

Section 3: Quiz

Elasticity of Demand



A. Key Terms

Briefly define or identify each of the following.

1. elastic _____
2. inelastic _____
3. total revenue _____

B. Main Ideas

Write the letter of the correct answer in the blank provided.

- _____ 4. What does elasticity of demand measure?
 - a. an increase in the quantity available
 - b. a decrease in the quantity demanded
 - c. how buyers will cut back or increase their demand when price rises or falls
 - d. the amount of time consumers need to change their demand for a good

- _____ 5. When elasticity of demand for a good is exactly 1, how is demand described?
 - a. unitary elastic
 - b. balanced
 - c. exactly equal
 - d. inelastic

- _____ 6. How does elasticity affect a company's pricing policy?
 - a. If demand is inelastic at the current price, the company knows that an increase in price would reduce total revenues.
 - b. If demand is elastic at the current price, the company knows that an increase in price would reduce total revenues.
 - c. If demand is unitary elastic, the company knows that a decrease in price would decrease total revenues.
 - d. If demand is unitary elastic, the company knows that an increase in price would increase total revenues.

- _____ 7. How does the price range affect the elasticity of demand for a product?
 - a. Demand for all goods is elastic if the price is low enough.
 - b. Demand for a good can be elastic at a low price but inelastic at a high price.
 - c. Demand for a good can be inelastic at a low price, but elastic at a high price.
 - d. Price range has little or no effect on elasticity of demand for a good.

- _____ 8. Which of the following is an example of a good for which the demand is likely to become more elastic over time if price changes dramatically?
 - a. prescription medicine
 - b. gourmet food
 - c. electricity
 - d. shoe polish

- _____ 9. How does a person's perception of whether a good is a necessity or a luxury affect his or her purchases of it?
 - a. Different people will have different concepts of necessity and luxury.
 - b. People who have a lot of money will buy goods even if they think they are a luxury.
 - c. A good that is perceived as expensive will no longer be considered a necessity.
 - d. A good that is perceived as a necessity will be purchased even if the price rises.

- _____ 10. What effect does the availability of many good substitutes have on the elasticity of demand for a good?
 - a. Demand is elastic.
 - b. Demand is inelastic.
 - c. Demand is unitary elastic.
 - d. Demand is not affected.



Section 3: Guided Reading and Review Elasticity of Demand

CHAPTER 4

A. As You Read

As you read Section 3, supply the missing information in the spaces provided.

Calculating Elasticity (Provide a formula or numerical value.)

1. Computation of elasticity of demand: _____

2. Elastic demand: _____

3. Inelastic demand: _____

4. Unitary elastic demand: _____

Factors Affecting Elasticity (How does each affect elasticity?)

5. Substitutes: _____

6. Necessities vs. luxuries: _____

7. Changes over time: _____

Elasticity and Revenue (Define and explain.)

8. Total revenue: _____

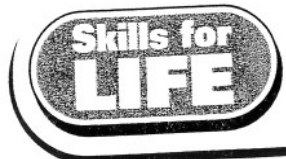
9. How elasticity affects a company's pricing: _____

B. Reviewing Key Terms

Briefly define or identify each of the following.

10. elasticity of demand _____
11. inelastic _____
12. elastic _____
13. unitary elastic _____

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Graphs and Charts Analyzing Tables

CHAPTER 4

Brian works part-time at Pete's Pizza Place. Pete has recently raised pizza prices at all four stores—one in the business district of their small suburb, one a block from Brian's high school, one near several retirement communities, and one in a residential area of the city near which Brian lives. Pete knows that Brian is interested in working full-time during the summer managing one of his stores, and he has asked Brian to help him analyze the effect of the price increase on pizza sales. Review the Economic Skills feature on page 84 of your textbook. Then study the table below. Finally, help Brian by answering the questions that follow.

Pete's Pizza Store Effect of Price Increase on Sales				
Number of Large Pizzas Sold per Week	Store 1 Elmgrove Business District	Store 2 Near Elmgrove High School	Store 3 Near Retirement Communities	Store 4 Residential Elmgrove
Before increase	75	150	50	90
After increase	60	145	20	75

- Which store had the highest demand both before and after the price increase?

- Which store showed the greatest loss in demand after the price increase?

- Which two stores showed the same difference in demand after the price increase?

- Which store was least affected by the price increase?

- What conclusion can you draw about the importance of pizza to the customers of these four stores from the information in this table?

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Name _____ Date _____

ECONOMIC SKILLS LAB
UNDERSTANDING THE ELASTICITY OF DEMAND

The price effect means that an increase in a product's price leads to a smaller quantity demanded. But the price effect is relatively large in some cases and small in others because different products have different demand curves. Economists use the concept of elasticity to describe differences among the demand curves.

1. Below is a list of consumer goods and services. Each entry in the list presents two different items. For each of these entries, decide which of the two items is likely to have a more elastic demand. Explain your decision in the space provided. Remember the factors that affect price elasticity of demand.

Elastic Demand

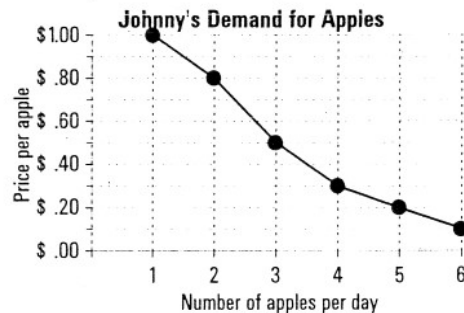
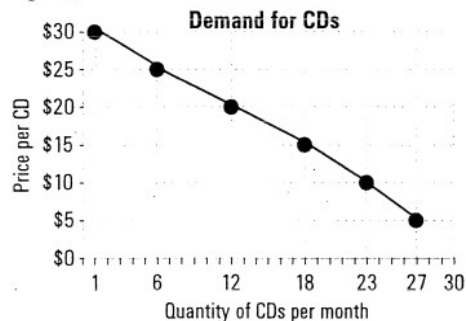
- Many substitutes
- Expensive (requires high % of budget)
- Time to plan or adjust

Inelastic Demand

- Few substitutes
- Inexpensive
- Must buy now

Good or Service	Which Demand Is More Elastic?	Reason
a. 6-pack of cola or a mountain bike		
b. A school T-shirt or a school yearbook		
c. Medical services for a badly cut hand or medical services for a runny nose		
d. Cheeseburger or air conditioning in the South during the summer		
e. Air conditioning in the South this summer or air conditioning in the South over the next few summers		

2. One way to decide if demand is elastic is to conduct a total revenue test: Compare total revenue at one price to total revenue at another price. (See the "Price Elasticity of Demand" in Chapter 3 of your text for an example.)



- a. Is demand for CDs elastic or inelastic as the price rises from \$10 to \$15?
 At \$10, $P \times Q =$ _____ At \$15, $P \times Q =$ _____
- b. Is Johnny's demand for apples elastic or inelastic as the price rises from 30 cents to 50 cents?
 At 30 cents, $P \times Q =$ _____ At 50 cents, $P \times Q =$ _____