

**ELASTICITY
PRACTICE QUESTIONS**

1. L1-00533 LOS4.13.a

Messmier Clothing, Inc. reported the following information on the retail prices and the corresponding quantity demanded (QD) for a line of men's suits as follows:

<u>Retail Price</u>	<u>Quantity Demanded</u>
\$300	500
\$325	450
\$350	425
\$400	375
\$450	325

Based on the above, what is the price elasticity of demand (and its demand/elasticity interpretation) when the price of men's suits increases from \$350 to \$400?

- a. 1.06 elastic
- b. 1.00 neither elastic or inelastic
- c. 0.94 inelastic

2. L1-00505 LOS4.13.a

At a price of \$11 per unit, Ajax Widget Co. sold 14,000 widgets. After Ajax raised its price to \$13 per unit, it sold only 10,000 units. In this situation, price elasticity of demand is:

- a. 0.5
- b. 1.0
- c. 2.0

3. L1-00509 LOS4.13.a

Which of the following statements concerning price elasticity of demand is correct?

- a. When demand is inelastic, a price increase will cause total revenues to fall.
- b. When demand is elastic, a given percentage increase in price will cause a lower percentage reduction in the quantity demanded.
- c. When demand is of unit elasticity, a given percentage increase in price will cause an equal percentage reduction in quantity demanded.

4. L1-00527 LOS4.13.a

When the price elasticity of demand is inelastic:

- a. Price and total revenue move in the same direction.
- b. Price and total revenue move in the opposite direction.
- c. Total revenue increases whether price goes up or down.

5. L1-00538 LOS4.13.a

As time passes, the price elasticity of demand for a non-luxury product:

- a. Is more inelastic in the long run because as time passes consumers will more readily accept expensive goods by adjusting their budget accordingly.
- b. Becomes more elastic in the long run because consumers can adjust their lifestyles, develop new technologies and find substitute products.
- c. Becomes perfectly inelastic because of market forces.

6.

L1-03030 LOS4.13.b

Jenny Armour, CFA, is an analyst following several major drug manufacturers. She notes that one of the companies that she follows had developed an effective treatment for a common bacterial infection. Other antibiotics have proven ineffective in treating this particular ailment. The drug patent is about to expire, opening production to manufacturers of generic substitutes. The demand for the company's branded drug is currently:

- a. Inelastic and will become more elastic when the patent expires.
- b. Price inelastic and will become less elastic when the patent expires.
- c. Price elastic and will continue to be elastic when the patent expires.

7.

L1-03031 LOS4.13.b

Mike Gibbons is an economic consultant hired to analyze the elasticity of one of the products distributed by Becker Industries. Based on information accumulated from Becker and an industry association's records over the last few years, Mel was able to assemble the following schedule.

<u>Price</u>	<u>Average Income</u>	<u>Quantity Demanded</u>
\$120	\$55,000	35,000
126	52,250	38,500
132	49,640	42,350
139	47,160	46,590

What is the income elasticity of this product as average incomes decrease from \$55,000 to \$52,250, and which type of good is it?

- a. 2.05; necessity.
- b. -2.05; inferior good.
- c. -1.05; inferior good.