

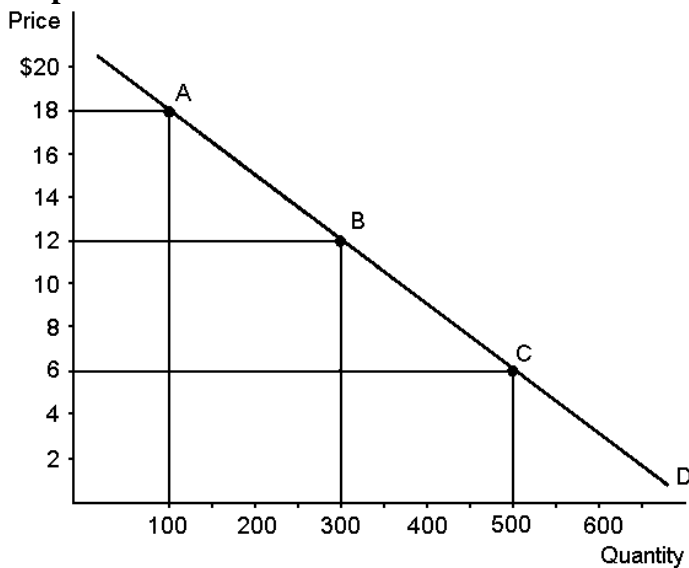
Chapter 5 Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Economists use the concept of price elasticity of demand to measure
- how much buyers respond to changes in the price of the good.
 - how much sellers respond to changes in the price of the good.
 - how much worse off consumers are when the price of the good rises.
 - how much demand responds to changes in buyers' incomes.
- _____ 2. Demand is unit elastic if
- elasticity is less than 1.
 - elasticity is equal to 1.
 - elasticity is greater than 1.
 - elasticity is equal to 0.

Graph 5-2



- _____ 3. In Graph 5-2, the elasticity of demand from point A to point B, using the midpoint method would be
- 1
 - 1.5
 - 2
 - 2.5
- _____ 4. Demand is said to be inelastic if the
- quantity demanded changes proportionately more than the price.
 - quantity demanded changes proportionately less than the price.
 - price changes proportionately more than income.
 - quantity demanded changes proportionately the same as the price.

- _____ 5. A perfectly elastic demand implies that
- buyers will not respond to any change in price.
 - a horizontal demand curve.
 - price and quantity demanded respond proportionally.
 - price will rise by an infinite amount when there is a change in quantity demanded.
- _____ 6. Income elasticity of demand measures
- how the quantity demanded changes as consumer income changes.
 - how consumer purchasing power is affected by a change in the price of a good.
 - how the price of a good is affected when there is a change in consumer income.
 - how many units of a good a consumer can buy given a certain income level.
- _____ 7. Cross-price elasticity of demand is calculated as
- the percentage change in quantity demanded of good 1 divided by the percentage change in the price of good 2.
 - the total percentage change in quantity demanded divided by the total percentage change in price.
 - the percentage change in quantity demanded divided by the percentage change in income.
 - none of the above.
- _____ 8. If the cross-price elasticity of demand is negative, then the two goods would be
- substitutes.
 - luxuries.
 - complements.
 - normal goods.
- _____ 9. If the cross-price elasticity of demand is 1.25, then the two goods would be
- complements.
 - luxuries.
 - normal goods.
 - substitutes.
- _____ 10. Get Smart University is contemplating increasing tuition to enhance revenue. If GSU feels that raising tuition would enhance revenue,
- they are necessarily ignoring the law of demand.
 - they are assuming that the demand for university education is elastic.
 - they are assuming that the supply of university education is elastic.
 - they are assuming that the demand for university education is inelastic.
- _____ 11. Holding all else constant, if a consumer decreases consumption of pencils by 20 percent when the market price of pencils increases from \$0.50 to \$0.60, then the price elasticity of demand, using the percentage method, must be
- elastic.
 - very inelastic.
 - slightly inelastic.
 - unit elastic.

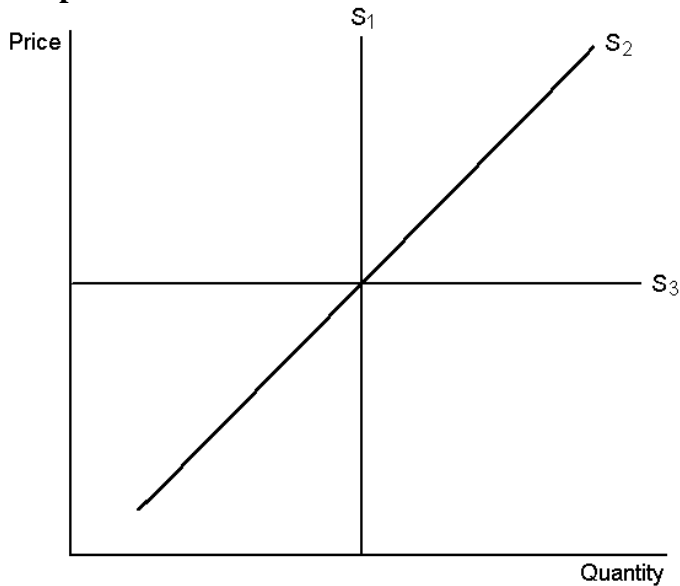
Table 5-2

Suppose there is a baseball park with 10,000 seats and a demand for seats in the park as follows:

<u>Price per Ticket</u>	<u>Quantity Demanded</u>
\$20	2,000
16	4,000
12	6,000
8	8,000
6	10,000
4	12,000
2	14,000

- _____ 12. Referring to Table 5-2, if the management of the baseball park charges \$8 per ticket
- a. there will be a shortage of tickets.
 - b. there will be 2,000 empty seats.
 - c. there will be 4,000 empty seats.
 - d. revenue will be maximized.
- _____ 13. Refer to Table 5-2. Notice that lowering the price from \$8 to \$6 per ticket decreases revenue by \$4,000. In the \$6 to \$8 price range, demand for baseball tickets must be
- a. price elastic
 - b. price inelastic
 - c. price unit elastic
 - d. income elastic

Graph 5-5



- _____ 14. In Graph 5-5, which supply curve is perfectly inelastic?
- a. S₁
 - b. S₂
 - c. S₃
 - d. It is impossible to tell without more information.

- _____ 15. Suppose a producer is able to separate customers into two groups, one having a price inelastic demand and the other having a price elastic demand. If the producer's objective is to increase total revenue, she should
- a. increase the price charged to customers with the price elastic demand and decrease the price charged to customers with the price inelastic demand.
 - b. decrease the price charged to customers with the price elastic demand and increase the price charged to customers with the price inelastic demand.
 - c. charge the same price to both groups of customers.
 - d. increase the price for both groups of customers.