**Question 1**

1. Which of the following **is** an important factor that tends to affect the magnitude of the own-price elasticity of demand for a good?

|  |  |  |
| --- | --- | --- |
|  | a. | The availability of substitutes  |
|  | b. | Time  |
|  | c. | The expenditure share  |
|  | d. | The useful economic life of the good  |
|  | e. | All of the above |

0.5 points

**Question 2**

1. In the process of identifying low-value sellers and high-value buyers, a market maker obtains his profits by *bidding high*and *asking low*.

True

False

0.5 points

**Question 3**

1. The demand for food tends to be:

|  |  |  |
| --- | --- | --- |
|  | a. | More price responsive than the demand for beef  |
|  | b. | Highly sensitive to changes in price, while the demand for beef is not  |
|  | c. | None of these statements describes the relationship between the demand for beef and the demand for food  |
|  | d. | As elastic as the demand for beef  |
|  | e. | Less elastic than the demand for beef  |

0.5 points

**Question 4**

1. The own-price elasticity of demand for green apples is -1.2. If due to unusually good weather the price of apples falls by 5%, what will happen to the quantity of apples demanded?

|  |  |  |
| --- | --- | --- |
|  | a. | It will increase 6%  |
|  | b. | It will remain unchanged since only price, not income, changes.  |
|  | c. | It will fall 6%  |
|  | d. | It will increase 5%  |
|  | e. | It will increase 4.2%  |

0.5 points

**Question 5**

1. The demand for good X has been estimated by *Qxd*= 12 - 3*Px* + 4*Py*, where *Px*is the price of good *X*, and *Py* is the price of good *Y*, a related product. Suppose that good *X* sells for $2 and good *Y* for $1 per unit. Calculate the own-price elasticity of demand at this price & output combination.

|  |  |  |
| --- | --- | --- |
|  | a. | -0.6  |
|  | b. | 0.6  |
|  | c. | -0.3  |
|  | d. | -0.2  |
|  | e. | -0.5  |

1 points

**Question 6**

1. Based on the own-price elasticity of demand estimated above, if the firm wants to boost revenues, it could do so by raising prices.

True

False

0.5 points

**Question 7**

1. The demand for a company *X*'s product is estimated by *Qx* = 12 - 3*Px* + 4*Py*. Suppose now good *X* sells for $3.00 per unit and that good *Y* sells for $1.50 per unit. What is the cross-price elasticity of demand between goods *X* and *Y* at the given prices?

|  |  |  |
| --- | --- | --- |
|  | a. | 0.57  |
|  | b. | -1.00  |
|  | c. | -0.5  |
|  | d. | 0.67  |

1 points

**Question 8**

1. Based on the cross-price elasticity of demand estimated above, goods *X* and *Y* are substitutes.

True

False

0.25 points

**Question 9**

1. The US Department of Agriculture has been concerned that Americans aren't eating enough fruit and vegetables and they are considering coupons and other subsidies to encourage people to eat healthier foods. The estimate the following own-price elasticity for the following fruits:Fruit               Elasticity of DemandApple             -0.16Banana           -0.42Grapefruit      -1.02Grapes            -0.91Orange           -1.14Based on these elasticity estimates, which fruit is the most inelastically demanded? Which one is the most elastically demanded?

|  |  |  |
| --- | --- | --- |
|  | a. | Orange. Apple.  |
|  | b. | Apple. Orange.  |
|  | c. | Orange. Banana  |
|  | d. | Grapefruit. Grapes  |

0.5 points

**Question 10**

1. For which of these fruits would a 10% drop in price cause an increase in revenue from the sale of that fruit?

|  |  |  |
| --- | --- | --- |
|  | a. | Grapefruit and banana  |
|  | b. | Total revenue will increase for all these fruits after a 10% decrease in their price.  |
|  | c. | Grapefruit and orange  |
|  | d. | Banana and grapes  |

1.5 points

**Question 11**

1. If the government could also offer "10% off" coupons for three of these fruits, and it wanted to have the biggest possible effect on quantity demanded, which three fruits should get the coupons?

|  |  |  |
| --- | --- | --- |
|  | a. | Banana, grapefruit and orange |
|  | b. | Apple, banana, grapefruit |
|  | c. | Orange, grapefruit and grapes |
|  | d. | Orange, grapes and banana |

0.5 points

**Question 12**

1. A recent report by the Department of Transportation estimated the income elasticity of transportation to be 1.8. Based on this estimate, which of the following statements is **incorrect**?

|  |  |  |
| --- | --- | --- |
|  | a. | Transportation is a normal good  |
|  | b. | Expenditures on transportation grow more rapidly than income grows  |
|  | c. | Expenditures on transportation will fall less rapidly than income falls  |
|  | d. | Whenever the income increases by 1%, the expenditure on transportation increases by 1.8%  |

0.75 points

**Question 13**

1. Last week, Blackberry dropped the price of one of its phones (thru all carriers) from $375 to $350 in the KC area. In response, customer purchases increased from 12,000 phones to 15,500 phones. During the same period, Palm prices remained the same, but purchases of Palm phones in the KC area dropped from 8,500 to 6,800 phones. The own-price elasticity for Blackberry phones is:

|  |  |  |
| --- | --- | --- |
|  | a. | 3.69  |
|  | b. | -3.69  |
|  | c. | -1.59  |
|  | d. | -2.59  |

0.75 points

**Question 14**

1. Based on the numbers above, the cross-price elasticity between Palm and Blackberry (how the Qd of Palm phones change when the P of Blackberry phones changes) is:

|  |  |  |
| --- | --- | --- |
|  | a. | 2.59  |
|  | b. | -3.22, indicating they are substitutes  |
|  | c. | The own price and cross price elasticities are the same  |
|  | d. | 3.22, indicating they are substitutes  |
|  | e. | It cannot be determined without knowing what happened to the price of Palm phones  |

0.75 points

**Question 15**

1. If sugar and Splenda are substitutes, then we can predict that a decrease in the price of Splenda will lead to an increase in the consumption of:

|  |  |  |
| --- | --- | --- |
|  | a. | Sugar.  |
|  | b. | Neither good  |
|  | c. | Both goods.  |
|  | d. | Splenda  |
|  | e. | None of the statements is correct.  |