1. **Answer the following questions based on the accompanying diagram**

a. How much would the firm’s revenue change if it lowered price from $12 to $10? Is demand elastic or inelastic in this range?

1. How much would the firm’s revenue changed if it lowered price from $4 to $2? Is demand elastic or inelastic in this range?
2. What price maximizes the firm’s total revenue? What is the elasticity of demand at this point on the demand curve?

**Price ($)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
| P |  |  |  |  |  |  |  |
| 14 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 12 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 10 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 8 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 6 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 4 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |
| 0 |  1 |  2 |  3 |  4 |  5 |  6 | Q |

0

1. **Suppose the own price elasticity of demand elasticity of demand for good X is -2, its income elasticity is 3, its advertising elasticity is 4, and the cross-price elasticity of demand between it and good Y is -6. Determine how much the consumption of this good will change if:**
2. The price of good X increases by 5 percent
3. The price of good Y increases by 10 percent
4. Advertising decreases by 2 percent
5. Income falls by 3 percent
6. **Suppose the cross-price elasticity of demand between goods X and Y is -5.How much would the price of good Y have to change I order to increase the consumption of good X by 50 percent.**
7. **For the first time in two years, Big G ( the cereal division of General Mills raised cereal prices by 2 percent. If as a result of this price increase, the volume of all cereal sold by Big G dropped by 3 percent, what can you infer about the own price elasticity of demand for Big G cereal? Can you predict whether revenues on sales of its Lucky charms brand increased or decreased? Explain.**