Sample Exam Questions/Chapter 6

1. The price of notebooks is $5, and at that price consumers demand 12 notebooks. If the price rises to $7, consumers will decrease consumption to 4 notebooks. Using the midpoint formula, what is the price elasticity of demand for notebooks?
   A) 1/3
   B) 3
   C) 1/6
   D) 6

2. An attorney supplies 40 hours of work per week when her fee is $100 per hour but supplies 60 hours of work per week when her fee rises to $120 per hour. Using the midpoint formula, her elasticity of supply is equal to:
   A) 1.
   B) 0.8.
   C) 2.2.
   D) 0.45.

3. When the absolute value of the percentage change in quantity demanded is less than the absolute value of the percentage change in price, demand is:
   A) inelastic.
   B) elastic.
   C) unit-elastic.
   D) unknown.

4. If a change in price causes total revenue to change in the same direction, we can conclude that the demand is:
   A) price inelastic.
   B) price elastic.
   C) price unit elastic.
   D) zero elastic.

5. The price elasticity of demand for gasoline in the short run has been estimated to be 0.4. If a war in the Middle East causes the price of oil (from which gasoline is made) to increase, how will that affect total revenue from gasoline in the short run, all other things unchanged?
   A) Quantity demanded will stay the same; total revenue will fall.
   B) Quantity demanded will decrease; total revenue will rise.
   C) Total revenue will remain unchanged.
   D) Demand will not change; total revenue will rise.
Use the following to answer question 6:

**Figure: Estimating Price Elasticity**

6. (Figure: Estimating Price Elasticity) Look at the figure Estimating Price Elasticity. Between the two prices, $P_1$ and $P_2$, which demand curve has the lowest price elasticity?
   A) $D_1$
   B) $D_2$
   C) $D_3$
   D) $D_4$

7. For which of the following is the cross-price elasticity of demand most likely a large positive number?
   A) hockey pucks and hockey sticks
   B) DVDs and milk
   C) french fries and onion rings
   D) all of these, because the cross-price elasticity is always a positive number

8. The pair of items that is most likely to have a negative cross-price elasticity of demand is:
   A) cashews and peanuts.
   B) hamburgers and ketchup.
   C) coffee and tea.
   D) mustard and aspirin.
9. The pair of items that is likely to have the largest positive cross-price elasticity of
demand is:
A) coffee and tea.
B) skis and ski boots.
C) pizza and pepperoni.
D) milk and cookies.

Use the following to answer question 10:

Table: Price Elasticity

<table>
<thead>
<tr>
<th>Price per Period</th>
<th>Quantity Demanded per Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.50</td>
<td>0</td>
</tr>
<tr>
<td>2.25</td>
<td>25</td>
</tr>
<tr>
<td>2.00</td>
<td>50</td>
</tr>
<tr>
<td>1.75</td>
<td>75</td>
</tr>
<tr>
<td>1.50</td>
<td>100</td>
</tr>
<tr>
<td>1.25</td>
<td>125</td>
</tr>
<tr>
<td>1.00</td>
<td>150</td>
</tr>
<tr>
<td>0.75</td>
<td>175</td>
</tr>
<tr>
<td>0.50</td>
<td>200</td>
</tr>
</tbody>
</table>

10. (Table: Price Elasticity) Look again at the table Price Elasticity. What is the price
elasticity of demand between $1.00 and $0.75?
A) 0.54
B) 0.66
C) 0.75
D) 1.0

11. The price elasticity of a good will tend to be larger:
A) the longer the relevant time period.
B) the fewer the number of substitute goods available.
C) if it is a staple or necessity with few substitutes.
D) if the share of income spent on the good is small.
12. Tomas produces 100 cartons of free range eggs when the price is $5 and 150 cartons of free range eggs when the price is $7. What is the value of Tomas's price elasticity of supply?
   A) 1.2
   B) 2.0
   C) 1.0
   D) 3.2

13. A local restaurant has estimated that the price elasticity of demand for meals is equal to 2. If the restaurant increases menu prices by 5%, they can expect the number of customers to decrease by _______ and total revenue to _______.
   A) 10%; increase
   B) 5%; stay constant
   C) 10%; fall
   D) 2.5%; fall

14. Suppose the price of university sweatshirts increases from $10 to $20 and the quantity supplied increases from 20 to 30. The price elasticity of supply, using the midpoint formula, is:
   A) 0.66.
   B) 1.50.
   C) 0.60.
   D) 1.66.

15. If the price of chocolate-covered peanuts decreases from $2.00 to $1.55 and the quantity demanded increases from 180 bags to 220 bags, then the price elasticity of demand (using the midpoint method) is:
   A) 0.
   B) 0.5.
   C) 0.8.
   D) 2.

16. When the price of chocolate-covered peanuts decreases from $1.10 to $0.95, the quantity demanded increases from 190 bags to 215 bags. In this price range, the demand for chocolate covered peanuts is _______ and total revenue will _______ when price decreases.
   A) elastic; increase
   B) elastic; decrease
   C) inelastic; increase
   D) inelastic; decrease
17. A men's tie store sold an average of 30 ties per day when the price was $5 per tie. The same store sold 60 of the same ties per day when the price was $3 per tie. In this case, the price elasticity of demand (using the midpoint method) is:
   A) greater than zero but less than 1.
   B) equal to 1.
   C) greater than 1 but less than 3.
   D) greater than 3.

18. Suppose the price of real estate increases by 37.11% in Oakland next year. If the quantity of new homes supplied does not change, this means that the price elasticity of ________ will be perfectly ________ in Oakland next year.
   A) demand; elastic
   B) supply; inelastic
   C) demand; inelastic
   D) supply; elastic
Answer Key

1. B
2. C
3. A
4. A
5. B
6. D
7. C
8. B
9. A
10. A
11. A
12. A
13. C
14. C
15. C
16. D
17. C
18. B