

Chapter 20: Demand and Supply: Elasticities and Applications
Extra Multiple Choice Questions for Review

1. If the price elasticity of demand for a good is .75, the demand for the good can be described as:
A) normal. B) elastic. C) inferior. D) inelastic.

2. When the price of a product is increased 10 percent, the quantity demanded decreases 15 percent. In this range of prices, demand for this product is:
A) elastic. B) inelastic. C) cross-elastic. D) unitary elastic.

3. If the price elasticity of demand for a product is equal to 0.5, then a 10 percent decrease in price will:
A) increase quantity demanded by 5 percent.
B) increase quantity demanded by 0.5 percent.
C) decrease quantity demanded by 5 percent.
D) decrease quantity demanded by 0.5 percent.

4. Suppose you are given the following data on demand for a product. The price elasticity of demand when price decreases from \$9 to \$7 is:

Price (\$)	Quantity Demanded
10	30
9	40
8	50
7	60
6	70

- A) .63. B) 1.16. C) 1.60. D) 2.27.

Use the following to answer question 5:

5. If an increase in the supply of a product results in a decrease in the price, but no change in the actual quantity of the product exchanged, then:
- A) the price elasticity of supply is zero.
 - B) the price elasticity of supply is infinite.
 - C) the price elasticity of demand is unitary.
 - D) the price elasticity of demand is zero.
6. If 100 units of product K are sold at a unit price of \$10 and 75 units of product K are sold at a unit price of \$15, one can conclude that in this price range:
- A) demand for product K is elastic.
 - B) demand for product K is inelastic.
 - C) demand for product K has shifted to the right.
 - D) consumers are sensitive to price changes of product K.
7. Total revenue falls as the price of a good increases if price elasticity of demand is:
- A) elastic. B) inelastic. C) unitary elastic. D) perfectly elastic.
8. The demand for Cheerios cereal is more price-elastic than the demand for cereals as a whole. This is best explained by the fact that:
- A) Cheerios are a luxury.
 - B) cereals are a necessity.
 - C) there are more substitutes for Cheerios than for cereals as a whole.
 - D) consumption of cereals as a whole is greater than consumption of Cheerios.
9. What is the most likely effect of the development of television, videocassette players, and rental movies on the movie theater industry?
- A) decreased costs of producing movies
 - B) increased demand for movie theater tickets
 - C) movie theater tickets become an inferior good
 - D) increased price elasticity of demand for movie theater tickets

10. If in the short run the demand for mass transit is inelastic and in the long run the demand is elastic, then a price:
- A) increase will decrease total revenue in the short run but increase total revenue in the long run.
 - B) increase will increase total revenue in the short run but decrease total revenue in the long run.
 - C) decrease will increase total revenue in the short run but decrease total revenue in the long run.
 - D) decrease will decrease total revenue in the short run and decrease total revenue in the long run.
11. The price elasticity of demand will increase with the length of the period to which the demand curve pertains because:
- A) consumers' incomes will increase.
 - B) the demand curve will shift outward.
 - C) all prices will increase over time.
 - D) consumers will be better able to find substitutes.
12. If demand for farm crops is inelastic, a good harvest will cause farm revenues to:
- A) increase because of the increase in the quantity that farmers can sell.
 - B) increase because of a downward movement along the supply curve, encouraging an increase in demand.
 - C) decrease because of a percentage fall in price greater than the percentage increase in quantity sold.
 - D) remain unchanged, because the increase in quantity that can be sold will be matched by an equal decrease in price.
13. A state government wants to increase the taxes on cigarettes to increase tax revenue. This tax would only be effective in raising new tax revenues if the price elasticity of demand is:
- A) unity. B) elastic. C) inelastic. D) perfectly elastic.
14. Sony is considering a 10 percent price reduction on its color television sets. If the demand for sets in this price range is inelastic:
- A) revenues from color sets will remain constant.
 - B) revenues derived from color sets will decrease.
 - C) revenues derived from color sets will increase.
 - D) the number of television sets sold will decrease.

15. The price elasticity of demand for a textbook is estimated to be 1 no matter what the price or quantity demanded. In this case,:
- A) a 10 percent increase in price will result in a 10 percent increase in the quantity demanded.
 - B) a 10 percent increase in price will result in a 10 percent decrease in the quantity demanded.
 - C) an increase in price will decrease the total revenue of sellers.
 - D) a decrease in price will increase the total revenue of sellers.
16. To economists the main differences between "the short run" and "the long run" are that:
- A) the law of diminishing returns applies in the long run, but not in the short run.
 - B) in the short run all resources are fixed, while in the long run all resources are variable.
 - C) in the long run all resources are variable, while in the short run at least one resource is fixed.
 - D) fixed costs are more important to decision making in the long run than they are in the short run.
17. Cross elasticity of demand is:
- A) negative for complementary goods.
 - B) negative for substitute goods.
 - C) unitary for inferior goods.
 - D) positive for inferior goods.
18. A positive cross elasticity of demand coefficient indicates that:
- A) a product is an inferior good.
 - B) a product is a normal good.
 - C) two products are substitute goods.
 - D) two products are complementary goods.
19. A 3 percent increase in the price of tea causes a 6 percent increase in the demand for coffee. The cross elasticity of demand for coffee with respect to the price of tea is:
- A) -0.5.
 - B) +0.5.
 - C) -2.0.
 - D) +2.0.
20. For which product is the income elasticity of demand most likely to be negative?
- A) computer software
 - B) used clothing
 - C) basketballs
 - D) bread
21. The income elasticity of demand for jewelry is 2. Other things equal, a 10 percent increase in consumer income will:
- A) decrease the quantity of jewelry purchased by 20 percent.
 - B) increase the quantity of jewelry purchased by 10 percent.
 - C) decrease the quantity of jewelry purchased by 10 percent.
 - D) increase the quantity of jewelry purchased by 20 percent.

22. A market without legal prices is in equilibrium when:
- A) quantity demanded equals price.
 - B) the demand curve remains constant.
 - C) quantity demanded equals quantity supplied.
 - D) quantity demanded is greater than quantity supplied.
23. If a price floor above the equilibrium price is imposed by government in a market:
- A) shortages of the commodity will develop.
 - B) the quantity demanded will exceed the quantity supplied.
 - C) the quantity supplied will exceed the quantity demanded.
 - D) the free-market equilibrium price and quantity will still be realized.
24. Which would be an example of a government price ceiling?
- A) limits on interest rates charged by credit card companies
 - B) subsidies for apartment rent in major cities
 - C) minimum-wage laws for unskilled workers
 - D) price supports for agricultural products
25. The price elasticity of demand for a popular sporting event is 2. If the price of a ticket to this event increases by 10 percent, the quantity of tickets demanded will:
- A) decrease by 10 percent.
 - B) increase by 20 percent.
 - C) increase by 10 percent.
 - D) decrease by 20 percent.

Answer Key -- ch20

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