MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The price elasticity of demand is defined as the magnitude of
   A) the percentage change in quantity demanded divided by the percentage change in price.
   B) the percentage change in quantity demanded divided by the percentage change in price.
   C) the change in price divided by the change in quantity demanded.
   D) the change in quantity demanded divided by the change in price.

2) To determine the effect a 25 percent increase in the price of apples has on the quantity of apples
   demanded, you must know the value of the
   A) cross-elasticity of demand.
   B) price elasticity of demand.
   C) income elasticity of demand.
   D) price elasticity of supply.

3) When the price of a movie ticket increases from $5 to $7, the quantity of tickets demanded
   decreases from 600 to 400 a day. What is the price elasticity of demand for movie tickets?
   A) 2.32
   B) 0.83
   C) 1.20
   D) 1.00

4) What is the elasticity of demand for oranges (using average price and average quantity) when
   the price of oranges changes from $200 to $160 per bushel and so the quantity demanded
   changes from 1000 to 1400 bushels?
   A) 10.0
   B) 0.67
   C) 0.1
   D) 1.5

5) Demand is price inelastic if a relatively ______ price increase leads to a relatively ______ in
   the quantity demanded.
   A) small; large increase
   B) small; large decrease
   C) large; small decrease
   D) large; small increase

6) "Last October, due to an early frost, the average price for a pumpkin increased by 10 percent
   compared to the average pumpkin price in previous Halloween seasons. As a result, the
   quantity demanded county-wide decreased from 2 million to 1.5 million." Based on this
   statement, the
   A) demand curve for pumpkins shifted rightward.
   B) demand for pumpkins is elastic.
   C) demand for pumpkins is unit elastic.
   D) demand for pumpkins is inelastic.

7) Demand curves with which of the following shapes will have constant elasticities at every
   point?
   A) demand curves that are perfectly horizontal lines
   B) demand curves that are perfectly vertical lines
   C) demand curves that are rectangular hyperbolas
   D) all of the above

8) Demand is inelastic when a price ______ results in total revenue ______.
   A) fall; increasing
   B) rise; decreasing
   C) rise, increasing
   D) fall, remaining the same
9) To maximize its revenue,
   A) a firm facing inelastic demand should always raise its price.
   B) a firm should always charge the highest price possible regardless of the elasticity of
      demand.
   C) a firm facing elastic demand should always raise its price.
   D) None of the above answers is correct.

10) Which goods have more elastic demands?
    A) goods which are necessities
    B) goods with few substitutes
    C) goods whose purchase represents a small percentage of income
    D) goods with many substitutes

11) The closer the substitutes for a good, the
    A) larger the proportion of income that is spent on the good.
    B) smaller the degree of substitutability between the goods.
    C) more elastic is the demand for the good.
    D) less elastic is the demand for the good.

12) The demand for ________ is more elastic than the demand for ________.
    A) Pepsi; all soft beverages
    B) food; exotic vacations
    C) all personal computers; Dell computers
    D) chewing gum; cars

13) If the price of one good increases by 3 percent and the quantity demanded of another good
    increases by 2 percent, the cross elasticity is ________ and the two goods are ________.
    A) 2/3, substitutes
    B) 3/2, substitutes
    C) 2/3, complements
    D) 3/2, complements

14) The cross elasticity of demand for pizza with respect to the price of a soda is
    A) negative because the goods are complements.
    B) positive because the goods are complements.
    C) negative because the goods are substitutes.
    D) positive because the goods are substitutes.

15) If the cross elasticity of demand is -5 between french fries and orange drink, then french fries
    A) and orange drink are substitutes.
    B) are a normal good and orange drink is an inferior good.
    C) and orange drink are complements.
    D) are an inferior good and orange drink is a normal good.
16) In the above figure, if the two goods, A and B, are complements, which of the following is true?
   A) The cross elasticity of demand between them is positive.
   B) The shift from \( S_0 \) to \( S_1 \) for good A lead to the shift from \( D_0 \) to \( D_1 \) for good B.
   C) The shift from \( D_0 \) to \( D_1 \) for good B lead to a shift from \( S_0 \) to \( S_1 \) for good A.
   D) The law of demand is at work in both markets.

17) A negative value for the cross elasticity of demand between two goods indicates
   A) that one of the goods is normal and the other is inferior.
   B) that the goods are substitutes.
   C) that the goods are complements.
   D) that each good is price inelastic.

18) The income elasticity of demand is a measure of the responsiveness of
   A) the consumer’s income to a change in the price of the goods he or she consumes.
   B) the quantity of a good demanded to changes in another good’s price.
   C) the quantity of a good demanded to changes in its price.
   D) the quantity of a good demanded to changes in income.

19) The income elasticity of demand for restaurant meals is 1.61. So,
   A) if income increases by 16.1 percent, the quantity demanded of restaurant meals will increase by 10 percent.
   B) if income increases by 10 percent, the quantity demanded of restaurant meals will increase by 16.1 percent.
   C) restaurant meals are an income elastic normal good.
   D) Both answers B and C are correct.

20) Inferior goods are goods
   A) are consumed only by people with inferior taste.
   B) for which the demand increases when income increases.
   C) that are inferior in quality.
   D) that have a negative income elasticity of demand.
21) The concept of elasticity of supply measures the responsiveness of the
   A) quantity supplied to a change in price.
   B) quantity demanded to a change in quantity supplied.
   C) price to a change in quantity supplied.
   D) quantity supplied to a change in quantity demanded.

22) A supply curve that is horizontal reflects a supply that
   A) is elastic.
   B) has a zero elasticity.
   C) is inelastic.
   D) is unit elastic.

23) If the supply curve is vertical then supply is
   A) relatively elastic.
   B) relatively inelastic.
   C) perfectly inelastic.
   D) perfectly elastic.

24) When the price of milk goes up as a result of a rightward shift of the demand curve for milk
   A) total revenue will remain constant only if milk has a unitary price elasticity of supply.
   B) total revenue will increase only if milk is inelastic in supply.
   C) total revenue will decrease only if milk is elastic in supply.
   D) none of the above

25) Short-run supply is usually _______ elastic than momentary supply and _______ elastic than
    long-run supply
   A) less; more
   B) more; more
   C) more; less
   D) less; less
Answer Key
Testname: 640 2

1) A
2) B
3) C
4) D
5) C
6) B
7) D
8) C
9) A
10) D
11) C
12) A
13) A
14) A
15) C
16) B
17) C
18) D
19) D
20) D
21) A
22) A
23) C
24) D
25) C