ECON 2106 Principles of Microeconomics
Assignment #3 (Chapter 5)

Name ________________________

____ 1. Demand is said to be elastic if
   a. the price of the good responds substantially to changes in demand.
   b. demand shifts substantially when the price of the good changes.
   c. buyers do not respond much to changes in the price of the good.
   d. the quantity demanded responds substantially to changes in the price of the good.

____ 2. If a good is a necessity, demand for the good would tend to be more
   a. elastic.
   b. horizontal.
   c. unit elastic.
   d. inelastic.

____ 3. If a good is a luxury, demand for the good would tend to be more
   a. inelastic.
   b. elastic.
   c. unit elastic.
   d. horizontal.

____ 4. A person who has high cholesterol and must exercise an hour every day has what type of demand for exercise equipment?
   a. elastic
   b. unit elastic
   c. inelastic
   d. weak

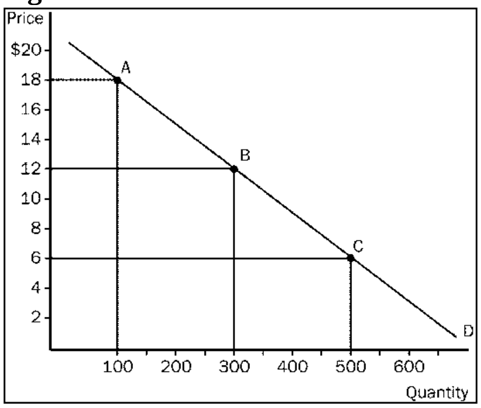
____ 5. There are very few, if any, good substitutes for motor oil. Therefore,
   a. the supply of motor oil would tend to be price elastic.
   b. the demand for motor oil would tend to be price elastic.
   c. the demand for motor oil would tend to be price inelastic.
   d. the demand for motor oil would tend to be income elastic.

____ 6. If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price would result in a
   a. 4.0 percent decrease in the quantity demanded.
   b. 10 percent decrease in the quantity demanded.
   c. 40 percent decrease in the quantity demanded.
   d. 400 percent decrease in the quantity demanded.

____ 7. If a 15 percent increase in price causes a 30 percent decrease in quantity demanded, this product might
   a. have no close substitute.
   b. be a luxury.
   c. be part of a broadly defined market.
   d. be in a short time horizon.

____ 8. Demand is elastic if elasticity is
   a. less than 1.
   b. equal to 1.
   c. equal to 0.
   d. greater than 1.

Figure 5-2



____ 9. Refer to Figure 5-2. What is the price elasticity of demand between point B and point C?
a. 0.5.
b. 0.75.
c. 1.0.
d. 1.3.

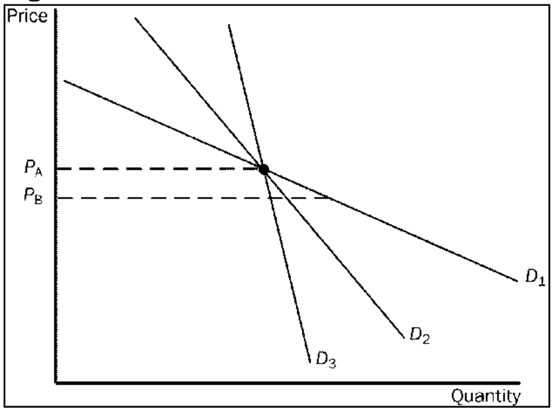
____ 10. Refer to Figure 5-2. What is total revenue if the price is $12?
a. Total revenue is $1200.
b. Total revenue is $3000.
c. Total revenue is $3600.
d. Total revenue is $1800.

____ 11. Refer to Figure 5-2. If the price decreased from $18 to $6, what would happen to total revenue?
a. Total revenue would increase by $1200 and demand would be elastic.
b. Total revenue would increase by $800 and demand would be elastic.
c. Total revenue would decrease by $1200 and demand would be inelastic.
d. Total revenue would decrease by $800 and demand would be inelastic.

____ 12. When small changes in price lead to infinite changes in quantity demanded, demand is perfectly
a. elastic and will be horizontal.
b. inelastic and will be horizontal.
c. elastic and will be vertical.
d. inelastic and will be vertical.

____ 13. Alice says that she would buy one banana split a day regardless of the price. If she is telling the truth,
a. Alice's demand for banana splits is perfectly inelastic.
b. Alice's price elasticity of demand for banana splits is 1.
c. Alice's income elasticity of demand for banana splits is negative.
d. None of the above answers is correct.

Figure 5-4



____ 14. Refer to Figure 5-4. As price falls from P_A to P_B, which demand curve is most elastic?
a. D_1
b. D_2
c. D_3
d. All of the above are equally elastic.

____ 15. Refer to Figure 5-4. As price falls from P_A to P_B, which demand curve is least elastic?
a. D_1
b. D_2
c. D_3
d. All of the above are equally elastic.

____ 16. The supply of paintings by Van Gogh is most likely to be
a. of infinite elasticity because supply is limited
b. of high elasticity because supply is limited
c. elastic because the paintings are luxury goods
d. inelastic because supply is limited

____ 17. The supply curve will be more elastic if
a. the good has few substitutes
b. the time the producer has to adjust is long
c. the time frame for adjusting to price changes is short
d. demand is elastic

____ 18. Price elasticity of demand *and* price elasticity of supply are *both* influenced by
a. the availability of close substitutes for the product
b. the proportion of the consumer's budget spend on the product
c. the length of the adjustment period considered
d. technological conditions such as the additional costs of increasing production

____ 19. If output in the calculator market increases by 5 percent when the price increases by 5 percent, then
a. supply is unit elastic
b. supply is elastic
c. supply inelastic
d. demand is unit elastic

____ 20. If an increase in price from $1.20 to $2 per unit leads to an increase in quantity *supplied* from 20 to 100 units,
a. demand is elastic
b. supply is elastic
c. demand is unit elastic
d. supply is inelastic