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
   a. how much buyers respond to changes in the price of the good.
   b. how much sellers respond to changes in the price of the good.
   c. how much worse off consumers are when the price of the good rises.
   d. how much demand responds to changes in buyers' incomes.

2. Demand is unit elastic if
   a. elasticity is less than 1.
   b. elasticity is equal to 1.
   c. elasticity is greater than 1.
   d. elasticity is equal to 0.

3. In Graph 5-2, the elasticity of demand from point A to point B, using the midpoint method would be
   a. 1
   b. 1.5
   c. 2
   d. 2.5

4. Demand is said to be inelastic if the
   a. quantity demanded changes proportionately more than the price.
   b. quantity demanded changes proportionately less than the price.
   c. price changes proportionately more than income.
   d. quantity demanded changes proportionately the same as the price.
5. A perfectly elastic demand implies that
   a. buyers will not respond to any change in price.  
   b. a horizontal demand curve. 
   c. price and quantity demanded respond proportionally. 
   d. price will rise by an infinite amount when there is a change in quantity demanded.

6. Income elasticity of demand measures
   a. how the quantity demanded changes as consumer income changes. 
   b. how consumer purchasing power is affected by a change in the price of a good. 
   c. how the price of a good is affected when there is a change in consumer income. 
   d. how many units of a good a consumer can buy given a certain income level.

7. Cross-price elasticity of demand is calculated as
   a. the percentage change in quantity demanded of good 1 divided by the percentage 
      change in the price of good 2.  
   b. the total percentage change in quantity demanded divided by the total percentage 
      change in price. 
   c. the percentage change in quantity demanded divided by the percentage change in 
      income. 
   d. none of the above.

8. If the cross-price elasticity of demand is negative, then the two goods would be
   a. substitutes. 
   b. luxuries. 
   c. complements. 
   d. normal goods.

9. If the cross-price elasticity of demand is 1.25, then the two goods would be
   a. complements. 
   b. luxuries. 
   c. normal goods. 
   d. substitutes.

10. Get Smart University is contemplating increasing tuition to enhance revenue. If GSU feels that 
    raising tuition would enhance revenue, 
    a. they are necessarily ignoring the law of demand. 
    b. they are assuming that the demand for university education is elastic. 
    c. they are assuming that the supply of university education is elastic. 
    d. 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 
    a. elastic. 
    b. very inelastic. 
    c. slightly inelastic. 
    d. 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:

<table>
<thead>
<tr>
<th>Price per Ticket</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20</td>
<td>2,000</td>
</tr>
<tr>
<td>16</td>
<td>4,000</td>
</tr>
<tr>
<td>12</td>
<td>6,000</td>
</tr>
<tr>
<td>8</td>
<td>8,000</td>
</tr>
<tr>
<td>6</td>
<td>10,000</td>
</tr>
<tr>
<td>4</td>
<td>12,000</td>
</tr>
<tr>
<td>2</td>
<td>14,000</td>
</tr>
</tbody>
</table>

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.