ECON1005 Assignment 3

1. The quantity demanded for chicken drops from 500 pounds to 400 pounds when the price rises from $1.50 to $2.50 . *Based on mid-point method*, the price elasticity of demand is
   a. 0.44, and demand is elastic
   b. 0.44, and demand is inelastic
   c. 2.25, and demand is elastic
   d. 2.25, and demand is inelastic
   e. 0.028, and demand is inelastic

2. If the absolute value of the price elasticity of demand is 3, then a one-percent change in price will cause a(n)
   a. **larger percentage change in quantity demanded, so demand is elastic**
   b. larger percentage change in quantity demanded, so demand is inelastic
   c. smaller percentage change in quantity demanded, so demand is elastic
   d. smaller percentage change in quantity demanded, so demand is inelastic
   e. equal percentage change in quantity demand, so demand is unitary elastic

3. If the income elasticity of demand for a good is -2.5, then
   a. it is a normal good, and its demand curve will shift to the left if buyers' incomes increase
   b. it is a normal good, and its demand curve will shift to the right if buyers' incomes increase
   c. it is an inferior good, and its demand curve will shift to the right if buyers' incomes increase
   d. it is an inferior good, and its demand curve will shift to the left if buyers' incomes increase
   e. there is insufficient information to determine whether the good is normal or inferior

4. If demand curve for a good is downward sloping, then an increase in supply of the good will cause the equilibrium
   a. price to fall, but revenue will not change
   b. quantity to fall, but revenue to rise
   c. quantity to rise, but revenue will not change
   d. price to rise, but revenue to fall
   e. price to fall. Seller's total revenue could rise or fall depending on the price elasticity of demand

5. Which of the following statements about straight-line demand curves is true?
   a. The price elasticity of demand becomes larger in absolute value as price falls.
   b. The price elasticity of demand becomes smaller in absolute value as price falls.
   c. The price elasticity of demand is constant along the curve.
   d. The price elasticity of demand and the slope of the demand curve are the same.
   e. Demand is price elastic everywhere along the curve.

6. Demand for a good is likely to be less elastic
   a. the larger the number of substitute goods available
   b. the larger the spending on the good as a share of the buyer's budget
   c. in the long run than in the short run
   d. If the good is a luxury to consumers
   e. the smaller the number of substitute goods available

7. The long-run price elasticity of demand for a good is usually
   a. zero
   b. smaller (in absolute value) than the short-run price elasticity
   c. larger (in absolute value) than the short-run price elasticity
   d. infinite
   e. the same as the short-run elasticity

8. For which of the following items is demand likely to be the most price elastic?
   a. laundry detergent in general
   b. liquid laundry detergent
   c. a particular brand of liquid laundry detergent
   d. all of the above are equally price elastic
   e. all of the above are price elastic

9. If a company measures advertising elasticity of demand as the percentage change in quantity demanded divided by the percentage change in advertising expenditure, and the advertising elasticity of demand for a good is -1.5, then
   a. its advertising is effective in increasing demand, as the demand curve will shift to the left if the company advertising expenditure increases
   b. its advertising is effective in increasing demand, as the demand curve will shift to the right if the company advertising expenditure increases
   c. its advertising is ineffective in increasing demand, as the demand curve will shift to the left if the company advertising expenditure increases
   d. its advertising is ineffective in increasing demand, as the demand curve will shift to the right if the company advertising expenditure increases
   e. there is insufficient information to determine whether its advertising is effective or not.

10. If a price decrease results in no change in seller's total revenue then
   a. supply determined demand
   b. supply is unresponsive to demand
   c. demand is elastic over this price range
   d. demand is inelastic over this price range
   e. demand is unit elastic over this price range

11. If demand is perfectly elastic, then
    a. the demand curve is a horizontal line
    b. supply is perfectly inelastic
    c. supply is perfectly elastic
    d. the demand curve is a vertical line
    e. the demand curve is downward sloping

12. If the cross-price elasticity of demand between two goods is -2.2, then the
    a. two goods are substitutes
    b. two goods are complements
    c. income elasticity of demand must be between 0 and 1.0
    d. goods are both normal goods
    e. goods are both inferior goods

13. A perfectly inelastic supply curve
    a. cannot exist
    b. is horizontal
    c. has an elasticity of infinity
    d. has an elasticity of 1
    e. is vertical

14. If the elasticity of supply is much greater than the elasticity of demand, an excise tax levied on the suppliers will
    a. cause the suppliers to incur a greater burden of the tax than demanders
    b. cause the demanders to incur a greater burden of the tax than suppliers
    c. the burden of the tax will be shared equally between the suppliers and the demanders
    d. cause the entire burden of the tax to rest on the demanders
    e. Without more information as to the amount of the excise tax, who will incur a greater burden will be unclear

15. If the elasticity of demand is much greater than the elasticity of supply, a subsidy awarded to demanders will
    a. benefit the demanders more than the suppliers
    b. benefit the suppliers more than the demanders
    c. the benefit of the subsidy will be equally shared between the demanders and the suppliers
    d. allow the demanders to be the only ones who will benefit
    e. Without more information as to the amount of the subsidy, who will benefit more cannot be determined