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Micro Economics solved MCQS Elasticity Concepts MIDTERM DATA 100% SURE SOLUTION

1. In 1991, the price of gasoline fell significantly. At the new lower price, gasoline is
   a. relatively more price elastic.
   b. **relatively more price inelastic.**
   c. unaffected in terms of elasticity.
   d. unitarily elastic.
   e. none of the above.vchowk.com

2. Price elasticity of demand is defined to be
   a. the change in quantity demanded resulting from a 1 cent change in price.
   b. the percentage change in price resulting from a 1 unit change in quantity demanded.
   c. **the percentage change in quantity demanded resulting from a 1 percent change in price.**
   d. the maximum amount consumers will pay for 1 percent more of a good.
   e. the change in the price of a good divided by the resulting change in its quantity demanded.

3. Suppose that the price elasticity of demand for maple syrup has been estimated at -2. If quantity demanded increased by 10 percent, price must have changed by
   a. **5 percent lower.**
   b. 5 percent higher.
   c. 10 percent lower.
   d. 10 percent higher.vchowk.com
   e. cannot be determined from the given information.

4. Along any straight-line, negatively sloped demand curve,
   a. the price elasticity and slope vary.
   b. **the price elasticity varies, but the slope remains the same.**
   c. the slope varies, but the price elasticity remains the same.
   d. the price elasticity and slope remain the same.
   e. none of the above are necessarily true.

5. Price elasticity at a given price is *not* affected by
   a. the price of complements.
   b. the price of substitutes.
   c. the consumer’s income.
   d. a change in tastes.
   e. **a change in supply.**

6. The arc elasticity formula is used to estimate elasticity when
   a. the product is thought to be inelastic.
   b. the product is thought to be elastic.
   c. the demand function is known.
   d. **there are two observations of price and quantity.**
   e. none of the above.

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7. At your favorite watering spot, happy hour prices are less than normal prices for all drinks except wine. No discount prices are offered for wine. You can conclude that
   a. wine drinkers may be price elastic.
   b. wine is a substitute and thus sales will rise without a price reduction.
   c. **wine drinkers may be price inelastic.**
   d. none of the above could be correct.

8. The price elasticity of demand is the same thing as the negative of the
   a. slope.
   b. reciprocal of slope.
   c. the first derivative of the demand function.
   d. **reciprocal of slope times the ratio of price to quantity.**
   e. all of the above.

9. An elasticity coefficient of -1 means that
   a. the demand curve is perfectly inelastic.
   b. the demand curve is perfectly elastic.
   c. **the relative changes in price and quantity are equal.**
   d. expenditures on the good would increase if prices were reduced.
   e. expenditures on the good would decrease if prices were reduced.

10. If the demand curve for a good is downward sloping, then the good must be
   a. normal.
   b. inferior.
   c. Giffen.
   d. **either (a) or (b).**
   e. either (b) or (c).

11. Three points on a demand curve can be derived from the price consumption curve drawn perpendicular to the X-axis, as shown in the adjoining graph. From this graph, we can see that
   a. the demand for X is unit elastic.
   b. **the demand for Y is unit elastic.**
   c. the demand for X is infinitely elastic.
   d. the demand for Y is infinitely elastic.
   e. the demand for X is completely inelastic.

12. Three points on a demand curve can be derived from the price consumption curve drawn parallel to the X-axis, as shown in the adjoining graph. From this graph, we can see that
   a. the demand for Y is unit elastic.
   b. the demand for X is unit elastic.
   c. the demand for Y is infinitely elastic.
   d. the demand for X is infinitely elastic.

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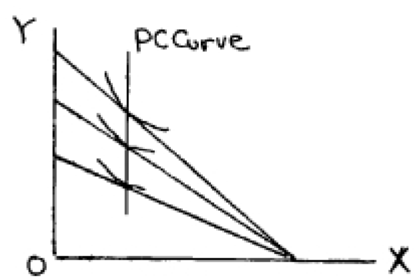

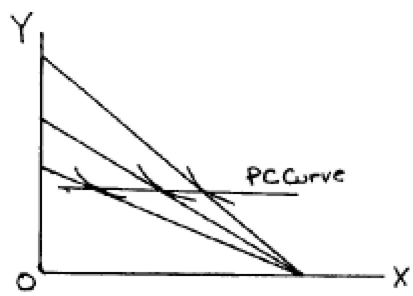

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13. If the demand for gasoline is relatively but not completely price inelastic, then it follows that
    a. people would be willing to pay any price to drive.
    b. a decrease in the price of gasoline would increase the supply of gasoline.
    c. **a decrease in the price of gasoline would reduce the total amount spent on gasoline.**
    d. gasoline consumption could not be cut without rationing.
    e. an increase in the price of gasoline would not cause the quantity demanded of gasoline to fall.

14. The most important determinant of price elasticity is
    a. the slope of the demand curve.
    b. **the availability of substitutes**.
    c. the price of other goods.
    d. the income of the consumer.
    e. the price of complements.

15. If consumers spend $15 million a month on CDs, regardless of whether the price they pay goes up or down, that implies that their price elasticity of demand for CDs is
    a. 0.
    b. **1.**
    c. infinite.
    d. 15.www.vchowk.com
    e. cannot be determined.

16. Which of the following will *not* be a determinant of the price elasticity of demand for a commodity?
    a. The absence of substitute for the good.
    b. The presence of substitutes for the good.
    c. The importance of the commodity in consumers'' budgets.
    d. The length of time period to which the demand curve pertains.
    e. **The cost of producing the commodity.**

17. In 1976, a frost in Brazil killed over 500 million coffee trees and damaged many more. A civil war in Angola, a major supplier of coffee, cut back its crop. And, an earthquake in Guatemala disrupted the flow of coffee. In spite of these calamities, these three producers reported an increase in export earnings. On the basis of this information, which of the following must be true?
    a. The demand for coffee is price elastic.
    b. The supply of coffee is price elastic.
    c. **The demand for coffee is price inelastic.**
    d. The supply of coffee is price inelastic.
    e. The demand for coffee is unit elastic.

18. If the demand for emeralds is elastic, then
    a. emeralds will have a high price.
    b**. a reduction in price will lead to an increase in the expenditure on emeralds**.
    c. the slope of the demand curve for emeralds must be greater than one.
    d. a price reduction will not appreciably affect sales.
    e. the slope of the price consumption curve for emeralds must be greater than one.

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19. The market demand for a product is found by
    a. **horizontally summing the individual demand curves.**
    b. vertically summing the individual demand curves.
    c. both horizontally and vertically summing the individual demand curves.
    d. none of the above.

20. 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.**
    e. firms will be better able to produce the good for less.

21. If the income elasticity of demand is +4
    a. the good is an inferior good.
    b. the good is an inelastic normal good.
    c. **the good is an elastic normal good.**
    d. the good is an elastic inferior good.
    e. none of the above.www.vchowk.com

22. Luxuries are distinguished from necessities by
    a. the number of substitutes available for each.
    b. the fact that luxuries have high prices and necessities have low ones.
    c. the high price elasticity of demand for luxuries and the low price elasticity of demand for necessities.
    d. **the high income elasticity of demand for luxuries and the low income elasticity of demand for necessities.**
    e. the absolute slope of the Engel curve.

23. Which of the following is likely to have a negative cross price elasticity of demand?
    a. Aluminum foil and cellophane.
    b. Jelly beans and licorice sticks.
    c. Bethlehem steel and imported Japanese steel.
    d. **Big Macs and French fries**.
    e. Buggy whips and bug spray.

24. In a 1956 Supreme Court case, economists for E.I. DuPont discovered that the cross price elasticity between its cellophane and the prices of similar wrapping materials was large and positive. This evidence suggested:
    1. DuPont's control of cellophane could not be construed as being monopolistic because the other goods in question were strong substitutes and therefore in competition with each other.
    2. The demand of cellophane was price elastic.
    3. Cellophane was an inferior good.

    a. **1 only.**
    b. 2 only.
    c. 1 and 2 only.
    d. 2 and 3 only.
    e. 1, 2, and 3.

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25. In the early 1940s, Columbia Records, after considerable study, decided to reduce the price of classical records with the result that total expenditure on classical records rose greatly. This would imply that at the time.
    a. the demand for classical records was greater than that for popular records.
    b. the demand for classical records was highly inelastic.
    c. **the demand for classical records was highly elastic.**
    d. the demand curve for classical records was upward sloping.
    e. the supply of classical records was very inelastic.

26. The income elasticity of an inferior good is
    a. negative because as people get richer they increase their purchases of the good by smaller and smaller amounts.
    b. 1 because the increased income offsets the desire to consume less of the good because it is inferior.
    c. greater than 1 because the richer you get, the less you consume of the good.
    d. **negative because higher income leads to a reduction in the amount consumed of the product.**

27. The income elasticity of demand
    a. is negative for normal goods.
    b. is positive for inferior goods.
    c. **equals the relative change in demand for a good divided by the relative change in the income of consumers, all else being equal.**
    d. is correctly described by all of the above.

28. If a good's income-elasticity-of-demand estimate equaled
    a. 2.46, an economist would call the good a necessity.
    b. 0.37, an economist would call the good a luxury.
    c. **-0.50, an economist would call the good an inferior one.**
    d. -0.50, an economist would call the good a complementary one.

29. With Y on the vertical axis and X on the horizontal axis, if the price-consumption curve for X is upward sloping to the right,
    a. the price elasticity of demand for X is relatively elastic.
    b. **the price elasticity of demand for X is relatively inelastic.**
    c. X is an inferior good.
    d. the price elasticity of demand for X is equal to -1.

30. With Y on the vertical axis and X on the horizontal axis, if the price-consumption curve for X is downward sloping to the right,
    a. the price elasticity of demand for X is relatively elastic.
    b. the price elasticity of demand for X is relatively inelastic.
    c. X is an inferior good.
    d. the price elasticity of demand for X is equal to -1.

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