand for a product is less than 1, then
A) consumers are relatively insensitive to price changes.
B) consumers are relatively sensitive to price changes.
C) there is a positive relationship between price changes and total revenue.
D) producers are relatively insensitive to price changes.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

72) If the price of gasoline increases from $2.50 per gallon to $3.00 per gallon and the quantity demanded goes down from 120 million gallons per week to 115 million gallons per week, the absolute value of price elasticity of demand in that price range is approximately
A) 0.23.
B) 4.35.
C) 0.93.
D) 2.34.
Answer: A
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

73) If the price of corn chips increases from $2.00 per bag to $3.00 per bag and the quantity demanded goes down from 100 million bags per week to 50 million bags per week, the absolute value of price elasticity of demand in that price range is
A) 0.50.
B) 1.67.
C) 0.93.
D) 2.33.
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

74) At a price of $10, quantity demanded is 30 units. When the price rises to $11, quantity demanded is 24 units. What is the absolute price elasticity of demand?
A) 0.5
B) 0.43
C) 2.33
D) 6.0
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

75) If the absolute value of the price elasticity of demand for a product is 1.5, and the price of a product increased 30 percent, then the quantity demanded will decline by
A) 45 percent.
B) 20 percent.
C) 5 percent.
D) 10 percent.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

76) The greater is the absolute price elasticity of demand, the
A) larger is the responsiveness of quantity demanded to the price change.
B) smaller is the responsiveness to a price change.
C) larger is the income of the buyer.
D) higher is the change in demand to an income change.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

77) Suppose that the absolute price elasticity for cookies equals 0.9. We could then say that the demand for cookies is
A) elastic.
B) inelastic.
C) unit-elastic.
D) perfectly elastic.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

78) When demand is perfectly inelastic, the demand curve is
A) horizontal.
B) vertical.
C) upward sloping.
D) downward sloping.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

79) If the absolute value of the price elasticity of demand for a product is greater than 1, then
A) quantity demanded is not very sensitive to price changes.
B) demand is elastic.
C) demand is unit-elastic.
D) demand is inelastic.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

80) If the absolute price elasticity of demand for automobiles is equal to 0.75, we say
A) that demand is inelastic.
B) that demand is elastic.
C) that there is a strong responsiveness of quantity demanded to automobiles price cuts.
D) none of the above is correct.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

81) Inelastic demand implies
A) that a one percent increase in price results in a smaller than one percent decrease in quantity demanded.
B) that a one percent increase in price results in a larger than one percent decrease in quantity demanded.
C) that a one percent cut in price results in a larger than one percent increase in quantity demanded.
D) that a one percent decrease or increase in price induces no change in total revenue.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

82) Elastic demand implies
A) that a one percent increase in price results in a smaller than one percent decrease in quantity demanded.
B) that a one percent increase in price results in a larger than one percent decrease in quantity demanded.
C) that a one percent cut in price results in a larger than one percent increase in quantity demanded.
D) that a one percent decrease or increase in price induces no change in total revenue.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

83) If the calculated price elasticity of demand between two points is -4, demand is
A) inelastic.
B) elastic.
C) unresponsive to price.
D) unit-elastic.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

84) When the calculated price elasticity of demand is -0.45, demand is
A) perfectly inelastic.
B) elastic.
C) unit-elastic.
D) inelastic.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

85) When the absolute percentage change in quantity demanded is just equal to the percentage change in price, demand is
A) elastic.
B) perfectly inelastic.
C) unit-elastic.
D) relatively inelastic.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

86) Price elasticities are calculated for four goods, and the values are: 4.5; 3.7; 1.0; 0.2. Which price elasticity is most elastic?
A) 4.5
B) 3.7
C) 1.0
D) 0.2
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

87) The more sensitive people are to a change in price, the
A) greater a change in price must be to induce a certain change in quantity demanded.
B) greater is the price elasticity of demand.
C) smaller the price elasticity of demand.
D) closer the price elasticity of demand is to one.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

88) An inelastic demand indicates that
A) quantity demanded does not vary with changes in the price.
B) relatively small changes in price lead to relatively large changes in quantity demanded.
C) relatively large changes in price are required to obtain a relatively small change in quantity demanded.
D) relatively large changes in quantity demanded lead to relatively large changes in price.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

89) If a one percent increase in the price of bananas leads to a one percent decrease in the quantity of bananas demanded, then the demand for bananas is
A) elastic.
B) inelastic.
C) unit-elastic.
D) perfectly inelastic.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

90) A perfectly horizontal demand curve has
A) zero elasticity.
B) some positive finite elasticity.
C) negative elasticity.
D) perfect elasticity.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

91) If the demand curve for a product is horizontal, then
A) the demand for the product is perfectly inelastic.
B) the demand for the product is perfectly elastic.
C) only a certain amount of the product will be consumed regardless of price.
D) the price elasticity of the product approaches zero.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

92) A vertical demand curve has
A) infinite elasticity.
B) positive elasticity.
C) zero elasticity.
D) negative elasticity.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

93) If the demand curve for a product is vertical, then
A) the demand for the good is perfectly elastic.
B) consumers are highly responsive to price changes.
C) its price elasticity of demand is equal to zero.
D) consumers may purchase all they want to at the established market price.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

94) If the quantity demanded of a product is the same for each possible price, demand is
A) unit-elastic.
B) elastic.
C) perfectly elastic.
D) perfectly inelastic.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

95) If there is no response in quantity demanded to a change in price, demand is
A) perfectly inelastic.
B) perfectly elastic.
C) elastic.
D) unit-elastic.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

96) A perfectly elastic demand curve
A) shows that a slight change in income will lead to a large reduction in price.
B) is a horizontal line drawn across from the quantity axis.
C) shows that a slight increase in price will reduce quantity demanded to zero.
D) has a slope of -1.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

97) A demand relationship that is a vertical line up from the quantity axis is
A) perfectly elastic.
B) unit-elastic.
C) perfectly inelastic.
D) somewhat elastic.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

98) The price elasticity of demand along a vertical demand curve is
A) elastic at high prices and inelastic at low prices.
B) infinite.
C) one.
D) zero.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

99) A perfectly elastic demand curve is
A) vertical.
B) horizontal.
C) a rectangular hyperbola.
D) a downward sloping straight line.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

100) A consumer is willing and able to buy 1,000 units of a good at $10, but the consumer's quantity demanded falls to zero if the price rises even a fraction of a cent. The consumer's demand curve is
A) horizontal and is perfectly inelastic.
B) horizontal and is perfectly elastic.
C) vertical and is perfectly elastic.
D) downward sloping from higher prices down to $10 and then horizontal.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

Price Per Unit	Quantity Demanded Per Week
$10.00	25
9.50	30
9.00	35
8.50	40
8.00	45
7.50	50
7.00	55
6.50	60
6.00	65
5.50	70
5.00	75

101) Refer to the above table. For which prices is demand elastic?
A) in a range of prices below $6.50
B) in a range of prices above $6.50
C) in a range of prices between $5 and $10
D) in a range of prices above $9.00
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

102) Refer to the above table. For which prices is demand inelastic?
A) in a range of prices below $6.00
B) in a range of prices above $6.00
C) in a range of prices between $5 and $1
D) in a range of prices above $9.00
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

103) Refer to the above table. For which prices is demand unit-elastic?
A) in a range of prices below $6.50
B) in a range of prices above $6.50
C) in a range of prices between $5 and $10
D) in a range of prices between $6 and $6.50
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

104) Refer to the above table. At a price below $5, the absolute price elasticity of demand is
A) 1.0.
B) below 1.
C) between 0.8 and 1.0.
D) greater than 1.
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

105) To say that demand is inelastic means that
A) people do not like the good very much.
B) quantity demanded not very responsive to price changes.
C) relatively small changes in price lead to relatively large changes in quantity demanded.
D) relatively small changes in quantity demanded lead to relatively small changes in price.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

106) A demand relationship in which a given percentage change in price will result in a larger percentage change in quantity demanded is
A) elastic.
B) unit-elastic.
C) inelastic.
D) consistent with zero elasticity.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

107) A demand relationship in which the quantity demanded changes exactly in proportion to the change in price is
A) elastic.
B) unit-elastic.
C) inelastic.
D) consistent with zero elasticity.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

108) A demand relationship in which a given percentage change in price will result in a less than proportionate percentage change in quantity demanded is
A) elastic.
B) unit-elastic.
C) inelastic.
D) consistent with zero elasticity.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

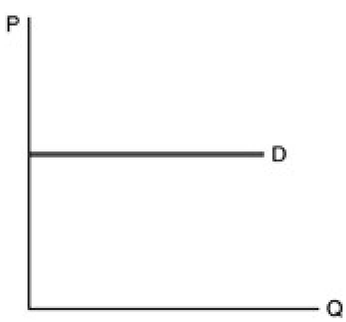
109) When demand is elastic
A) a proportionately small change in price leads to a proportionately large change in quantity supplied.
B) a proportionately small change in price leads to a proportionately small change in quantity supplied.
C) a proportionately small change in price leads to a proportionately large change in quantity demanded.
D) a proportionately small change in price leads to a proportionately small change in quantity demanded.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

110) When demand is elastic
A) quantity demanded is very responsive to a change in price.
B) quantity demanded is not very responsive to a change in price.
C) the proportional change in quantity demanded is equal to the proportional change in price.
D) producers react quickly to price changes.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

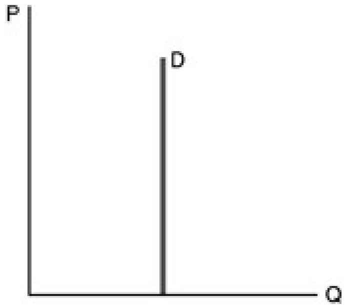
111) When demand is inelastic
A) quantity demanded is very responsive to a change in price.
B) quantity demanded is not very responsive to a change in price.
C) the proportional change in quantity demanded is equal to the proportional change in price.
D) producers react quickly to price changes.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

112) If demand is unit elastic, then
A) a ten percent increase in price leads to a one percent decrease in quantity demanded.
B) the unit change in quantity demanded equals the unit change in price.
C) a two percent increase in price leads to a two percent decrease in quantity demanded.
D) an increase in price of any amount leads to quantity demanded falling to zero.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

113) The absolute price elasticity of demand for a vertical demand curve
A) is infinite.
B) is 1.0.
C) is 0.
D) depends on where one is on the demand curve.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



114) Refer to the above figure. Demand is
A) perfectly elastic.
B) unitary elastic.
C) perfectly inelastic.
D) undetermined without more information.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



115) Refer to the above figure. Demand is
A) perfectly elastic.
B) unitary elastic.
C) perfectly inelastic.
D) undetermined without more information.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

116) When the absolute price elasticity of demand equals 1, demand is
A) elastic.
B) unit-elastic.
C) inelastic.
D) undetermined without more information.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

117) When the absolute price elasticity of demand is greater than 1, demand is
A) elastic.
B) unit-elastic.
C) inelastic.
D) undetermined without more information.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

118) When the absolute price elasticity of demand is less than 1, demand is
A) elastic.
B) unit-elastic.
C) inelastic.
D) undetermined without more information.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

119) When the absolute price elasticity of demand equals 2.5, demand is
A) elastic.
B) unit-elastic.
C) inelastic.
D) undetermined without more information.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

120) When the absolute price elasticity of demand equals 0.67, demand is
A) elastic.
B) unit-elastic.
C) inelastic.
D) undetermined without more information.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

121) Moving down a straight-line demand curve, the absolute price elasticity of demand
A) increases.
B) is constant.
C) decreases.
D) varies in uncertain ways.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

122) If the absolute price elasticity of demand for a product is less than 1, then
A) the absolute price elasticity of demand is inelastic and consumers are relatively insensitive to price changes.
B) the absolute price elasticity of demand is inelastic and consumers are relatively sensitive to price changes.
C) the absolute price elasticity of demand is elastic and consumers are relatively insensitive to price changes.
D) the absolute price elasticity of demand is elastic and consumers are relatively sensitive to price changes.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

123) If the absolute price elasticity of demand for a product is greater than 1, then
A) the absolute price elasticity of demand is inelastic and consumers are relatively insensitive to price changes.
B) the absolute price elasticity of demand is inelastic and consumers are relatively sensitive to price changes.
C) the absolute price elasticity of demand is elastic and consumers are relatively insensitive to price changes.
D) the absolute price elasticity of demand is elastic and consumers are relatively sensitive to price changes.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

124) In an extreme hypothetical instance in which the price change of a good elicited no change in quantity demanded, we would say that the item is
A) perfectly elastic.
B) perfectly inelastic.
C) infinitely elastic.
D) unitary elastic.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

125) If demand is elastic and the price of a product decreases by 10 percent, then
A) the change in quantity demanded is less than 10 percent.
B) the change in quantity demanded is equal to 10 percent.
C) the change in quantity demanded is greater than 10 percent.
D) the decrease in quantity demanded is greater than 0 percent.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

126) If demand is inelastic and the price of a product decreases by 10 percent, then
A) the change in quantity demanded is less than 10 percent.
B) the change in quantity demanded is equal to 10 percent.
C) the change in quantity demanded is greater than 10 percent.
D) the decrease in quantity demanded is greater than 0 percent.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

127) Whenever the absolute value of the price elasticity of demand is greater than 1, but less than infinite
A) demand is inelastic.
B) demand is unit elastic.
C) demand is elastic.
D) demand is perfectly elastic.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

128) A perfectly inelastic demand curve is
A) a horizontal straight line.
B) a vertical straight line.
C) a downward sloping straight line that intersects the horizontal axis at the origin.
D) an upward sloping straight line that crosses the vertical axis.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

129) If a 5 percent change in the price of a good elicited a 5 percent change in the quantity demanded of the good, we would say that over this range of prices the good has a(n)
A) elastic demand.
B) inelastic demand.
C) perfectly elastic demand.
D) unit elasticity of demand.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

130) When demand is unit elastic, a 10 percent change in the price of the good
A) will cause a change in quantity demanded of less than 10 percent.
B) will cause a change in quantity demanded equal to 10 percent.
C) will cause a change in quantity demanded greater than 10 percent.
D) will not cause any change in quantity demanded.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

131) We say that a good has elastic demand whenever the absolute value of the price elasticity of demand is greater than 1. A 1 percent change in price therefore causes
A) exactly a 1 percent change in the quantity demanded.
B) a change of less than 1 percent in the quantity demanded.
C) a greater than 1 percent change in quantity demanded.
D) a change that cannot be determined based on 1 percent.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

132) Demand is said to be inelastic when
A) a given percentage change in price will result in a less than proportionate percentage change in the quantity demanded.
B) demand exhibits zero responsiveness to price changes.
C) small price increases will lead to zero quantity demanded.
D) a given percentage change in price will result in a greater than proportionate percentage change in the quantity demanded.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

133) A perfectly inelastic demand would imply what kind of demand curve?
A) horizontal
B) vertical
C) upward sloping
D) downward sloping
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

134) If an item has an absolute price elasticity of demand that is greater than 1, we say the demand for the item is
A) elastic.
B) inelastic.
C) perfectly inelastic.
D) unit elastic.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

135) The slope of the perfectly inelastic demand curve is_________, the slope of the perfectly elastic demand curve is ________.
A) undefined, zero
B) one, one
C) zero, undefined
D) one, zero
Answer: A
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

136) If a good has an absolute price elasticity of 2, the demand for the good is
A) unit elastic.
B) inelastic.
C) perfectly elastic.
D) elastic.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

137) If a good has an absolute price elasticity of 1, the demand for the good is
A) unit elastic.
B) inelastic.
C) perfectly elastic.
D) elastic.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

138) If a good has an absolute price elasticity of 0, the demand for the good is
A) unit elastic.
B) inelastic.
C) perfectly inelastic.
D) elastic.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

139) A perfectly inelastic demand curve exhibits
A) zero responsiveness to changes in price.
B) zero quantity demanded when there is a slight change in price.
C) a change in quantity demanded that is proportional to the change in price.
D) a change in quantity demanded that is always twenty percent of the change in price.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

140) A perfectly elastic demand curve exhibits
A) zero responsiveness to changes in price.
B) that quantity demanded will decrease to zero when there is a slight increase in the price level.
C) a change in quantity demanded that is proportional to the change in price.
D) a change in quantity demanded that is always twenty percent of the change in price.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

141) When the price of a textbook is $100, 60 copies are demanded; and when the price of that textbook goes up to $120, 30 copies are demanded. In the price range between $100 and $120, the demand for the textbook is
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly elastic.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

142) When total revenue and price are inversely related, demand is
A) unit-elastic.
B) inelastic.
C) elastic.
D) not related.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

143) When total revenue and price are directly related, demand is
A) unit-elastic.
B) inelastic.
C) elastic.
D) not related.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

144) When total revenue remain unchanged when there is a change in price, demand is
A) unit-elastic.
B) inelastic.
C) elastic.
D) not related.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

145) No matter what the price of coffee is in the cafeteria, Jack spends $20 a week on coffee. We can conclude that the absolute value of the price elasticity of demand for coffee for Jack is
A) greater than 1.
B) equal to 1.
C) less than 1.
D) equal to 0.
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

146) A firm could lower prices and still increase revenue if
A) demand is elastic.
B) elasticity of demand is equal to unity.
C) demand is inelastic.
D) elasticity of demand is equal to zero.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

147) Suppose that the demand for pizza is inelastic. If a pizzeria decided to lower the price of pizza, total revenue would
A) increase.
B) decrease.
C) stay the same.
D) be maximized.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

148) If the price elasticity of demand for apples is greater than 1, an increase in apple prices will
A) raise total revenue.
B) lower total revenue.
C) not affect total revenue.
D) either raise or lower total revenue, but it is impossible to determine which.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

149) If a seller lowers the price of a product when demand is price inelastic, the seller can expect revenues to
A) rise.
B) fall.
C) stay the same.
D) either rise or fall, but it is impossible to determine which.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

150) Which of the following is NOT characteristic of a good with elastic demand?
A) The absolute price elasticity of demand is less than 1.
B) Total revenue decreases if price is increased.
C) Buyers are relatively sensitive to price changes.
D) The percentage change in quantity demanded is greater than the percentage change in price.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

151) If demand for a good is perfectly inelastic, then
A) a price increase would cause a fall in quantity demanded.
B) a price increase would cause no change in quantity demanded.
C) a price increase would cause an increase in quantity demanded.
D) a price increase would cause a fall in total revenue.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

152) If the market price of a product falls and as a result total revenue of firms falls, we can conclude that
A) demand is elastic in this price range.
B) the product's price is above the midpoint of its demand curve.
C) demand is inelastic in this price range.
D) the demand curve is horizontal.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

153) If the absolute price elasticity of demand for concert tickets is 0.75, an increase in ticket prices will
A) increase total revenue.
B) decrease total revenue.
C) not change the elasticity of demand.
D) not change total revenue.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

154) Suppose the absolute price elasticity of demand for newsletter subscriptions is 1.3. In order to increase the total revenues from subscriptions, the publishers should
A) increase the price of the newsletters.
B) reduce the price of the newsletters.
C) sell the newsletters on the inelastic portion of its demand curve.
D) keep the price the same.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

155) An increase in total revenue will result if
A) demand is inelastic and price increases.
B) demand is elastic and price increases.
C) demand is inelastic and price decreases.
D) demand is unitary elastic and price decreases.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

156) An increase in total revenue will result if
A) demand is inelastic and price decreases.
B) demand is elastic and price decreases.
C) demand is elastic and price increases.
D) demand is unitary elastic and price increases.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

157) A decrease in total revenue will result if
A) demand is inelastic and price increases.
B) demand is elastic and price decreases.
C) demand is inelastic and price decreases.
D) demand is unitary elastic and price decreases.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

158) A decrease in total revenue will result if
A) demand is inelastic and price decreases.
B) demand is elastic and price increases.
C) demand is elastic and price decreases.
D) demand is unitary elastic and price decreases.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

159) When demand is perfectly inelastic, an increase in price will
A) leave total revenue unchanged.
B) increase total revenue.
C) decrease total revenue.
D) either increase total revenue or decrease total revenue, but it is impossible to tell which.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

160) When demand is elastic, a decrease in price will
A) decrease total revenue.
B) not change total revenue.
C) increase total revenue.
D) reduce quantity demanded.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

161) Given a price elasticity of demand of -0.33, a decrease in price will
A) reduce total revenue.
B) increase total revenue.
C) leave total revenue unchanged.
D) decrease quantity.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

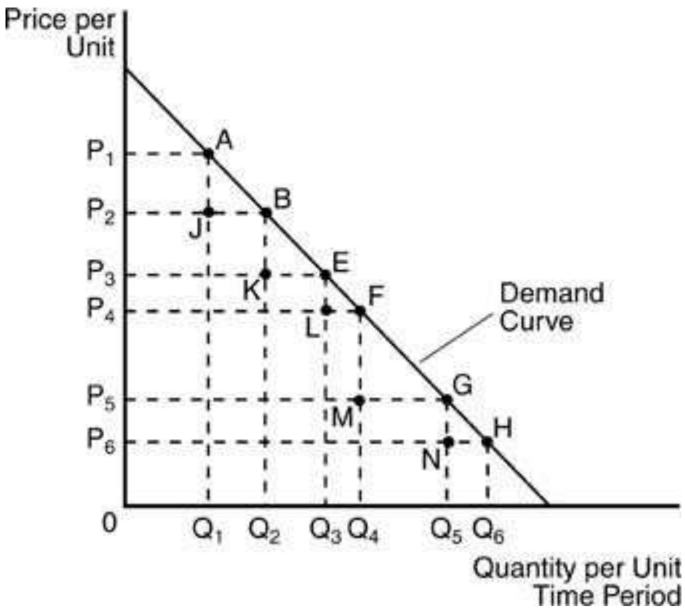
162) If the absolute price elasticity of demand of a good is 1.46, then the total revenues will increase if its market price
A) increases.
B) decreases.
C) stays the same.
D) changes, but we can't tell without more information if the price increases or decreases.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

163) If a price decrease of a product significantly raises its revenues, then the absolute price elasticity of demand for that product must be
A) less than one.
B) equal to one.
C) greater than one.
D) an example of unit elasticity.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

164) The range to the left of the midpoint on a linear demand curve is
A) elastic.
B) infinite.
C) one.
D) inelastic.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

165) The range to the right of the midpoint on a linear demand curve is
A) elastic.
B) infinite.
C) one.
D) inelastic.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

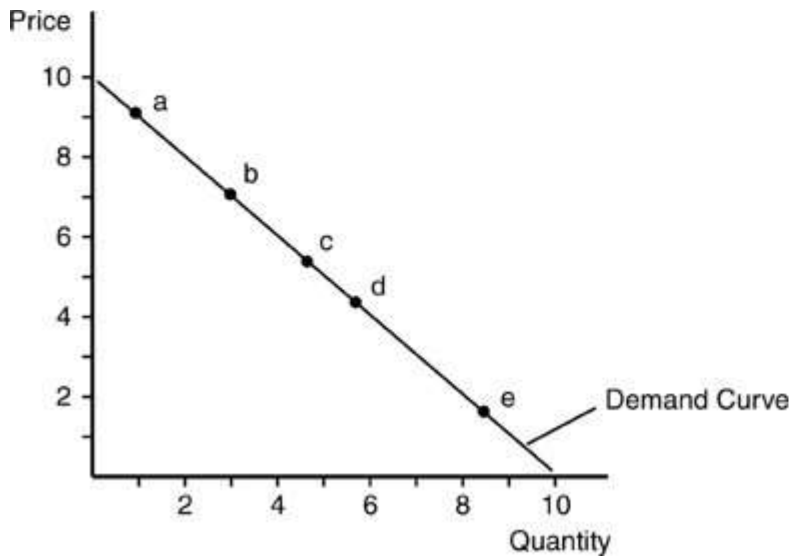
166) The price elasticity of demand along a linear demand curve is
A) more elastic at higher prices than at low prices.
B) infinite.
C) one.
D) constant.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



167) In the above figure, over the price range P_1P_2, demand is
A) unit elastic.
B) elastic.
C) inelastic.
D) perfectly elastic.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

168) In the above figure, over the price range P_5P_6, demand is
A) unit elastic.
B) elastic.
C) perfectly inelastic.
D) inelastic.
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

169) In the above figure, through which range would the demand for this good be most inelastic?
A) A-B
B) B-E
C) E-F
D) G-H
Answer: D
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



170) In the above figure, along the section of the demand curve between point a and point b, demand is
A) elastic.
B) inelastic.
C) unit elastic.
D) unit inelastic.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

171) In the above figure, the range of unit elasticity occurs
A) on the vertical axis.
B) on the horizontal axis.
C) between point c and point d.
D) below point e.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

172) In the above figure, along which range would the demand for this good be most elastic?
A) between point a and point b
B) between point c and point d
C) between point d and point e
D) at point e
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

173) In the above figure, along which range would total revenue rise by lowering prices?
A) between point a and point b
B) between point c and point d
C) between point d and point e
D) below point e
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

174) In the above figure, along which range would total revenue rise by raising prices?
A) between point a and point b
B) between point c and point d
C) between point d and point e
D) above point a
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

175) In the above figure, along which range would total revenue remain unchanged by raising prices?
A) between point a and point b
B) between point c and point d
C) between point d and point e
D) below point e and above point a.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

176) Over the inelastic range of a demand curve, there is
A) a positive relationship between a given percentage change in price and a change in total revenues.
B) a negative relationship between a given percentage change in price and a change in total revenues.
C) an increase in total revenues regardless of an increase or decrease in price.
D) no relationship between changes in price and changes in total revenues.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

177) If total revenues decline when the market clearing price increases, then we know that
A) demand is inelastic.
B) demand is elastic.
C) demand is unit-elastic.
D) demand has zero elasticity.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

178) If total revenues rise when the market price increases, then we know that
A) demand is inelastic.
B) demand is elastic.
C) demand is unit-elastic.
D) its demand has zero elasticity.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

179) If the bus fare of a city increases from $1.00 to $1.25 per ride and as a result total revenue increases, then we know that
A) percentage change in fare is less than percentage change in number of rides.
B) percentage change in fare is greater than percentage change in number of rides.
C) percentage change in fare is equal to the percentage change in number of rides.
D) it is impossible to tell.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

180) Total revenues reach a maximum when
A) demand is elastic.
B) demand is inelastic.
C) demand is unit-elastic.
D) price elasticity is at a minimum.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

181) If demand is unit-elastic throughout the demand curve, then total revenues are
A) greater the higher the price.
B) lower the higher the price.
C) maximized at the midpoint of the demand curve.
D) the same for any price the firm charges.
Answer: D
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

182) Within the range of prices around the midpoint on a straight-line demand curve, demand is
A) elastic.
B) inelastic.
C) unit-elastic.
D) zero.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

183) If the slope of a demand curve is constant, then we know that
A) elasticity of demand is also elastic everywhere.
B) elasticity of demand is constant and elastic.
C) elasticity of demand is inelastic everywhere.
D) elasticity of demand varies along the demand curve.
Answer: D
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

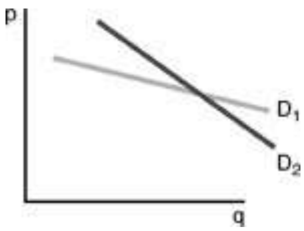
184) If demand is perfectly elastic everywhere along the demand curve, then
A) people must be irrational.
B) the demand curve is vertical.
C) the demand curve is a rectangular hyperbola.
D) the demand curve is horizontal.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

185) Suppose 1000 units of a good are sold at $10 a unit. If price increases to $15 and total revenue increases to $15,000 and increases by $1000 for every dollar increase in price after that, we know that
A) demand is perfectly elastic.
B) the demand curve is vertical.
C) the demand curve is downward sloping and the firm is on the inelastic portion of the demand curve.
D) the demand curve is a rectangular hyperbola.
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

186) A local transit authority charges $1 for a bus ride. An economics study suggests that in the price range from $0.50 to $1.50, the elasticity of demand for bus trips is 1.1. To increase its revenue, the transit authority should
A) leave the fare as it is.
B) raise the fare.
C) lower the fare.
D) charge $1.10.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

187) Moving upward along a downward sloping straight-line demand curve, as the price of the product goes up
A) the price elasticity of demand does not change.
B) the price elasticity of demand goes from being inelastic to being elastic.
C) the price elasticity of demand goes from being elastic to being inelastic.
D) the price elasticity of demand goes from negative to positive.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

188) Moving downward on a downward sloping linear demand curve, the absolute value of the price elasticity of demand
A) is constant.
B) increases continuously.
C) decreases continuously.
D) may either increase or decrease.
Answer: C
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



189) Consider the above figure. Which of the following statements is correct?
A) In any range of prices encompassing the crossing point of the two demand curves, the price elasticity of demand associated with demand curve D_1 is equal to the price elasticity of demand associated with demand curve D_2.
B) In any range of prices encompassing the crossing point of the two demand curves, the price elasticity of demand associated with demand curve D_1 is less than the price elasticity ofdemand associated with demand curve D_2.
C) In any range of prices encompassing the crossing point of the two demand curves, the price elasticity of demand associated with demand curve D_1 is greater than the price elasticity of demand associated with demand curve D_2.
D) In any range of prices encompassing the crossing point of the two demand curves, the price elasticity of demand is infinite.
Answer: C
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

190) Suppose that the demand for men's ties is price inelastic for the range of prices between $10 and $12. If Joe raises the price of the ties in his shop from $10 to $12, what will happen to Joe's total revenues?
A) Total revenues will decrease.
B) Total revenues will increase.
C) Total revenues will not change.
D) Total revenues will have no relationship to the quantity of ties demanded.
Answer: B
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

191) A university raises annual tuition by 10 percent. No other events have occurred, and the university's revenues have increased. It must be TRUE that
A) the associated change in quantity demanded was smaller than 10 percent.
B) the associated change in quantity demanded was equal to 10 percent.
C) the associated change in quantity demanded was greater than 10 percent.
D) there was no associated change in quantity demanded.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

192) If the price of a good increases and the total revenue also increases, the good has a(n)
A) elastic demand.
B) inelastic demand.
C) unit elastic demand.
D) perfectly elastic demand.
Answer: B
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

193) A movie theatre raises ticket prices from $8 to $10 in order to raise revenues. The theatre's management is assuming the absolute value of the price elasticity of demand for tickets is
A) less than 1.
B) greater than 1.
C) equal to 1.
D) infinity.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

194) Which of the following is FALSE regarding inelastic demand?
A) Price elasticity of demand is less than 1 ($E_p < 1$).
B) If a firm raises price, total revenues will go up.
C) Price elasticity of demand is greater than 1 ($E_p > 1$).
D) If a firm lowers price, total revenues will fall.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

195) If the government places a $0.50 tax on an item for which demand is perfectly elastic
A) the entire tax will be paid by the consumer.
B) the tax will be split equally between the consumer and producer, with each paying exactly $0.25.
C) most of the tax will be paid by the consumer.
D) the entire tax will be paid by the producer.
Answer: D
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

196) When demand is elastic,
A) changes in price and changes in total revenue move in the same direction.
B) there is no relationship between changes in price and changes in total revenue.
C) changes in price and changes in total revenue move in opposite directions.
D) for any change in price, total revenue will not change.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

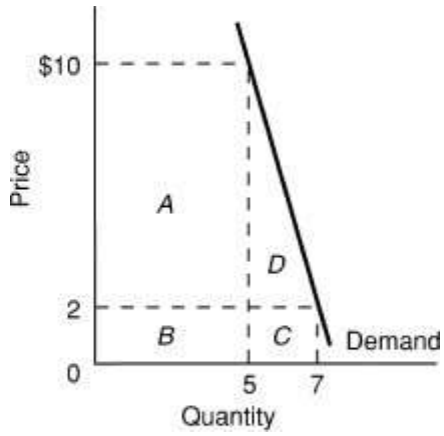
197) Total revenue is
A) price × quantity.
B) change in price × change in quantity.
C) change in price × quantity.
D) price × change in quantity.
Answer: A
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

198) All of the following are true regarding the relationship between price elasticity of demand and total revenues EXCEPT
A) when market demand is elastic, if the market price declines, then total revenues will rise.
B) when market demand is unit elastic, if the market price rises, then total revenues will not change.
C) when market demand is inelastic, if the market price falls, then total revenues will decrease.
D) when market demand is inelastic, if the market price rises, then total revenues will decrease.
Answer: D
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

199) When demand is unit elastic, a change in price will cause
A) a change in total revenue in the same direction.
B) a change in total revenue in the opposite direction.
C) no change in total revenue.
D) a change in total revenue in either direction depending on whether the price is increasing or decreasing.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

200) If the price of a good increases and the total revenue remains the same, the demand for the good is
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly elastic.
Answer: C
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

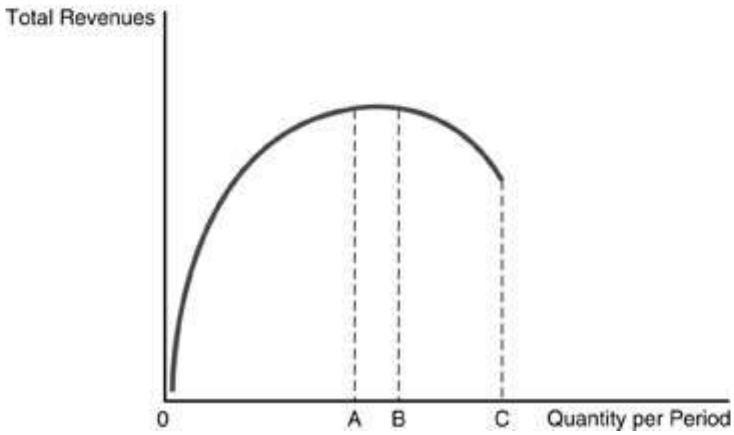
201) When the price of gasoline is $2.20 per gallon, 11 million gallons are demanded, and when the price of gasoline goes up to $2.60 per gallon, 10 million gallons are demanded. The gasoline in this range has a(n)
A) elastic demand.
B) inelastic demand.
C) unit elastic demand.
D) perfectly elastic demand.
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



202) Use the above figure. When the price increases from $2 to $10, total revenue
A) increases from areas A + B to areas B + C and demand is inelastic.
B) increases from areas B + C to areas A + B and demand is inelastic.
C) increases from areas B + C to areas A + D and demand is elastic.
D) increases from areas C + D to areas B + A and demand is elastic.
Answer: B
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

203) Use the above figure. When the price increases from $2 to $10, the absolute price elasticity of demand is
A) 0.67.
B) 1.50.
C) 0.25.
D) 1.00.
Answer: C
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

204) When the price of a pound of apples is $1.00, 7500 pounds of apples are demanded. When the price of a pound of apples decreases to $0.80, 10,000 pounds of apples are demanded. In this price range the demand for apples is
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly elastic.
Answer: A
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



205) Refer to the above figure. Demand will be elastic when quantity is between
A) 0 and A.
B) 0 and B.
C) A and B.
D) B and C.
Answer: A
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

206) Refer to the above figure. Demand will be unit-elastic when quantity is between
A) 0 and A.
B) 0 and B.
C) A and B.
D) B and C.
Answer: C
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

207) Refer to the above figure. Demand will be inelastic when quantity is between
A) 0 and A.
B) 0 and B.
C) A and B.
D) B and C.
Answer: D
Diff: 3
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

208) What is the price elasticity of demand? How is the price elasticity of demand calculated?
Answer: The price elasticity of demand is the responsiveness of the quantity demanded of a good to changes in the price of the good. Price elasticity of demand is calculated as the percentage change in quantity demanded divided by the percentage change in price. That is:
$E_p = [(\text{change in } Q)/(Q_1 + Q_2)/2]/ [(\text{change in } P)/(P_1 + P_2)/2]$.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

209) Price elasticity of demand is measured using percentage changes. Why?
Answer: By using percentage changes, we are focusing on relative changes and not absolute changes. This means we don't have to worry about the units we use to measure either quantity or price. If someone buys 12 eggs a week at $1 a dozen and 8 eggs at 75 cents a dozen, we will get the same value for elasticity whether we use eggs, dozens of eggs, dollar, or cents as the measures. Percentage change is independent of the units chosen.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

210) "The slope of the demand curve gives the elasticity of demand." Do you agree or disagree? Why?
Answer: Disagree. The slope gives absolute change in price divided by the absolute change in quantity demanded. Price elasticity of demand is measured using relative changes.
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

211) "Price elasticity measures how many more units of a good that consumers will buy given a decrease in price." Do you agree or disagree? Explain.
Answer: Disagree. Price elasticity measures the percentage change in quantity demanded in response to a percentage change in price. As such, the statement is not valid as the elasticity measure is unit free.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

212) Explain the three possible ranges for price elasticity of demand.
Answer: If the percentage change in quantity demanded is greater than the percentage change in price, then quantity demanded is very responsive to changes in price, and demand is elastic ($E_p > 1$). If the percentage change in quantity demanded is less than the percentage change in price, then quantity demanded is not very responsive to a price change and demand is inelastic ($E_p < 1$). Demand is unit elastic ($E_p = 1$) if the percentage change in quantity demanded equals the percentage change in price.
Diff: 1
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

213) What does a perfectly elastic demand curve look like? A perfectly inelastic demand curve? Explain.
Answer: A perfectly elastic demand curve is horizontal and a perfectly inelastic demand curve is vertical. If the demand curve is vertical, then quantity demanded does not change when price changes, or the elasticity equals 0. Quantity demanded is completely unresponsive to changes in price. If the demand curve is horizontal, a tiny increase in price causes quantity demanded to go to zero. As the percentage change in price approaches zero, elasticity of demand approaches infinity. Quantity demanded is extremely responsive to even very small changes in price.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

214) "Unit elasticity of demand can be found everywhere along a straight-line demand curve with a slope of -1." Do you agree or disagree? Explain.
Answer: Disagree. A vertical demand curve implies perfectly inelastic demand and a horizontal demand curve implies perfectly elastic demand. However, unit elasticity of demand can only be can found in the mid-range of a straight-line demand curve with a slope of -1, but not anywhere else along it.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

215) For a linear demand curve, where is the amount of total expenditures on a good maximized?
Answer: For a linear demand curve, total expenditures are maximized at the midpoint of the demand curve. At this point, price elasticity of demand equals one. Above this point, demand is elastic, which means total expenditures increase when price falls. Below this points, demand is inelastic and total expenditures increase when price increases. Hence, expenditures are maximized when elasticity is one.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

216) "Higher prices always yield higher revenues." Do you agree or disagree? Why?
Answer: Disagree. Higher prices generate higher revenues if demand is inelastic but generate lower revenues if demand is elastic. The effect of a price change on revenues depends on whether demand is elastic or inelastic.
Diff: 2
Topic: 19.1 Price Elasticity
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

19.2 Key Demand Elasticity Concepts

1) An elastic response in the quantity of a good demanded would be caused by
A) the availability of many substitutes.
B) a lack of substitutes.
C) a lack of sensitivity to the good's price.
D) the good representing a small portion of a person's budget.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

2) Which of the following is a determinant of the price elasticity of demand for an item?
A) the availability of a close substitute for the item
B) the percentage of a consumers budget allocated to expenditures on the item
C) the amount of time available to adjust to a change in the price of the item
D) All of the above are correct.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

3) Which of the following is a determinant of the price elasticity of demand for a product?
I. The existence of substitute goods
II. The percentage of a consumer's total budget devoted to purchases of that commodity
A) I only
B) II only
C) both I and II
D) neither I nor II
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

4) One of the most important determinants of a good's price elasticity of demand is
A) the profits of suppliers.
B) the numbers of buyers in the market.
C) the ease with which consumers can substitute other goods for that product.
D) the cost of producing the good.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

5) Which of the following would NOT affect a good's price elasticity of demand?
A) the ease of substitution between goods
B) the cost of producing the good
C) the number of substitute goods available
D) the proportion of one's budget spent on an item
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

6) The price elasticity of demand would most likely be the lowest for
A) a McDonald's hamburger.
B) salt.
C) a Toyota sport utility vehicle.
D) Shell gasoline.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

7) Which of the following goods is most likely to have the lowest price elasticity?
A) movie tickets
B) DVD rentals
C) gasoline
D) pasta
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

8) The demand for diet soft drinks (as a group) is relatively inelastic because
A) there are many of them on the market.
B) there are few substitutes.
C) the purchase of a soft drink represents a large portion of a person's budget.
D) none of the above.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

9) Which of the following would most likely exhibit the highest price elasticity of demand?
A) gasoline
B) one particular brand of toothpaste
C) motor oil
D) salt
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

10) Other things being equal, demand is less elastic
A) the more expensive the good is.
B) the smaller the percentage of a total budget that a family spends on a good.
C) the longer is the time period for adjustment.
D) the more substitutes a good has.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

11) The demand curve for petroleum should be
A) more elastic in the long run than in the short run.
B) less elastic in the long run than in the short run.
C) as elastic in the long run as it is in the short run.
D) more or less elastic in the long run versus the short run depending upon supply conditions.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

12) The longer the time frame involved, the more likely it is that the demand will be relatively
A) elastic.
B) inelastic.
C) steep.
D) flat.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

13) Compared to the short-run price elasticity of demand, the long-run price elasticity of demand is
A) smaller.
B) the same.
C) greater.
D) either greater than or less, depending on the number of substitutes the good has.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

14) If the price elasticity of demand (Ep) equals one in the short run, then, other things being equal, in the long run Ep will be
A) one.
B) less than one.
C) greater than one.
D) indeterminate without more information.
Answer: C
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

15) The longer any price change persists, the
A) more difficult it is to alter quantity demanded.
B) greater is the price elasticity of demand.
C) lower is the price elasticity of demand.
D) more likely price will return to its original level.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

16) The government raises gasoline taxes as part of the price of gasoline and receives more tax revenues. However, after five years, the government discovers that revenues from the gasoline tax have declined. This situation would be most likely to occur if
A) the long-run elasticity of supply was much greater than the long-run elasticity of demand.
B) the demand for gasoline was inelastic in the short run, but elastic in the long run.
C) the long-run elasticity of demand was greater than the long-run elasticity of supply.
D) the demand for gasoline was perfectly inelastic in both the short run and the long run.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

17) Which of the following is NOT a determinant of the price elasticity of demand?
A) existence of substitutes
B) expenditures on the good as a share of a consumer's budget
C) the amount of time allowed for adjustment to changes in the price of the commodity
D) the price level in a country
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

18) When many substitutes exist for a good, demand will be
A) elastic.
B) unit-elastic.
C) inelastic.
D) perfectly unit-elastic.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

19) When very few substitutes for a good exist, demand will be
A) elastic.
B) unit-elastic.
C) inelastic.
D) perfectly elastic.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

20) Suppose two goods are perfect substitutes. The price elasticity of demand of one of the goods is
A) 0.
B) 1.
C) 1000.
D) infinity.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

21) Which of the following is NOT a factor that determines the price elasticity of demand?
A) the amount that suppliers have made available
B) the percentage of a consumer's total budget spent on the good
C) the existence of substitutes
D) the length of time allowed for adjustments to change in the price of the commodities
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

22) When numerous but imperfect substitutes exist for a good, the demand for the good will tend to be
A) inelastic.
B) elastic.
C) unitary.
D) perfectly elastic.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

23) When there are very few substitutes for a good, the demand for the good will tend to be
A) inelastic.
B) elastic.
C) unitary.
D) perfectly elastic.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

24) For which of the following would the absolute price elasticity of demand be greatest?
A) salt
B) tickets to the Super Bowl
C) Pepsi-Cola
D) gasoline
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

25) For which of the following purchases would the absolute price elasticity of demand be greatest?
A) a sports car
B) utilities
C) chewing gum
D) a cell phone
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

26) For which of the following purchases would the absolute price elasticity of demand be smallest?
A) a sports car
B) utilities
C) chewing gum
D) a cell phone
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

27) Other things being equal, demand is more elastic the
A) less expensive the good.
B) shorter the time period for adjustment.
C) larger the percentage of a total budget that a family spends on the good.
D) more unique the good is.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

28) When the consumer spends a large portion of her income on a good, demand will be
A) elastic.
B) unit-elastic.
C) inelastic.
D) elastic, unit-elastic or inelastic depending upon supply.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

29) When the consumer spends over 50% of her income on a good, demand will be
A) elastic.
B) unit-elastic.
C) inelastic.
D) elastic, unit-elastic or inelastic depending upon supply.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

30) When the consumer spends a small portion of his income on a good, demand will be
A) elastic.
B) unit-elastic.
C) inelastic.
D) elastic, unit-elastic or inelastic depending upon supply.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

31) When the consumer spends less than 3% of his income on a good, demand will be
A) elastic.
B) unit-elastic.
C) inelastic.
D) elastic, unit-elastic or inelastic depending upon supply.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

32) The absolute price elasticity of demand would be the lowest for
A) automobiles.
B) Pizza Hut pizza.
C) salt.
D) movie tickets.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

33) Suppose that the value of the short-run absolute elasticity of demand for a good is 0.3. Then, we know the long-run absolute price elasticity of demand will be
A) 0.
B) greater than 0.3.
C) elastic.
D) less than 0.3.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

34) Suppose that the value of the long-run absolute elasticity of demand for a good is 1.2. Then, we know the short-run absolute price elasticity of demand will be
A) inelastic.
B) greater than 1.2.
C) elastic.
D) less than 1.2.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

35) Compared to the long-run absolute elasticity of demand, the short-run absolute elasticity of demand is
A) smaller.
B) the same.
C) larger.
D) either smaller or larger, depending on other factors.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

36) Suppose that the absolute price elasticity of demand for hamburger is 1.15 and that the absolute price elasticity of demand for steak is 2.4. Then the absolute price elasticity of demand for beef will be
A) less than 1.15.
B) more than 2.4.
C) between 1.15 and 2.4.
D) equal to 1.15.
Answer: A
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

37) The longer any price change lasts over time, the
A) more difficult it is to alter quantity demanded.
B) the more quickly quantity demanded will return to its original level.
C) the longer the short-run equilibrium will continue to be the short-run equilibrium.
D) more quantity demanded will change.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

38) For an addictive drug such as heroin, if the price of heroin increases, then
A) the quantity demanded never changes.
B) the quantity demanded will decrease by a relatively large amount.
C) the quantity demanded will actually increase.
D) the quantity demanded will decrease by a relatively small amount.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

39) Which of the following is NOT a determinant of the price elasticity of demand?
A) the availability of potential substitutes
B) the share of the budget spent on the item
C) the time the consumer has to adjust to the price change
D) the cost to produce the product
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

40) Which of the following is NOT a determinant of the price elasticity of demand?
A) the number of producers of the good
B) the number of substitutes available to buyers
C) the time consumers have to adjust to a price change
D) expenditures on the item as a percentage of a consumer's total budget
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

41) The absolute price elasticity of demand for a product for which annual expenditures make up a very small share of a typical consumer's budget is probably
A) less than 1.
B) equal to 1.
C) greater than 1.
D) infinity.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

42) The absolute price elasticity of demand for a product that has many good substitutes is probably
A) less than 1.
B) greater than 1.
C) equal to 1.
D) infinity.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

43) Other things being equal, the longer a price change persists
A) the less is the elasticity of demand.
B) the less chance a consumer will be able to adjust.
C) the more the consumer will be willing to pay.
D) the greater is the elasticity of demand.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

44) If the absolute price elasticity of demand is equal to 1 in the short run, then in the long run, other things being equal, the absolute price elasticity of demand will be
A) less than one.
B) less than zero.
C) greater than one.
D) equal to zero.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

45) In which of the following situations is the absolute price elasticity of demand for an item most likely to exceed a value of 1?
A) when there are very few close substitutes for the item
B) when there are very few producers of the item
C) when the item's share of expenses in consumers' budgets is very small
D) when there is considerable time to adjust to a change in the price of the item
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

46) Generally, expenses on toothpaste are a small part of a consumer's budget, so the demand for toothpaste is more likely to be
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly elastic.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

47) Which of the following is more likely to have perfectly elastic or nearly perfectly elastic demand?
A) a textbook required for an economics course
B) the guitar produced by a master craftsman
C) milk produced by a Wisconsin dairy farmer
D) the services offered by the only allergist in the community
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

48) After full adjustment to a price change has occurred, the absolute price elasticity of demand for an item is equal to 1. In the short run, the absolute price elasticity of demand for the item was probably
A) less than 0.
B) greater than 0.
C) less than 1.
D) greater than 1.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

49) Generally, expenses on a sport utility vehicle are a large part of a consumer's budget, so the demand for sport utility vehicles is more likely to be
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly elastic.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

50) A product that has an elastic demand curve has all of the following characteristics EXCEPT
A) it has many substitutes.
B) a consumer can wait to buy the product.
C) it has few or no substitutes.
D) it is a large part of a consumer's income.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

51) Suppose that the number of units of good X consumed falls 12 percent when the price of good Y falls 8 percent. The cross price elasticity of demand between goods X and Y is
A) 0.66.
B) 1.75.
C) 2.0.
D) 1.5.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

52) Suppose that the cross price elasticity of demand between goods A and B equals 1.5. Which of the following is TRUE?
A) A and B are complements because the cross price elasticity is greater than one.
B) A and B are complements because the cross price elasticity is positive.
C) A and B are substitutes because the cross price elasticity is greater than one.
D) A and B are substitutes because the cross price elasticity is positive.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

53) Suppose that when the price of root beer rises 10%, the quantity of pizza demanded falls 5%. This would mean that pizza and root beer are
A) substitutes, with a cross price elasticity of 0.5.
B) complements, with a cross price elasticity of -0.5.
C) substitutes, with a cross price elasticity of -2.0.
D) complements, with a cross price elasticity of -2.0.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

54) Suppose that the amount of computer printers demanded increases by 20 percent when the price of personal computers falls by 10 percent. The cross price elasticity of demand between computer printers and personal computers is
A) 0.5.
B) -2.0.
C) -0.5.
D) 2.0.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

55) If goods X and Y are complements, then the cross price elasticity of demand will be
A) elastic.
B) greater than zero but less than 1.
C) negative.
D) positive.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

56) When two goods are substitutes for each other, the cross price elasticity of demand
A) will be negative.
B) will be zero.
C) may be either positive or negative.
D) will be positive.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

57) If the cross price elasticity of demand between Los Angeles Lakers professional basketball tickets and Los Angeles Dodgers professional baseball tickets is positive, then the two goods are
A) substitutes.
B) unrelated.
C) complements.
D) not related.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

58) Suppose that the cross price elasticity of demand between good X and good Y is -1.55. This indicates that the two goods are
A) substitutes.
B) complements.
C) both inferior.
D) completely unrelated in the minds of consumers.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

59) Suppose that when the price of good X changes, the quantity of good Y demanded remains the same. The cross price elasticity of demand is
A) zero.
B) positive.
C) negative.
D) either positive or negative.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

60) If the cross price elasticity of demand between two goods is negative, then the two goods are
A) substitutes.
B) complements.
C) unrelated.
D) independent.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

61) If the cross price elasticity of demand between two goods is positive, then the two goods are
A) substitutes.
B) complements.
C) independent.
D) unrelated.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

62) A positive cross price elasticity of demand between two goods suggests that the goods are
A) not related.
B) complements.
C) substitutes.
D) both of unitary elasticity.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

63) If goods are completely unrelated, their cross price elasticity will
A) be greater than one.
B) be less than one.
C) be equal to zero.
D) be negative.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

64) If the prices of computer tablets rise, we would expect the number of tablet covers purchased to
A) increase.
B) decrease.
C) be equal to ten.
D) be equal to one.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

65) When the price of sausages is $2.00 per pound, consumers buy 50 pounds of hamburger. When the price of sausages rises to $3.00 per pound, 60 pounds of hamburger are purchased. The cross price elasticity of demand between sausages and hamburger is approximately equal to
A) +0.04.
B) -0.45.
C) +2.20.
D) +0.45.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

66) The cross price elasticity of demand is measured by the
A) percentage change in the quantity demanded of one good divided by the percentage change in quantity demanded of another good.
B) percentage change in the price of one good divided by the percentage change in price of another good.
C) percentage change in the demand for one good divided by the percentage change in price of another good.
D) percentage change in the price of one good divided by the percentage change in the demand for another good.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

Month	P_X	Q_X	P_Y	Q_Y	P_Z	Q_Z
Jan	$10	100	$20	50	$25	200
Feb	10	90	18	60	25	225
Mar	10	70	15	90	25	275
Apr	12	50	15	100	25	290
May	15	25	15	120	25	320

67) In the above table, the cross price elasticity of demand for good X with good Y when P_Y falls from $20 to $18 is
A) -2.
B) 0.
C) +1.
D) -1.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

68) In the above table, the cross price elasticity of demand for good Y with good X when P_X rises from $10 to $12 is
A) +0.29.
B) +1.83.
C) +0.58.
D) -0.58.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

69) In the above table, the cross price elasticity of demand for good Z with good Y when P_Y rises from $15 to $18 is
A) -2.20.
B) +2.20.
C) +1.10.
D) -1.10.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

70) In the above table, the cross price elasticity of demand (using averages) for Z with good X, when P_X increases from $12 to $15, is approximately equal to
A) +1.03
B) +2.26.
C) +0.44.
D) -0.44.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

71) When the price of a video rental was $2.00, ticket sales at the local movie theatre averaged 180 admissions per night. Then the video store reduced the price of a video rental to $1, and the theatre manager reported that ticket sales had fallen to 126 per night. What is the approximate value of the cross price elasticity of demand between video rentals and theatre tickets?
A) -0.53
B) +0.30
C) +0.53
D) +1.67
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

72) The cross elasticity of demand is
A) the percentage change in the demand of one good divided by the percentage change in price of another good.
B) the change in the price of one good divided by the change of quantity demanded of another good.
C) the percentage change in the quantity demanded of one good divided by the percentage change in the quantity demanded of another good.
D) the percentage change in the price of one good divided by the percentage change in the price of another good.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

73) The percentage change in the demand for one good divided by the percentage change in the price of a related good is the
A) price elasticity of demand.
B) price elasticity of supply.
C) cross price elasticity of demand.
D) income elasticity.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

74) When two goods are substitutes
A) the demands for both goods will be inelastic.
B) cross price elasticity of demand will be 0.
C) cross price elasticity of demand will be negative.
D) cross price elasticity of demand will be positive.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

75) When two goods are complements
A) the demands for both goods will be elastic.
B) cross price elasticity of demand will be 0.
C) cross price elasticity of demand will be negative.
D) cross price elasticity of demand will be positive.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

76) When two goods are unrelated
A) the demands for both goods will be inelastic.
B) cross price elasticity of demand will be 0.
C) cross price elasticity of demand will be negative.
D) cross price elasticity of demand will be positive.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

77) Robert must always have cream in his coffee. For Robert, the cross price elasticity of demand for coffee and cream is
A) equal to 0.
B) negative.
C) positive.
D) impossible to determine without more information.
Answer: B
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

78) Julie always purchases the soda with the lowest price. For Julie, the cross price elasticity of demand for brand X and brand Y will be
A) equal to 0.
B) negative.
C) positive.
D) impossible to determine without more information.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

Px	Qx	Py	Qy	Pz	Qz
$10	100	$20	50	$25	200
10	90	18	60	25	225
10	70	15	90	25	275
12	50	15	100	25	290
15	25	15	120	25	320

79) Refer to the above table. Based on the information in the table, we can say that
A) all three goods are substitutes for each other.
B) all three goods are complements.
C) X and Y are substitutes, Y and Z are complements, and X and Z are substitutes.
D) X and Y are complements, Y and Z are substitutes, and X and Z are complements.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

80) Refer to the above table. Suppose the price of Y rises from $18 to $20. What is the cross price elasticity of demand between X and Y?
A) -2
B) -1
C) 0
D) +1
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

81) Refer to the above table. Suppose the price of Y rises from $18 to $20. What is the cross price elasticity of demand between Y and Z?
A) -1.7273
B) -1.1176
C) -0.8947
D) +1.7273
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

82) Refer to the above table. Suppose the price of X increases from $10 to $12. What is the cross price elasticity of demand between X and Z?
A) +0.292
B) +7.06
C) -7.06
D) -0.292
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

83) Refer to the above table. Suppose the price of X increases from $10 to $12. What is the cross price elasticity of demand between X and Y?
A) -1.833
B) +0.545
C) +0.579
D) +1.833
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

84) Refer to the above table. The price of Y decreases from $18 to $15. What is the cross price elasticity of demand between Y and X?
A) -0.73
B) -1.0
C) +1.38
D) +1.83
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

85) A measure of the responsiveness of the demand for one good to the percentage change in the price of another good is
A) price elasticity of demand.
B) price elasticity of supply.
C) cross price elasticity of demand.
D) income elasticity.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

86) Suppose the price of X increases by 10 percent while the quantity demanded of Y does not change. We would conclude that
A) the two goods are substitutes, but the cross elasticity of demand is not large.
B) the two goods are complements, but the cross elasticity of demand is not large.
C) the two goods are perfect substitutes.
D) the two goods are not related.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

87) The cross price elasticity between X and Y is 1.2. We can conclude that
A) goods X and Y are substitutes.
B) goods X and Y are complements.
C) goods X and Y are unrelated.
D) perfect substitutes
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

88) The price of X falls by ten percent, and the quantity demanded of X increases by ten percent. Meanwhile, the quantity demanded of Y increases by ten percent too. We would conclude that
A) demand for X is elastic, and X and Y are substitutes.
B) demand for X is elastic, and X and Y are complements.
C) demand for X is unit-elastic, and X and Y are complements.
D) demand for X is inelastic, and X and Y are unrelated.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

89) The cross price elasticity of demand between two goods is 50. We may conclude that
A) the two goods are very complementary and probably are sold together.
B) the two goods are poor substitutes for each other.
C) the demand for one of the goods is likely to be fairly elastic and the demand for the other good is likely to be fairly inelastic.
D) the demand for each of the goods is likely to be very elastic.
Answer: D
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

90) The cross-price elasticity of demand of products "M" and "N" is zero. This implies that "M" and "N" are
A) substitute products.
B) complementary products.
C) independent products.
D) unique goods, as the price elasticity of demand for one of them is zero.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

91) If the price of one good increases, and as a result the demand for another related good falls, the goods are
A) substitutes.
B) normal goods.
C) complements.
D) inferior goods.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

92) Two items which have a positive cross price elasticity of demand are referred to as
A) luxury goods.
B) inferior goods.
C) substitutes.
D) complements.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

93) Two items which have a negative cross price elasticity of demand are referred to as
A) luxury goods.
B) inferior goods.
C) substitutes.
D) complements.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

94) If the value of the cross elasticity of demand is negative, the two goods are
A) complementary goods.
B) substitute goods.
C) normal goods.
D) inferior goods.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

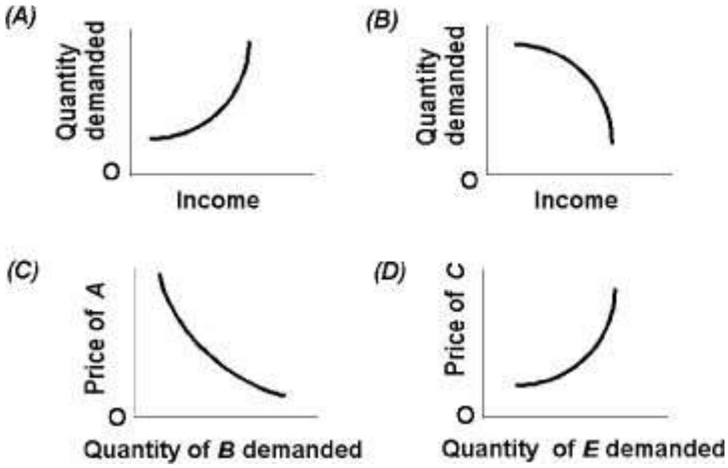
95) The cross price elasticity of demand is defined as
A) the percentage change in the supply for one good (a shift in the supply curve) divided by the percentage change in price of a related good.
B) the percentage change in demand for two different commodities.
C) the percentage change in the demand for one good (a shift in the demand curve) divided by the percentage change in price of a related good.
D) the percentage change in price for two different commodities.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

96) If the price of one good increases, and as a result the demand for another good increases, the goods are
A) substitutes.
B) normal goods.
C) complements.
D) inferior goods.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

97) If the cross price elasticity of demand between two commodities is positive, then these commodities are
A) are superior.
B) are complements.
C) are substitutes.
D) are inferior.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

98) If the price of apples went up by 25 percent, which of the following values of the cross price elasticity for oranges would be most reasonable to anticipate?
A) 0.0
B) 1.2
C) -2.5
D) -1.0
Answer: B
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

99) If the price of apples went up by 25 percent, which of the following values of the cross price elasticity for cars would be most reasonable to anticipate?
A) 0.0
B) 1.2
C) -2.5
D) -1.0
Answer: A
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



100) Use the above figure. Which graph depicts complementary goods?
A) A
B) B
C) C
D) D
Answer: C
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

101) Use the above figure. Which graph depicts substitute goods?
A) A
B) B
C) C
D) D
Answer: D
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

102) If the price of wireless phone service decreases and the demand for wired phone services decreases, then wired and wireless phone services are
A) substitutes.
B) complements.
C) inferior goods.
D) elastic goods.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

103) Income elasticity relates to
A) a movement down a demand curve.
B) a movement up a demand curve.
C) a horizontal shift in a demand curve.
D) the percentage change in quantity demanded divided by the percentage change in the price.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

104) Suppose that the income elasticity of demand for peanut butter is 0.75. Which of the following is TRUE?
A) Peanut butter is a normal good, because income elasticity is positive.
B) Peanut butter is an inferior good, because income elasticity is positive.
C) Peanut butter is a normal good, because income elasticity is less than 1.
D) Peanut butter is an inferior good, because income elasticity is less than 1.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

105) Income elasticity of demand is defined as
A) the change in quantity demanded divided by the change in income.
B) the change in quantity demanded divided by the change in market price.
C) the percentage change in income divided by the percentage change in quantity demanded.
D) the percentage change in demand divided by the percentage change in income.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

106) If one's demand for peanut butter decreases as income rises, the income elasticity of demand for the product is
A) elastic.
B) inelastic.
C) unit elastic.
D) negative.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

107) If an individual's income rises 40 percent and his clothing purchases increase 50 percent in response, the income elasticity for clothing by the individual is
A) -0.8.
B) 0.8.
C) 1.25.
D) -1.25.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

108) Which of the following goods is likely to have the highest income elasticity?
A) a designer blouse
B) tomato soup
C) hamburger
D) can of tuna
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

109) Income elasticity of demand is defined as
A) the change in income divided by the change in quantity.
B) the change in price divided by the change in income.
C) the percentage change in demand divided by the percentage change in income.
D) the change in income multiplied by the change in quantity.
Answer: C
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

110) If demand for Rolls Royce automobiles rises in an area where incomes have increased, this tells us that a Rolls Royce is
A) a normal good.
B) an inferior good.
C) a complementary good.
D) a substitute good.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

111) When Fred's income was $100 per week, 10 units of good X were demanded. Now his income is $150 per week and 12 units of good X are demanded. Using the percentage change formula, the income elasticity of demand for good X equals
A) 0.45.
B) 0.40.
C) 2.20.
D) 2.50.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

112) Income elasticity of demand reflects
A) the change in total quantity demanded divided by the total change in income.
B) the responsiveness of the quantity demanded to changes in income, adjusting its relative price so real income does not change.
C) the responsiveness of income of producers to a change in quantity sold of the good.
D) the responsiveness of demand to changes in income.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

113) When Mary earned $3,200 per month, she bought 2 concert tickets each month. Now her monthly income is $5,600, and the number of concert tickets she purchases has risen to 3 per month. Mary's income elasticity of demand for concert tickets equals __________ and the tickets are a(n) __________ good for Mary.
A) -1.36; normal
B) -0.21; inferior
C) +0.21; complementary
D) +0.73; normal
Answer: D
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

114) The income elasticity of demand is
A) the percentage change in demand divided by the percentage change in income.
B) the change in income divided by the percentage change in price.
C) the change in quantity demanded divided by the change in price.
D) the percentage change in income divided by the percentage change in quantity demanded.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

115) A measure of the responsiveness of demand to changes in income, all other things being constant, is
A) income elasticity of demand.
B) price income elasticity of demand.
C) price elasticity of demand.
D) cross price elasticity of demand.
Answer: A
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

116) The responsiveness of demand to changes in income holding the good's relative price constant is
A) price elasticity of demand.
B) income elasticity of demand.
C) elasticity of supply.
D) cross price elasticity of demand.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

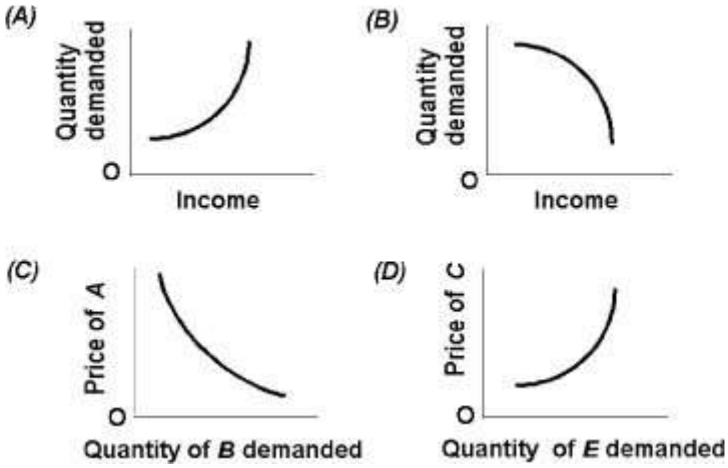
117) The difference between price elasticity of demand and income elasticity of demand is that
A) income elasticity of demand examines how an individual's income changes when prices change and the price elasticity of demand examines how quantity demand changes when price changes.
B) income elasticity refers to the movement along the demand curve while price elasticity refers to a horizontal shift of the demand curve.
C) income elasticity measures the responsiveness of income to changes in supply while price elasticity of demand measures the responsiveness of demand to a change in price.
D) income elasticity refers to a horizontal shift of the demand curve while price elasticity of demand refers to a movement along the demand curve.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

118) When John earned $65,000 he purchased 10 DVDs a year. His income has just increased to $68,000 and he plans to purchase 15 DVDs this year. John's income elasticity of demand equals
A) 0.
B) 0.11.
C) 1.67.
D) 8.87.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

119) Janice earns an income of $2,000 a week and goes out to lunch 4 times a week. If her income increased to $2,100 she would go out to lunch 5 times a week. Compute Janice's income elasticity of demand.
A) 0.22
B) 4.56
C) 2.28
D) -0.22
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

120) The income elasticity of demand
A) is positive only.
B) is negative only.
C) must lie between -1 and +1.
D) can be positive, negative, or zero.
Answer: D
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

121) The income elasticity of demand for all goods taken together must be
A) zero.
B) -1.
C) +1.
D) between 0 and 1.
Answer: C
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



122) Use the above figure. Which graph depicts an inferior good?
A) A
B) B
C) C
D) D
Answer: B
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

123) Use the above figure. Which graph depicts a normal good?
A) A
B) B
C) C
D) D
Answer: A
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

124) An inferior good has an income elasticity of demand that is
A) positive.
B) negative.
C) positive but less than 1.
D) zero.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

125) For most goods and services the income elasticity of demand is
A) negative.
B) positive.
C) invisible.
D) inverse.
Answer: B
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

Period	Income/Week	Pounds of Artisan Bread Sold	Jars of Jam Sold
1	$250	2	10
2	$500	5	8

126) Use the above table. The income elasticity of artisan bread is
A) 1.285.
B) 0.780.
C) 0.012.
D) 8.330.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

127) Use the above table. Based on the information in the table, artisan bread is a(n)
A) normal good.
B) necessary good.
C) inferior good.
D) negative good.
Answer: A
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

128) Use the above table. The income elasticity of jam is
A) -0.33.
B) 0.33.
C) 3.00.
D) -3.00.
Answer: A
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

129) Use the above table. Based on the information in the table, jam is a(n)
A) normal good.
B) necessary good.
C) inferior good.
D) negative good.
Answer: C
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

130) If your income rises by 25 percent and, as a result, you buy fewer packages of Ramen Noodles, then Ramen Noodles are a(n)
A) substitute.
B) normal good.
C) complement.
D) inferior good.
Answer: D
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

131) If your income rises by 15 percent and, as a result, you buy more steak, then steak is a(n)
A) substitute.
B) normal good.
C) complement.
D) inferior good.
Answer: B
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

132) Chad's income went from $1000 per week to $1500 per week. As a result he increased his consumption of steak from 1 pound a week to 3 pounds a week. Based on his consumption patterns, the income elasticity of steak for Chad is
A) 2.50.
B) -.50.
C) .50.
D) -1.50.
Answer: A
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

133) Why is elasticity of demand greater for goods that are a large share of a consumer's budget?
Answer: The greater the share of a consumer's budget accounted for by a good, the greater the elasticity of demand because the real income effect is greater. An increase in the price of a good that accounts for a relatively large share of the budget means that the consumer would have to significantly reduce spending on other goods. It is also more likely the consumer will also cut back on consumption of the good itself too.
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

134) Which has a more elastic demand: hamburger or beef?
Answer: Hamburger has the more elastic demand because there are more substitutes for hamburger than there are for beef. Anything that is a substitute for hamburger is also a substitute for beef. Plus, any other kind of beef is a substitute for hamburger.
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

135) "The price elasticity of demand for a particular good is smaller in the long run because consumers adapt to higher prices over time." Do you agree or disagree? Explain.
Answer: Disagree. Price elasticity of demand is related to a particular good rather than all the goods that individuals may consume. In the long run, consumers can find more substitutes. Thus, the price elasticity of demand of a particular good is actually greater in the long run than in the short run.
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

136) What would you expect the cross price elasticity of iPods and online music downloads? Explain your answer.
Answer: The cross price elasticity of iPods and music downloads should be negative because they are likely to be complements. Thus, an increase in the price of iPods will decrease the demand for music downloads.
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

137) How does the cross elasticity of demand differ from the price elasticity of demand? How are they related?
Answer: The cross elasticity of demand is the responsiveness of demand for one good to a percentage change in the price of another good. Instead of looking at the effect of the change in the good itself, we look at the effect on the amount demanded of another good. If the goods are substitutes, the cross elasticity of demand is positive, but the cross price elasticity of demand is negative when they are complements. A high positive cross elasticity of demand means the goods are close substitutes, which implies the price elasticity of demand will be relatively elastic because elasticity is a function of the closeness of substitutes.
Diff: 3
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

138) Why can cross price elasticity of demand be positive or negative, unlike the price elasticity of demand with respect to the item's own price?
Answer: Cross price elasticity of demand is the responsiveness of the demand for one good to a change in the price of a related good. Goods are related in two ways: complements and substitutes. For complements, the demand for one good increases in response to a decrease in the price or another good, so that the cross price elasticity of demand for complementary goods is negative. For substitutes, the demand for one good decreases in response to a decrease in the price of another good, so that the cross price elasticity of demand for substitutable goods is positive.
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

139) "Income elasticity of demand is always positive." Do you agree or disagree? Explain.
Answer: Disagree. Income elasticity of demand can be positive or negative. For normal goods, an increase in income results in an increase in demand. For inferior goods, however, an increase in income results in a decrease in demand.
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

140) "The income elasticity of a good is positive if a consumer increases the total spending on that good as a result of an increase in its market price." Do you agree or disagree? Why?
Answer: Disagree. If a consumer increases the total spending on a good when the price of that good increases, then the good will have a price inelastic demand. The income elasticity of a good is positive if its demand increases as result of an increase in income.
Diff: 2
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

141) Graphically, what is the main difference between the measure of income elasticity of demand as opposed to the measure of price elasticity of demand?
Answer: Graphically, income elasticity of demand is measured by a horizontal shift in the demand curve in response to a change in income, while price elasticity of demand is measured by a movement along the demand curve in response to a change in price.
Diff: 1
Topic: 19.2 Key Demand Elasticity Concepts
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

19.3 Price Elasticity of Supply

1) If the price elasticity of supply of television sets is constant and equal to 3, a 10 percent increase in price will result in a change in quantity supplied equal to
A) 3 1/3 percent.
B) 30 percent.
C) 1/3 percent.
D) -30 percent.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

2) If the quantity supplied of candy increases by 10% when the price of candy increases by 20%, which of the following is TRUE?
A) Supply for candy is elastic, and price elasticity of supply = 2.0.
B) Supply for candy is inelastic, and price elasticity of supply = 2.0.
C) Supply for candy is elastic, and price elasticity of supply = 0.5.
D) Supply for candy is inelastic, and price elasticity of supply = 0.5.
Answer: D
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

3) If the supply of a good is perfectly inelastic, the price elasticity of supply will equal
A) positive infinity.
B) one.
C) zero.
D) none of the above.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

4) An 18 percent increase in the price of small cars results in a 10 percent expansion in the quantity supplied. The supply elasticity in this range equals________.
A) 9/5
B) 5/9
C) 7/10
D) 4/10
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

5) Color television prices rise by 10 percent, and in response the quantity of those TVs supplied increases by 6 percent. The supply elasticity for color television sets in that price range is
A) 0.6.
B) 1.66.
C) 6.0.
D) -1.66.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

6) The price elasticity of supply
A) is the slope of the supply curve.
B) is the percentage change in quantity supplied divided by the percentage change in price.
C) is always negative.
D) does not vary between the long and the short run.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

7) We expect the price elasticity of supply to be
A) negative.
B) positive.
C) between -1 and +1.
D) zero.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

8) When the Gizmo Company could sell a gizmo for $10, it produced 2,500 per month. More recently, the price of a gizmo has fallen to $9 and so Gizmo is only producing 2,000 units per month. What is the price elasticity of supply for gizmos?
A) 0.47
B) -0.47
C) -2.11
D) 2.11
Answer: D
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

9) If the quantity supplied stays the same no matter what the price is, then supply is
A) perfectly inelastic.
B) perfectly elastic.
C) unit elastic.
D) undefined.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

10) A vertical supply curve may be described as being
A) relatively elastic.
B) perfectly inelastic.
C) relatively inelastic.
D) perfectly elastic.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

11) If the supply curve is vertical, then supply is
A) relatively elastic.
B) perfectly elastic.
C) unit elastic.
D) perfectly inelastic.
Answer: D
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

12) If a 1 percent increase in price causes a 2 percent increase in quantity supplied, then supply is
A) elastic.
B) inelastic.
C) unit elastic.
D) infinite.
Answer: A
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

13) If a 10 percent increase in price causes a 5 percent increase in quantity supplied, then supply is
A) elastic.
B) inelastic.
C) unit elastic.
D) infinite.
Answer: B
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

14) When the price of cable modems decreased from $100 to $85, the number of cable modems produced fell from 1,000 per week to 850 per week. Using this information, we know the supply of cable modems is
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly inelastic.
Answer: C
Diff: 3
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

15) In the long run, the supply curve
A) is more elastic than it is in the short run.
B) is less elastic than it is in the short run.
C) exhibits no systematic sequence of changes in elasticity.
D) exhibits no change in elasticity at all.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

16) Changes in technology over time will result in
A) a more inelastic supply curve.
B) a more elastic supply curve.
C) a unitary elastic supply curve.
D) no change in the elasticity of supply.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

17) The most important determinant of the elasticity of supply is
A) whether the good is a durable good or a nondurable good.
B) the price of the good.
C) the time period firms have to adjust to the new price.
D) the proportion of the good in the budget of consumers.
Answer: C
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

18) If the price of good X increases by 1 percent, then the quantity supplied increases by more than 1 percent. This means
A) supply is elastic.
B) supply is unit-elastic.
C) supply is inelastic.
D) the good has good substitutes.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

19) Price elasticity of supply is always
A) positive because of the law of supply.
B) negative because of the law of supply.
C) positive because of diminishing marginal utility.
D) negative because percentages can only be negative.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

20) The price elasticity of supply measures
A) the responsiveness of quantity demanded to a change in price.
B) the responsiveness of quantity supplied to a change in price.
C) the change in supply due to a change in input prices.
D) the change in price due to a change in quantity supplied.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

21) We generally expect the price elasticity of supply to be
A) zero.
B) negative.
C) positive.
D) between -1 and +1.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

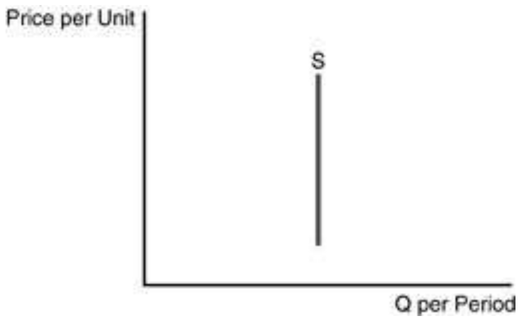
22) When quantity supplied is very responsive to a change in price, supply is
A) elastic.
B) unit-elastic.
C) inelastic.
D) income sensitive.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

23) When quantity supplied is not very responsive to a change in price, supply is
A) elastic.
B) unit-elastic.
C) inelastic.
D) income sensitive.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

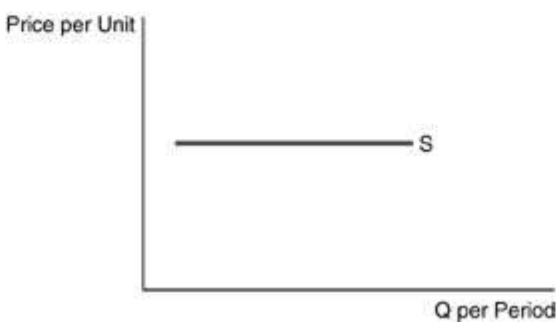
24) Which of the following statements is FALSE?
A) A perfectly inelastic supply curve is a vertical line.
B) Time is an important consideration in determining supply elasticity.
C) Price elasticity of supply can never equal 1.
D) A horizontal supply curve is possible.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

25) A perfectly inelastic supply curve is
A) an upward sloping straight line that intersects the origin.
B) horizontal.
C) vertical.
D) downward sloping.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

26) A perfectly elastic supply curve is
A) an upward sloping straight line that intersects the origin.
B) horizontal.
C) vertical.
D) downward sloping.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



27) Refer to the above figure. The supply curve is
A) elastic at high prices and inelastic at low prices.
B) unitary for all prices.
C) perfectly elastic.
D) perfectly inelastic.
Answer: D
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking



28) Refer to the above figure. The supply curve is
A) elastic at high prices and inelastic at low prices.
B) unitary for all prices.
C) perfectly elastic.
D) perfectly inelastic.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

29) Supply will become more elastic when
A) a time period lengthens.
B) the time period shortens.
C) the good is important to consumers.
D) there are good substitutes for the goods.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

30) Suppose the short-run supply curve is a straight line of slope +1 that intersects the origin. The long-run supply curve will be
A) horizontal.
B) steeper.
C) shallower.
D) vertical.
Answer: C
Diff: 3
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

31) The most important determinant of price elasticity of supply is
A) the number of close substitutes there are for the good.
B) the time period firms have to adjust to the new price.
C) the price of the good.
D) the importance of the good in the budgets of consumers.
Answer: B
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

32) The supply curve for housing in the very short run is likely to be
A) very elastic.
B) very inelastic.
C) unit-elastic elastic.
D) perfectly elastic.
Answer: B
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

33) Suppose the demand for rental apartments decreased substantially. We would expect to observe
A) no change in rent and a sharp reduction in quantity supplied in the short run, and an even larger decrease in quantity supplied in the long run.
B) a large decrease in quantity supplied in the short run, followed by a counter-reaction and an increase in quantity supplied in the long run.
C) a small decrease in quantity supplied and significantly lower rents in the short run, and quantity supplied to decrease much more in the long run.
D) a large decrease in quantity supplied in the short run and the long run, but much larger reductions in rent in the long run.
Answer: C
Diff: 3
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

34) A cafeteria is willing to produce 100 cups of coffee when the price is $1 and 150 cups of coffee when the price is $1.30, other things being equal. The price elasticity of supply of coffee is
A) 1.53.
B) 0.67.
C) 0.10.
D) 0.50.
Answer: A
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

35) The price elasticity of supply is
A) negative.
B) zero.
C) positive.
D) unknown, depending on other factors.
Answer: C
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

36) A perfectly elastic supply curve is
A) a straight line that crosses the horizontal axis.
B) a straight line coming out of the origin.
C) a horizontal straight line.
D) a vertical straight line.
Answer: C
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

37) The price elasticity of supply is higher when
A) the number of buyers in the market decreases.
B) the product in question is an inferior good.
C) the number of buyers in the market increases.
D) producers have more time to adjust to price changes.
Answer: D
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

38) The price elasticity of supply is higher when
A) the number of producers in the market increases over time.
B) the product in question is a complementary good.
C) the number of buyers in the market increases.
D) producers have less time to adjust to price changes.
Answer: A
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

39) While the slope of the perfectly inelastic supply curve_________, the slope of the perfectly elastic supply curve_________.
A) is zero, approaches infinity
B) approaches infinity, is zero
C) is zero, is zero
D) approaches infinity, approaches infinity
Answer: A
Diff: 3
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

40) A situation in which there is a reduction in quantity supplied to zero when there is the slightest decrease in price is
A) perfectly elastic supply.
B) perfectly elastic demand.
C) perfectly inelastic supply.
D) perfectly inelastic demand.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

41) Which of the following statements regarding price elasticity of supply and the length of time for adjustment is FALSE?
A) The longer is the time period for adjustment, the greater is the price elasticity of supply.
B) The longer is the time period for adjustment, the less is the extent to which resources flow into (or out of) an industry through expansion (or contraction) of existing firms.
C) The longer is the time period for adjustment, the greater is the extent to which entry or (exit) of firms increases or (decreases) production in an industry.
D) The shorter the time period for adjustment, the greater is the price elasticity of supply.
Answer: B
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

42) Usually, price elasticities of supply are
A) positive, because higher prices yield larger quantities supplied.
B) considered short-run adjustments due to supply constraints.
C) ordinarily a negative number based on the law of supply.
D) an inverse relationship between price and quantity supplied.
Answer: A
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

43) If price elasticity of supply is less than 1
A) supply is elastic.
B) demand is elastic.
C) demand is inelastic.
D) supply is inelastic.
Answer: D
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

44) The paintings of a world famous artist Vincent Van Gogh have a price elasticity of supply
A) equal to 2.0.
B) equal to 1.0.
C) close to 0.0.
D) approaching infinity.
Answer: C
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

45) Which of the following statements is correct?
A) Supply is more elastic in the short run than in long run.
B) Supply is more elastic in the long run than in short run.
C) Price elasticity of supply is constant along the supply curve.
D) Price elasticity of supply is always a negative number.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

46) Tickets for the Super Bowl are an example of supply that is
A) perfectly elastic.
B) unit elastic.
C) slightly inelastic.
D) perfectly inelastic.
Answer: D
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

47) For most items, we find the price elasticity of supply will be
A) negative.
B) positive.
C) invisible.
D) inverse.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

48) The longer the time period that suppliers have to adjust to price changes, the
A) greater will be the price elasticity of supply.
B) lower will be the price elasticity of supply.
C) lower will be the price elasticity of demand.
D) greater will be the price elasticity of demand.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

49) If the price of hamburger meat increases by 20 percent and the quantity supplied by meat packing companies increases by 30 percent, what is the price elasticity of supply?
A) 1.65
B) 1.20
C) 0.67
D) 1.50
Answer: D
Diff: 3
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Application of knowledge

50) If the price elasticity of supply is equal to 1, we would say the supply of the item is
A) unit elastic.
B) inelastic.
C) elastic.
D) perfectly elastic.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

51) A supply curve that is parallel to the price axis is
A) perfectly elastic.
B) perfectly inelastic.
C) relatively inelastic.
D) unitary elastic.
Answer: B
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

52) A supply curve that is parallel to the quantity axis is
A) perfectly elastic.
B) perfectly inelastic.
C) relatively inelastic.
D) unitary elastic.
Answer: A
Diff: 1
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

53) The price elasticity of supply is 0.6. This means that
A) a $10 increase in price would increase quantity supplied by 60.
B) a 150 percent increase in price would increase quantity supplied by 90 percent.
C) a 50 percent increase in quantity will occur when price increases by 30 percent.
D) a 10 percent increase in quantity will occur when price increases by 6 percent.
Answer: B
Diff: 3
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

54) Why is the price elasticity of supply greater if there is more time for adjustment to an increase in the price of an item?
Answer: If more time is available for adjustment to a price increase, then more resources can flow into an industry, and more firms can enter the industry. Thus, after a longer period of time a greater expansion of production can take place in response to the rise in the price of the item.
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking

55) Why is time such an important determinant in the elasticity of supply? Is time also important in determining price elasticity of demand? Explain.
Answer: Time is an important determinant in the elasticity of supply because more resources can flow into or out of production of a good the greater the time period allowed for supply to adjust to price changes. In the short run, some inputs are fixed so firms cannot make all the adjustments they would like to make. In the long run, all adjustments can be made so quantity supplied will be more responsive to a change in price. Time is also important for determining price elasticity of demand. Again, people have more time to adjust to new situations, and more time to find substitutes for the good.
Diff: 2
Topic: 19.3 Price Elasticity of Supply
Learning Outcome: Micro-6: Explain the fundamentals of the elasticity of supply and demand and the applications of both
AACSB: Analytical thinking