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Additional Problems: Class 4

1. For demand function P = 24 - 6Q
   A. Demand is elastic at price 16
   B. Demand is elastic at price 12
   C. Demand is elastic at price 2
   D. Demand has unitary elasticity at all points on the function

2. The price consumption curve shows us
   A. Whether we spend more or less on a commodity when its price changes
   B. The changes in nominal income that occur for a price change of a good
   C. The substitution effect of a price change
   D. The total effect of a price change

3. An Engel curve
   A. Always slopes up for an inferior good
   B. Always slopes down for an inferior good
   C. May slope up or down for a normal good
   D. Does not relate to the normal or inferior good concepts

4. The substitution effect is
   A. Always greater than the income effect
   B. Always less than the income effect
   C. Never greater than the income effect
   D. Sometimes less than the income effect

5. For a Giffen good
   A. The income effect is greater than the substitution effect
   B. The income effect is less than the substitution effect
   C. The income effect is in the same direction of the substitution effect
   D. The income effect is the same as the substitution effect

6. Price elasticity of demand is
   A. The percentage change in quantity demanded divided by the percentage change in price
   B. The change in price divided by the change in quantity
   C. The change in quantity divided by the change in price
   D. The percent change in price divided by the change in quantity

7. At $5 Joe buys 1 pen; at $1 he buys 3 pens. What is the arc elasticity over this range?
   A. -1.5
   B. -.66
   C. 1
   D. -0.75

8. If the demand for widgets is inelastic, revenues will _____ if the price of widgets increases.
   A. Increase
   B. Fall
   C. Remain the same
   D. One cannot tell what will happen to revenues without specific elasticity numbers

9. The point on a linear demand curve where revenue is maximized is
   A. Where elasticity equals -1
   B. Where elasticity equals 0
   C. Where elasticity equals infinity
   D. Where the price is the highest

10. A linear demand curve
    A. Can have constant elasticity if its slope is more than one
    B. Will have an ever rising total revenue function
    C. Becomes less elastic as price falls
    D. Always has a constant elasticity

11. Which of the following goods is likely to have the lowest elasticity of demand?
    A. Milk
    B. Diamonds
    C. Furniture
    D. Automobile

12. The income elasticity of demand for an inferior good could be
    A. Positive
    B. Negative
    C. Zero
    D. Any one of the above depending on the other factors involved

13. The cross-price elasticity of demand for complements is
    A. Is positive
    B. Is negative
    C. Is zero
    D. Cannot be specified without more information

14. Which of the following goods are likely to have a positive cross-price elasticity?
    A. Butter and margarine
    B. Tires and automobiles
    C. Pepsi and pizza
    D. Peanut butter and jelly

15. For the demand function P = 24 - 3Q
    A. Demand is inelastic at price 16
    B. Total revenue is maximized at price 12
    C. Unitary elasticity occurs at price 2
    D. Demand is elastic at price 12

16. Say you a kiosk where you sell T-shirts to other students. After conducting a quick survey you find that at the current price the price elasticity of demand for your T-shirts is inelastic. Knowing this, if you wanted to increase the total revenue from selling T-shirts you should:
    A. Increase the price
    B. Lower the price
    C. Leave the price as it is
    D. Sell more T-shirt