

CHAPTER 4

Elasticity, Consumer Surplus, and Producer Surplus

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1. The price elasticity of demand coefficient indicates:
- A) buyer responsiveness to price changes.
 - B) the extent to which a demand curve shifts as incomes change.
 - C) the slope of the demand curve.
 - D) how far business executives can stretch their fixed costs.

Ans: A Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 83
Subtopic: The price elasticity coefficient and formula Type: Definition

2. The basic formula for the price elasticity of demand coefficient is:
- A) absolute decline in quantity demanded/absolute increase in price.
 - B) percentage change in quantity demanded/percentage change in price.
 - C) absolute decline in price/absolute increase in quantity demanded.
 - D) percentage change in price/percentage change in quantity demanded.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 83 Subtopic: The price elasticity coefficient and formula
Type: Formula

3. The concept of price elasticity of demand measures:
- A) the slope of the demand curve.
 - B) the number of buyers in a market.
 - C) the extent to which the demand curve shifts as the result of a price decline.
 - D) the sensitivity of consumers to price changes.

Ans: D Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 83
Subtopic: The price elasticity coefficient and formula Type: Definition

4. If the price elasticity of demand for a product is 2.5, then a price cut from \$2.00 to \$1.80 will:
- A) increase the quantity demanded by about 2.5 percent.
 - B) decrease the quantity demanded by about 2.5 percent.
 - C) increase the quantity demanded by about 25 percent.
 - D) increase the quantity demanded by about 250 percent.

Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

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5. Suppose that as the price of Y falls from \$2.00 to \$1.90 the quantity of Y demanded increases from 110 to 118. Then the price elasticity of demand is:
- A) 4.00.
 - B) 2.09.
 - C) 1.73.
 - D) 1.37.

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

6. When the price of a product is increased 10 percent, the quantity demanded decreases 15 percent. In this range of prices, demand for this product is:
- A) elastic.
 - B) inelastic.
 - C) cross-elastic.
 - D) unitary elastic.

Ans: A Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 84
Subtopic: The price elasticity coefficient and formula Type: Calculation

7. If the price elasticity of demand for a product is equal to 0.5, then a 10 percent decrease in price will:
- A) increase quantity demanded by 5 percent.
 - B) increase quantity demanded by 0.5 percent.
 - C) decrease quantity demanded by 5 percent.
 - D) decrease quantity demanded by 0.5 percent.

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

8. The price elasticity of demand for widgets is 0.80. Assuming no change in the demand curve for widgets, a 16 percent increase in sales implies a:
- A) 1 percent reduction in price.
 - B) 12 percent reduction in price.
 - C) 40 percent reduction in price.
 - D) 20 percent reduction in price

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

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9. If the demand for bacon is relatively elastic, a 10 percent decline in the price of bacon will:
- A) decrease the quantity demanded by more than 10 percent.
 - B) increase the quantity demanded by more than 10 percent.
 - C) decrease the quantity demanded by less than 10 percent.
 - D) increase the quantity demanded by less than 10 percent.

Ans: B Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 84
Subtopic: The price elasticity coefficient and formula Type: Application

The following is the data on demand for a product.

<u>Price</u>	<u>Quantity demanded</u>
\$10	30
9	40
8	50
7	60
6	70

10. Refer to the above data, if the price decreases from \$ 9 to \$7, the price elasticity of demand is:
- A) .63.
 - B) 1.16.
 - C) 1.60.
 - D) 2.27.

Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

11. When the price of candy bars increased from \$.45 to \$.55 the quantity demanded changed from 21,000 per day to 19,000 per day. In this range the price elasticity of demand for candy bars is:
- A) 1.
 - B) 2.
 - C) 0.2.
 - D) 0.5.

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

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12. If price declines from \$450 to \$350 and, as a result, quantity demanded increases from 1200 to 1500, price elasticity of demand is:
- A) 1.78.
 - B) .89.
 - C) 1.12.
 - D) 3.42.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

13. The price of product X is reduced from \$100 to \$90 and, as a result, the quantity demanded increases from 50 to 60 units. Therefore, demand for X in this price range:
- A) has declined.
 - B) is of unit elasticity.
 - C) is inelastic.
 - D) is elastic.

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

14. Suppose we find that the price elasticity of demand for a product is 3.5 when its price is increased by 2 percent. We can conclude that quantity demanded:
- A) increased by 7 percent.
 - B) decreased by 7 percent.
 - C) decreased by 9 percent.
 - D) decreased by 12 percent.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

15. The price elasticity of demand for beef is about 0.60. Other things equal, this means that a 20 percent increase in the price of beef will cause the quantity demanded of beef to:
- A) increase by approximately 12 percent.
 - B) decrease by approximately 12 percent.
 - C) decrease by approximately 32 percent.
 - D) decrease by approximately 26 percent

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand Page: 84
Subtopic: The price elasticity coefficient and formula Type: Calculation

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16. Suppose the price of local cable TV service increased from \$16.20 to \$19.80 and as a result, the number of cable subscribers decreased from 224,000 to 176,000. Along this portion of the demand curve, price elasticity of demand is:
- A) 0.8.
 - B) 1.2.
 - C) 1.6.
 - D) 8.0

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

17. If the price of hand calculators falls from \$10 to \$9 and, as a result, the quantity demanded increases from 100 to 125, then:
- A) demand is elastic.
 - B) demand is inelastic.
 - C) demand is of unit elasticity.
 - D) not enough information is given to make a statement about elasticity.

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

18. If the price elasticity of demand for gasoline is 0.20:
- A) the demand for gasoline is linear.
 - B) a rise in the price of gasoline will reduce total revenue.
 - C) a 10 percent rise in the price of gasoline will decrease the amount purchased by 2 percent.
 - D) a 10 percent fall in the price of gasoline will increase the amount purchased by 20 percent.

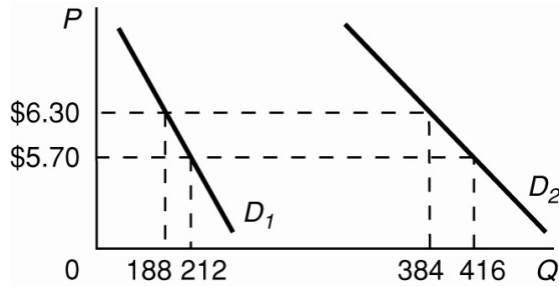
Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

19. If 100 units of product K are sold at a unit price of \$10 and 75 units of product K are sold at a unit price of \$15, one can conclude that in this price range:
- A) demand for product K is elastic.
 - B) demand for product K is inelastic.
 - C) demand for product K has shifted to the right.
 - D) consumers are sensitive to price changes of product K.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand Page: 84
Subtopic: The price elasticity coefficient and formula Type: Calculation

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Use the following to answer questions 20-21:



20. Refer to the above diagram and assume a single good. If the price of the good decreases from \$6.30 to \$5.70, consumer spending would:
- A) decrease if demand were D_1 only.
 - B) decrease if demand were D_2 only.
 - C) decrease if demand were either D_1 or D_2 .
 - D) increase if demand were either D_1 or D_2 .

Ans: B Level: Difficult Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

21. Refer to the above diagram and assume a single good. If the price of the good increased from \$5.70 to \$6.30 along D_1 , the Price elasticity of Demand along this portion of the demand curve would be:
- A) 0.8.
 - B) 1.0.
 - C) 1.2.
 - D) 2.0.

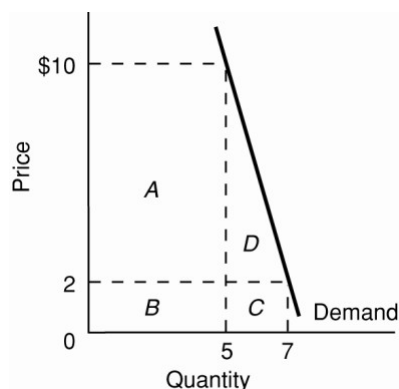
Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

22. If the demand for product X is inelastic, a 4 percent increase in the price of X will:
- A) decrease the quantity of X demanded by more than 4 percent.
 - B) decrease the quantity of X demanded by less than 4 percent.
 - C) increase the quantity of X demanded by more than 4 percent.
 - D) increase the quantity of X demanded by less than 4 percent.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Application

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Use the following to answer questions 23-24:



23. Refer to the above diagram and assume that price increases from \$2 to \$10. The coefficient of Price elasticity of Demand (midpoints formula) relating to this change in price is about:

A) .25 and demand is inelastic.
B) 1.5 and demand is elastic.
C) 1 and demand is unit elastic.
D) .67 and demand is inelastic.

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

24. Refer to the above diagram and assume that price declines from \$10 to \$2. The coefficient of Price elasticity of Demand (midpoints formula) relating to this change in price is about:

A) .67 and demand is inelastic.
B) 1.5 and demand is elastic.
C) 1 and demand is unit elastic.
D) .25 and demand is inelastic.

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

25. Block's sells 500 bottles of perfume a month when the price is \$7. A huge increase in resource costs causes price to rise to \$9 and Block's only manages to sell 460 bottles of perfume. The price elasticity of demand is:
- A) .33 and demand is elastic.
 - B) 3.0 and demand is elastic.
 - C) .33 and demand is inelastic.
 - D) 3.0 and demand is inelastic.

Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Subtopic: The price elasticity coefficient and formula
Type: Calculation

26. The price elasticity of demand is:
- A) negative, but the minus sign is ignored.
 - B) positive, but the plus sign is ignored.
 - C) positive for normal goods and negative for inferior goods.
 - D) positive because price and quantity demanded are inversely related.

Ans: A Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 85
Subtopic: The price elasticity coefficient and formula Type: Application

27. If the price of shoes falls from \$10 to \$8 and the amount sold increases by 12 percent, it can be concluded that:
- A) the demand for shoes is perfectly inelastic.
 - B) the demand for shoes is inelastic.
 - C) the demand for shoes is elastic.
 - D) shoes are complementary goods.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Calculation

28. If a demand for a product is elastic, the value of the price elasticity coefficient is:
- A) zero.
 - B) greater than one.
 - C) equal to one.
 - D) less than one.

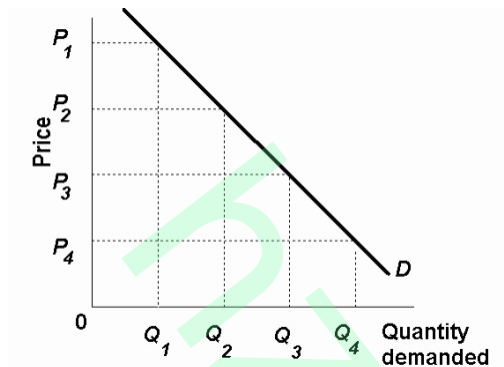
Ans: B Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 85
Subtopic: Interpretation of Ed Type: Definition

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29. The demand for a product is inelastic with respect to price if:
- A) consumers are largely unresponsive to a price change.
 - B) the elasticity coefficient is greater than 1.
 - C) a drop in price is accompanied by a decrease in the quantity demanded.
 - D) a drop in price is accompanied by an increase in the quantity demanded.

Ans: A Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 85
Subtopic: Interpretation of Ed Type: Definition

Use the following to answer questions 30-31:



30. Refer to the above diagram. In the P_1P_2 price range demand is:
- A) of unit elasticity.
 - B) relatively inelastic.
 - C) relatively elastic.
 - D) perfectly elastic.

Ans: C Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 85
Subtopic: Interpretation of Ed Type: Graphic

31. Refer to the above diagram. In the P_3P_4 price range demand is:
- A) of unit elasticity.
 - B) relatively inelastic.
 - C) relatively elastic.
 - D) perfectly elastic.

Ans: B Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 85
Subtopic: Interpretation of Ed Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

32. Suppose Aiyanna's pizzeria currently faces a linear demand curve and is charging a very high price per pizza and doing very little business. Aiyanna now decides to lower pizza prices by 5 percent per week for an indefinite period of time. We can expect that each successive week:
- A) demand will become more price elastic.
 - B) Price elasticity of demand will not change as price is lowered.
 - C) demand will become less price elastic.
 - D) the elasticity of supply will increase.

Ans: C Level: Difficult Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Application

33. A product priced at \$5 has annual sales of 1,000 units. When price is reduced to \$4, quantity increases to 1,250 units. Other things unchanged, the price elasticity of demand for the product is:
- A) unitary.
 - B) elastic.
 - C) inelastic.
 - D) zero.

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Calculation

34. The coefficient of price elasticity is less than 1 but greater than zero. Demand is thus:
- A) perfectly inelastic
 - B) perfectly elastic
 - C) relatively inelastic
 - D) relatively elastic

Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Definition

35. The coefficient of price elasticity is 0.2. Demand is thus:
- A) perfectly inelastic
 - B) perfectly elastic
 - C) relatively elastic
 - D) relatively inelastic

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Application

36. If the price elasticity of demand for a good is .75, the demand for the good can be described as:

- A) normal.
- B) elastic.
- C) inferior.
- D) inelastic.

Ans: D Level: Easy Main Topic: 4.1 Price elasticity of Demand Page: 85
Subtopic: Interpretation of Ed Type: Definition

37. Refer to the demand schedule below. In which price range is the demand elastic?

Price	Quantity demanded
\$4	2
3	4
2	6
1	8

- A) \$4-\$3
- B) \$3-\$2
- C) \$2-\$1
- D) below \$1

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Calculation

Use the following to answer questions 38-40:

Price	Quantity demanded
\$6	1
5	2
4	3
3	4
2	5
1	6

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38. Refer to the data provided above. The price elasticity of demand is relatively elastic:

- A) in the \$6-\$4 price range.
- B) over the entire \$6-\$1 price range.
- C) in the \$3-\$1 price range.
- D) in the \$6-\$5 price range only.

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: The price elasticity coefficient and formula
Type: Calculation

39. Refer to the data provided above. The price elasticity of demand is relatively inelastic:

- A) in the \$6-\$4 price range.
- B) over the entire \$6-\$1 price range.
- C) in the \$3-\$1 price range.
- D) in the \$6-\$5 price range only.

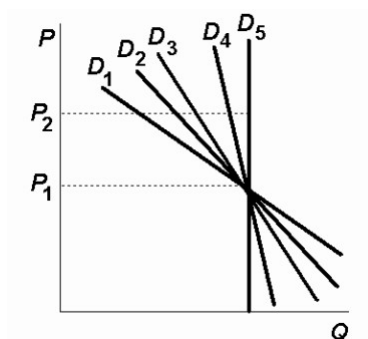
Ans: C Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Calculation

40. Refer to the data provided above. The price elasticity of demand is unity:

- A) throughout the entire price range because the slope of the demand curve is constant.
- B) in the \$4-\$3 price range only.
- C) over the entire \$3-\$1 price range.
- D) over the entire \$6-\$4 price range.

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Calculation

Use the following to answer questions 41-42:



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41. Refer to the above graph, which demand curve is relatively more elastic between P_1 and P_2 ?
- A) D_1
 - B) D_2
 - C) D_3
 - D) D_4

Ans: A Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85 Subtopic: Interpretation of Ed Type: Graphic

42. Refer to the above graph, which demand curve is perfectly inelastic?
- A) D_2
 - B) D_3
 - C) D_4
 - D) D_5

Ans: D Level: Easy Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Graphic

43. If an increase in the supply of a product results in a decrease in the price, but no change in the actual quantity of the product exchanged, then:
- A) the price elasticity of supply is zero.
 - B) the price elasticity of supply is infinite.
 - C) the price elasticity of demand is unitary.
 - D) the price elasticity of demand is zero

Ans: D Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Application

44. A demand curve which is parallel to the vertical axis is:
- A) perfectly inelastic
 - B) perfectly elastic
 - C) relatively inelastic
 - D) relatively elastic

Ans: A Level: Easy Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Definition

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45. Quantity demanded is completely unresponsive to price changes. Demand is thus:
- A) perfectly inelastic
 - B) perfectly elastic
 - C) relatively inelastic
 - D) relatively elastic

Ans: A Level: Easy Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Application

46. A firm can sell more or less output at a constant price. Demand is thus:
- A) perfectly inelastic
 - B) perfectly elastic
 - C) relatively inelastic
 - D) relatively elastic

Ans: B Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Application

47. A demand curve which is parallel to the horizontal axis is:
- A) perfectly inelastic
 - B) perfectly elastic
 - C) relatively inelastic
 - D) relatively elastic

Ans: B Level: Easy Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Definition

48. A perfectly inelastic demand curve:
- A) has a price elasticity coefficient greater than unity.
 - B) has a price elasticity coefficient of unity throughout.
 - C) graphs as a line parallel to the vertical axis.
 - D) graphs as a line parallel to the horizontal axis.

Ans: C Level: Easy Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Application

49. A perfectly inelastic demand schedule:
- A) rises upward and to the right, but has a constant slope.
 - B) can be represented by a line parallel to the vertical axis.
 - C) cannot be shown on a two-dimensional graph.
 - D) can be represented by a line parallel to the horizontal axis.

Ans: B Level: Easy Main Topic: 4.1 Price elasticity of Demand
Page: 85-86 Subtopic: Interpretation of Ed Type: Application

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50. The total-revenue test for elasticity:

- A) is equally applicable to both demand and supply.
- B) does not apply to demand because price and quantity are inversely related.
- C) does not apply to supply because price and quantity are directly related.
- D) applies to the short-run supply curve, but not to the long-run supply curve.

Ans: C Level: Moderate Main Topic: 4.2 The total revenue test
Page: 87-88 Subtopic: Elastic demand Type: Application

51. Which of the following statements is not correct?

- A) If the relative change in price is greater than the relative change in the quantity demanded associated with it, demand is inelastic.
- B) In the range of prices in which demand is elastic, total revenue will diminish as price decreases.
- C) Total revenue will not change if price varies within a range where the elasticity coefficient is unity.
- D) Demand tends to be elastic at high prices and inelastic at low prices.

Ans: B Level: Difficult Main Topic: 4.2 The total revenue test
Page: 88 Subtopic: Elastic demand Type: Application

52. In which of the following instances will total revenue decline?

- A) price rises and supply is elastic
- B) price falls and demand is elastic
- C) price rises and demand is inelastic
- D) price rises and demand is elastic

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 88 Subtopic: Elastic demand Type: Application

53. If a firm's demand for labour is elastic, a union-negotiated wage increase will:

- A) necessarily be inflationary.
- B) cause the firm's total payroll to increase.
- C) cause the firm's total payroll to decline.
- D) cause a shortage of labour.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Elastic demand Type: Application

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54. If the demand for a product is elastic, then total revenue will:

- A) increase whether price increases or decreases.
- B) be constant in response to a price change.
- C) fall as price falls.
- D) rise as price falls.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Elastic demand Type: Application

55. Other things the same, if a price change causes total revenue to change in the opposite direction, demand is:

- A) perfectly inelastic.
- B) relatively elastic.
- C) relatively inelastic.
- D) of unit elasticity.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 88 Subtopic: Elastic demand Type: Application

56. A manufacturer of frozen pizzas found that total revenue decreased when price was lowered from \$5 to \$4. It was also found that total revenue decreased when price was raised from \$5 to \$6. Thus,

- A) the demand for pizza is elastic above \$5 and inelastic below \$5.
- B) the demand for pizza is elastic both above and below \$5.
- C) the demand for pizza is inelastic above \$5 and elastic below \$5.
- D) \$5 is not the equilibrium price of pizza.

Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Elastic demand Type: Application

57. Which of the following is correct?

- A) If demand is elastic, an increase in price will increase total revenue.
- B) If demand is elastic, a decrease in price will decrease total revenue.
- C) If demand is elastic, a decrease in price will increase total revenue.
- D) If demand is inelastic, an increase in price will decrease total revenue.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Elastic demand Type: Application

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58. Price and total revenue vary in opposite directions. Demand is thus:

- A) perfectly inelastic
- B) perfectly elastic
- C) relatively inelastic
- D) relatively elastic

Ans: D Level: Easy Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Elastic demand Type: Application

59. When the percentage change in price is greater than the resulting percentage change in quantity demanded:

- A) a decrease in price will increase total revenue.
- B) demand may be either elastic or inelastic.
- C) an increase in price will increase total revenue.
- D) demand is elastic.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

60. Suppose the price elasticity coefficients of demand are 1.43, 0.67, 1.11, and 0.29 for products W, X, Y, and Z respectively. A 1 percent decrease in price will increase total revenue in the case(s) of:

- A) W and Y.
- B) Y and Z.
- C) X and Z.
- D) Z and W.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

61. Suppose Via Rail asked government authorities for permission to increase its commuter rates by 20 percent. The railroad argued that declining revenues made this rate increase essential. Opponents of the rate increase contended that the railroad's revenues would fall because of the rate hike. It can be concluded that:

- A) both groups felt that the demand was elastic but for different reasons.
- B) both groups felt that the demand was inelastic but for different reasons.
- C) the railroad felt that the demand for passenger service was inelastic and opponents of the rate increase felt it was elastic.
- D) the railroad felt that the demand for passenger service was elastic and opponents of the rate increase felt it was inelastic.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

62. If a firm finds that it can sell \$13,000 of a product when its price is \$5 per unit and \$11,000 of it when its price is \$6, then:
- A) in the \$6-\$5 price range, the demand for the product is elastic.
 - B) the demand for the product must have increased.
 - C) elasticity of demand is 0.74.
 - D) in the \$6-\$5 price range, the demand for the product is inelastic.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Calculation

63. Suppose the price elasticity of demand for bread is 0.20. If the price of bread falls by 10 percent, the quantity demanded will increase by:
- A) 2 percent and total expenditures on bread will rise.
 - B) 2 percent and total expenditures on bread will fall.
 - C) 20 percent and total expenditures on bread will fall.
 - D) 20 percent and total expenditures on bread will rise.

Ans: B Level: Difficult Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Calculation

64. Informed University (IU) raises tuition for the purpose of increasing its revenue so that more faculty can be hired. This action is based on the assumption that the demand for education at IU is:
- A) decreasing.
 - B) relatively elastic.
 - C) perfectly elastic.
 - D) relatively inelastic.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

65. If a price reduction reduces a firm's total revenue:
- A) the demand for the product is inelastic in this price range.
 - B) the product is an inferior good.
 - C) in this price range the elasticity coefficient of demand is greater than 1.
 - D) this price decline will increase the firm's profits.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

66. In which of the following cases will total revenue increase?

- A) price falls and demand is inelastic
- B) price falls and supply is elastic
- C) price rises and demand is inelastic
- D) price rises and demand is elastic

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

67. If the University Chamber Music Society decides to raise ticket prices to provide more funds to finance concerts, the Society is assuming that the demand for tickets is:

- A) parallel to the horizontal axis.
- B) shifting to the left.
- C) elastic.
- D) inelastic.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

68. The provincial legislature has cut Informed University's appropriations. IU's Board of Governors decides to increase tuition and fees to compensate for the loss of revenue. The board is assuming that the:

- A) demand for education at IU is elastic.
- B) demand for education at IU is inelastic.
- C) coefficient of price elasticity of demand for education at IU is unity.
- D) coefficient of price elasticity of demand for education at IU is greater than unity.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

69. Suppose that the price of peanuts falls from \$3 to \$2 per bushel and that, as a result, the total revenue received by peanut farmers changes from \$16 to \$14 billion. Thus:

- A) the demand for peanuts is elastic.
- B) the demand for peanuts is inelastic.
- C) the demand curve for peanuts has shifted to the right.
- D) no inference can be made as to the elasticity of demand for peanuts.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Calculation

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

70. Which of the following is correct?

- A) If the demand for a product is inelastic, a change in price will cause total revenue to change in the opposite direction.
- B) If the demand for a product is inelastic, a change in price will cause total revenue to change in the same direction.
- C) If the demand for a product is inelastic, a change in price may cause total revenue to change in either the opposite or the same direction.
- D) The price elasticity coefficient applies to demand, but not to supply.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

71. Which of the following is not characteristic of the demand for a commodity which is elastic?

- A) The relative change in quantity demanded is greater than the relative change in price.
- B) Buyers are relatively sensitive to price changes.
- C) Total revenue declines if price is increased.
- D) The elasticity coefficient is less than one.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

72. Which is inconsistent with an elastic demand curve?

- A) The elasticity coefficient is less than one.
- B) Total revenues fall when prices rise.
- C) Buyers are relatively sensitive to price changes.
- D) The relative change in quantity exceeds the relative change in price.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Inelastic demand Type: Application

73. If the price elasticity of demand for a product is unity, a decrease in price will:

- A) have no effect upon the amount purchased.
- B) increase the quantity demanded and increase total revenue.
- C) increase the quantity demanded, but decrease total revenue.
- D) increase the quantity demanded, but total revenue will be unchanged.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 88
Subtopic: Unit elasticity Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

74. Which of the following is correct?

- A) Although the slope of a downward sloping demand curve (line) is constant, price elasticity declines as we move from high to low price ranges.
- B) Although the slope of a downward sloping demand curve is constant, price elasticity increases as we move from high to low price ranges.
- C) Although the demand curve is concave to the origin, price elasticity of demand is constant throughout.
- D) A steep slope means demand is inelastic; a flat slope means demand is elastic.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 88-89 Subtopic: Price elasticity along a linear demand curve
Type: Application

75. Moving upward on a downward-sloping straight-line demand curve, we find that price elasticity:

- A) is constant.
- B) increases continuously.
- C) decreases continuously.
- D) may either increase or decrease.

Ans: B Level: Easy Main Topic: 4.2 The total - revenue test Page: 88-89
Subtopic: Price elasticity along a linear demand curve Type: Application

76. Most demand curves are relatively elastic in the upper-left portion because the original price:

- A) and quantity from which the percentage changes in price and quantity are calculated are both large.
- B) and quantity from which the percentage changes in price and quantity are calculated are both small.
- C) from which the percentage price change is calculated is small and the original quantity from which the percentage change in quantity is calculated is large.
- D) from which the percentage price change is calculated is large and the original quantity from which the percentage change in quantity is calculated is small.

Ans: D Level: Difficult Main Topic: 4.2 The total - revenue test
Page: 88-89 Subtopic: Price elasticity along a linear demand curve
Type: Application

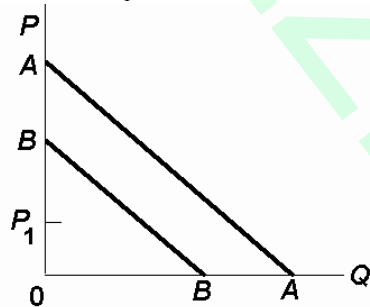
77. The price elasticity of demand of a straight-line demand curve is:
- A) elastic in high-price ranges and inelastic on low-price ranges.
 - B) elastic, but does not change at various points on the curve.
 - C) inelastic, but does not change at various points on the curve.
 - D) 1 at all points on the curve.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 88-89 Subtopic: Price elasticity along a linear demand curve
Type: Application

78. A leftward shift in the supply curve of product X will increase equilibrium price to a greater extent the:
- A) more elastic the supply curve.
 - B) larger the elasticity of demand coefficient.
 - C) more elastic the demand for the product.
 - D) more inelastic the demand for the product.

Ans: D Level: Difficult Main Topic: 4.2 The total - revenue test
Page: 88-89 Subtopic: Price elasticity along a linear demand curve
Type: Application

79. Consider the following two parallel demand curves. Which curve is relatively more elastic at P_1 ?



- A) AA
- B) BB
- C) Cannot be determined.
- D) Both have the same slope; therefore both have the same elasticity.

Ans: B Level: Difficult Main Topic: 4.2 The total - revenue test
Page: 88-89 Subtopic: Price elasticity along a linear demand curve
Type: Graphic

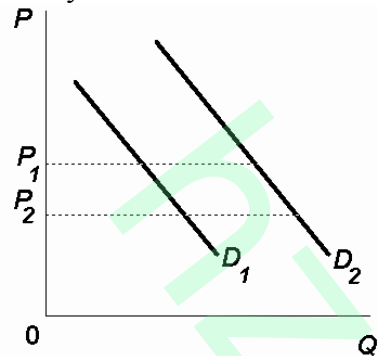
Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

80. For a linear demand curve:

- A) elasticity is constant along the curve.
- B) elasticity is unity at every point on the curve.
- C) demand is elastic at low prices.
- D) demand is elastic at high prices.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 88-89 Subtopic: Price elasticity along a linear demand curve
Type: Application

81. The diagram shows two product demand curves. On the basis of this diagram we can say that:



- A) over range P_1P_2 price elasticity of demand is greater for D_1 than for D_2 .
- B) over range P_1P_2 price elasticity of demand is greater for D_2 than for D_1 .
- C) over range P_1P_2 price elasticity is the same for the two demand curves.
- D) not enough information is given to compare price elasticities.

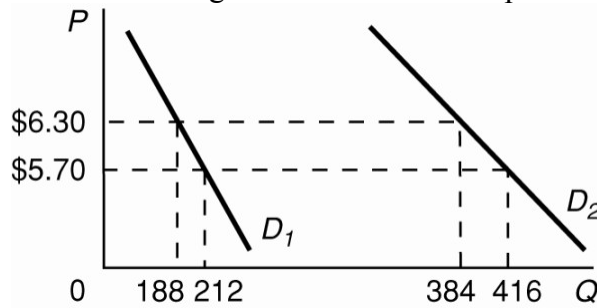
Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 89
Subtopic: Price elasticity along a linear demand curve Type: Graphic

82. The elasticity of demand:

- A) is infinitely large for a perfectly inelastic demand curve.
- B) tends to be "inelastic" in high-price ranges and "elastic" in low-price ranges.
- C) tends to be "elastic" in high-price ranges and "inelastic" in low-price ranges.
- D) is the same at each price-quantity combination on a stable demand curve.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 89
Subtopic: Price elasticity along a linear demand curve Type: Application

83. Refer to the diagram below. Between prices of \$5.70 and \$6.30:



- A) D_1 is more elastic than D_2 .
- B) D_2 is an inferior good and D_1 is a normal good.
- C) D_1 and D_2 have identical elasticities.
- D) D_2 is more elastic than D_1

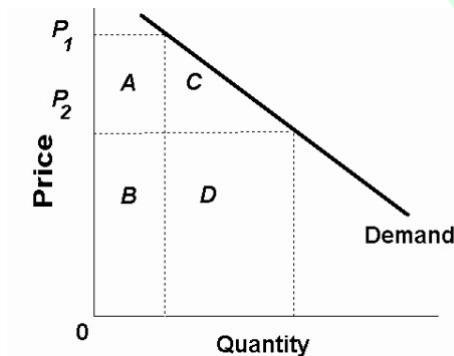
Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 89
Subtopic: Price elasticity along a linear demand curve Type: Graphic

84. As price increases along a downward sloping linear demand curve:

- A) price elasticity of demand increases.
- B) price elasticity of demand decreases.
- C) price elasticity of demand does not change.
- D) the behaviour of price elasticity of demand cannot be determined.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 89 Subtopic: Price elasticity along a linear demand curve
Type: Application

Use the following to answer questions 85-88:



Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

85. Refer to the above diagram. Total revenue at price P_1 is indicated by area(s):

- A) C + D
- B) A + B
- C) A + C
- D) A

Ans: B Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

86. Refer to the above diagram. If price falls to P_2 , total revenue will become area(s):

- A) B + D
- B) C + D
- C) A + C
- D) C

Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

87. Refer to the above diagram. The decline in price from P_1 to P_2 will:

- A) increase total revenue by D - A.
- B) increase total revenue by B + D.
- C) decrease total revenue by A.
- D) decrease total revenue by D + A.

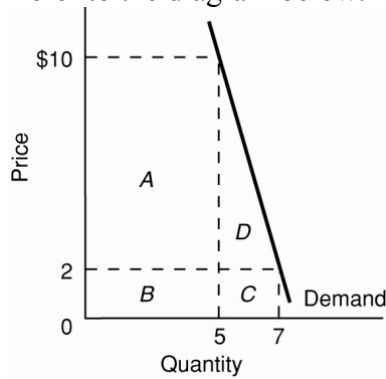
Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

88. Refer to the above diagram. In the P_1 to P_2 price range, we can say:

- A) that consumer purchases are relatively insensitive to price changes.
- B) nothing concerning Price elasticity of Demand.
- C) that demand is inelastic with respect to price.
- D) that demand is elastic with respect to price.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 90 Subtopic: Price elasticity and the total-revenue curve
Type: Graphic

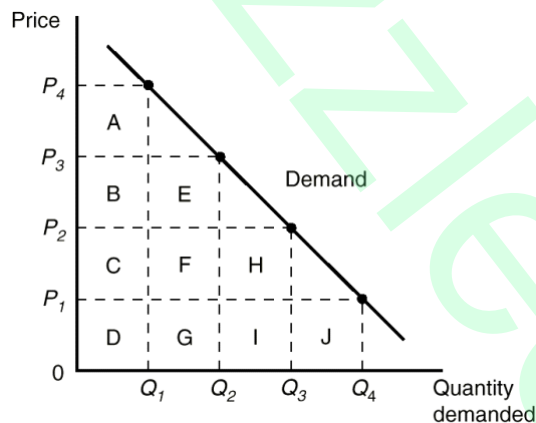
89. Refer to the diagram below. If price falls from \$10 to \$2, total revenue:



- A) rises from $A + B$ to $A + B + D + C$ and demand is elastic.
- B) falls from $A + D$ to $B + C$ and demand is inelastic.
- C) rises from $C + D$ to $B + A$ and demand is elastic.
- D) falls from $A + B$ to $B + C$ and demand is inelastic.

Ans: D Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

Use the following to answer questions 90-95:



90. Refer to the above graph. If the price is P_3 , then the total revenue is represented by areas:

- A) $B + C + D$.
- B) $E + F + G$.
- C) $B + C + D + E + F + G$.
- D) $A + B + C + D + E + F + G$.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

91. Refer to the above graph. If the price decreases from P_3 to P_2 , then the loss in total revenue is areas:

- A) $B + E$ and the gain in total revenue are areas $H + I$.
- B) $H + I$ and the gain in total revenue are areas $A + B + C$.
- C) $E + F + G$ and the gain in total revenue are areas $H + I + J$.
- D) $A + B + C + D$ and the gain in total revenue is $E + F + G$.

Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

92. Refer to the above graph. If the price increases from P_1 to P_2 , then the gain in total revenue is areas:

- A) $B + E$ and the loss in total revenue are areas $H + I + J$.
- B) $C + F + H$ and the loss in total revenue is area J .
- C) $E + F + G$ and the loss in total revenue is area J .
- D) $A + B + C$ and the loss in total revenue are areas $G + I + J$.

Ans: B Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

93. Refer to the above graph. If the price decreases from P_4 to P_3 , then the gain in total revenue is areas:

- A) $E + F + G$ and the loss in total revenue are areas $A + B + C + D$.
- B) $A + B + C + D$ and the loss in total revenue is area E .
- C) $E + F + G$ and the loss in total revenue is area A .
- D) $B + C + D$ and the loss in total revenue is area A .

Ans: C Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

94. Refer to the above graph. Consider a situation where price increases from P_3 to P_4 . In this price range, demand is relatively:

- A) inelastic because the loss in total revenue (areas $E + F + G$) is greater than the gain in total revenue (area A).
- B) elastic because the loss in total revenue (areas $E + F + G$) is greater than the gain in total revenue (area A).
- C) elastic because the loss in total revenue (area A) is greater than the gain in total revenue (areas $E + F + G$).
- D) inelastic because the loss in total revenue (area A) is greater than the gain in total revenue (areas $E + F + G$).

Ans: B Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

95. Refer to the above graph. Consider a situation where price decreases from P_2 to P_1 . In this price range, demand is relatively:
- A) inelastic because the loss in total revenue (areas $D + G + I + J$) is greater than the gain in total revenue (areas $C + F + H$).
 - B) elastic because the loss in total revenue (areas $C + F + H$) is greater than the gain in total revenue (area J).
 - C) elastic because the loss in total revenue (area J) is less than the gain in total revenue (areas $C + F + H$).
 - D) inelastic because the gain in total revenue (area J) is less than the loss in total revenue (areas $C + F + H$).

Ans: D Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Graphic

96. If in the short run the demand for mass transit is inelastic and in the long run the demand is elastic, then a price:
- A) increase will decrease total revenue in the short run but increase total revenue in the long run.
 - B) increase will increase total revenue in the short run but decrease total revenue in the long run.
 - C) decrease will increase total revenue in the short run but decrease total revenue in the long run.
 - D) decrease will decrease total revenue in the short run and decrease total revenue in the long run.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Application

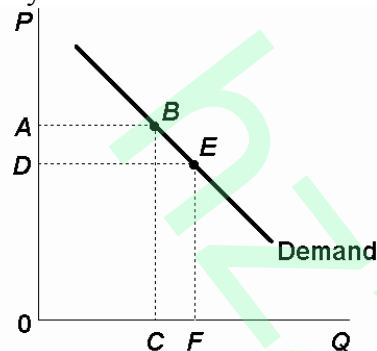
97. You are the newly appointed sales manager of the Rock Record Company and have been charged with the task of increasing revenues. Your economics consultants have informed you that at present price and output levels, price elasticity of demand for your product is less than one. You should:
- A) decrease prices.
 - B) increase prices.
 - C) hold prices constant and increase supply.
 - D) cut advertising expenditures to decrease the demand for these records.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Price elasticity and the total-revenue curve Type: Application

98. Chuck Grim has a price elasticity of demand for beer of 1.00. Suppose the price of each beer is increased by 10 percent. What will happen to the total amount Chuck spends on beer?
- A) It will not change.
 - B) It will decrease 10 percent.
 - C) It will increase 10 percent.
 - D) It is impossible to tell.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test
 Page: 90 Subtopic: Price elasticity and the total-revenue curve
 Type: Calculation

99. Consider the demand curve below. If area OABC is smaller than area ODEF, we may conclude that demand in this range is:



- A) price-inelastic.
- B) income-inelastic.
- C) price-elastic.
- D) income-elastic.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 90
 Subtopic: Price elasticity and the total-revenue curve Type: Graphic

100. Which is not characteristic of a product with relatively inelastic demand?
- A) The good is regarded by consumers as a necessity.
 - B) There are a large number of good substitutes for the good.
 - C) Buyers spend a small percentage of their total income on the product.
 - D) Consumers have had only a short time period to adjust to changes in price.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 90
 Subtopic: Determinants of price elasticity of demand Type: Application

101. In some markets consumers may buy many different brands of a product. Which of the statements below best represents a situation where demand for a particular brand would be very elastic?
- A) "The different brands are almost identical. I always buy the cheapest."
 - B) "I use so little of that product that when I do buy it, I don't pay much attention to the price."
 - C) "The brand I buy is so superior to other available brands that I hardly consider the others."
 - D) "I pinch pennies in buying other products, but like most people I feel I owe it to myself to get the best brand of this product."

Ans: A Level: Difficult Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Determinants of price elasticity of demand Type: Application

102. What is the most likely effect of the development of television, videocassette players, and rental movies on the movie theatre industry?
- A) decreased costs of producing movies
 - B) increased demand for movie theatre tickets
 - C) movie theatre tickets become an inferior good
 - D) increased price elasticity of demand for movie theatre tickets

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 90
Subtopic: Determinants of price elasticity of demand Type: Application

103. We would expect:
- A) the demand for Coca-Cola to be less elastic than the demand for soft drinks in general.
 - B) the demand for Coca-Cola to be more elastic than the demand for soft drinks in general.
 - C) no relationship between the elasticity of demand for Coca-Cola and the elasticity of demand for soft drinks in general.
 - D) none of the above to hold true.

Ans: B Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

104. The demand for Cheerios cereal is more price-elastic than the demand for cereals as a whole. This is best explained by the fact that:
- A) Cheerios are a luxury.
 - B) cereals are a necessity.
 - C) there are more substitutes for Cheerios than for cereals as a whole.
 - D) consumption of cereals as a whole is greater than consumption of Cheerios.

Ans: C Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

105. The narrower the definition of a product:
- A) the larger the number of substitutes and the larger the Price elasticity of Demand.
 - B) the smaller the number of substitutes and the larger the Price elasticity of Demand.
 - C) the larger the number of substitutes and the smaller the Price elasticity of Demand.
 - D) the smaller the number of substitutes and the smaller the Price elasticity of Demand.

Ans: A Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

106. The demand for autos is likely to be:
- A) less elastic than the demand for Honda Accords.
 - B) more elastic than the demand for Honda Accords.
 - C) of the same elasticity as the demand for Honda Accords.
 - D) perfectly inelastic.

Ans: A Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

107. Which of the following statements is correct?
- A) Supply is more elastic in the short run than in the long run.
 - B) Demand is more elastic in the short run than in the long run.
 - C) Demand is more elastic when a large number of substitute goods are available.
 - D) Supply is more elastic when there are a small number of producers in the industry.

Ans: C Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

108. The demands for such products as salt, bread, and electricity tend to be:

- A) perfectly price inelastic.
- B) perfectly price elastic.
- C) of unit price elasticity.
- D) relatively price inelastic.

Ans: D Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

109. Which of the following generalizations is not correct?

- A) The larger an item is in one's budget, the greater the Price elasticity of Demand.
- B) The price elasticity of demand is greater for necessities than it is for luxuries.
- C) The larger the number of close substitutes available, the greater will be the price elasticity of demand for a particular product.
- D) The price elasticity of demand is greater the longer the time period under consideration.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

110. The demand for a luxury good whose purchase would exhaust a significant portion of one's income is:

- A) perfectly inelastic
- B) perfectly elastic
- C) relatively inelastic
- D) relatively elastic

Ans: D Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

111. The demand for a necessity whose cost is a small component of one's total income is:

- A) perfectly inelastic
- B) perfectly elastic
- C) relatively inelastic
- D) relatively elastic

Ans: C Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Subtopic: Determinants of price elasticity of demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

112. The elasticity of demand for a product is likely to be greater:
- A) if the product is a "necessity," rather than a "luxury" good.
 - B) the greater the amount of time over which buyers adjust to a price change.
 - C) the smaller the proportion of one's income spent on the product.
 - D) the smaller the number of substitute products available.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Determinants of price elasticity of demand Type: Application

113. Price elasticity of demand is generally:
- A) greater in the long run than in the short run.
 - B) greater in the short run than in the long run.
 - C) the same in both the short run and the long run.
 - D) greater for "necessities" than it is for "luxuries."

Ans: A Level: Easy Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Determinants of price elasticity of demand Type: Application

114. The more time consumers have to adjust to a change in price:
- A) the smaller will be the Price elasticity of Demand.
 - B) the greater will be the Price elasticity of Demand.
 - C) the more likely the product is a normal good.
 - D) the more likely the product is an inferior good.

Ans: B Level: Easy Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Determinants of price elasticity of demand Type: Application

115. 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.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test
Page: 92 Subtopic: Determinants of price elasticity of demand
Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

116. If the demand for farm products is price inelastic, a good harvest will cause farm revenues to:
- A) increase.
 - B) decrease.
 - C) be unchanged.
 - D) either increase or decrease, depending on what happens to supply.

Ans: B Level: Easy Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

117. Farmers often find that large bumper crops are associated with declines in their gross incomes. This suggests that:
- A) farm products are normal goods.
 - B) farm products are inferior goods.
 - C) the price elasticity of demand for farm products is greater than 1.
 - D) the price elasticity of demand for farm products is less than 1.

Ans: D Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

118. If demand for farm crops is inelastic, a good harvest will cause farm revenues to:
- A) increase because of the increase in the quantity that farmers can sell.
 - B) increase because of a downward movement along the supply curve, encouraging an increase in demand.
 - C) decrease because of a percentage fall in price greater than the percentage increase in quantity sold.
 - D) remain unchanged, because the increase in quantity that can be sold will be matched by an equal decrease in price.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

119. If the federal government imposed a 10 percent excise tax on yachts costing more than \$100,000. This tax would:
- A) fail to bring in the expected amount of tax revenue because the demand for yachts is more price elastic than the government estimated.
 - B) bring in more tax revenue than expected because the demand for yachts is less price elastic than the government estimates.
 - C) fail to bring in the expected amount of tax revenue because the demand for yachts is less income elastic than the government estimates.
 - D) bring about an increase in the demand for yachts and stimulate employment in the boat-building industry.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

120. A provincial government wants to increase the taxes on cigarettes to increase tax revenue. This tax would only be effective in raising new tax revenues if the price elasticity of demand is:
- A) unity.
 - B) greater than one.
 - C) less than one.
 - D) infinity.

Ans: C Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

121. If the demand for a product is elastic, then:
- A) a higher tax will generate more tax revenue.
 - B) a higher tax will generate less tax revenue.
 - C) total revenue will decrease as price decreases.
 - D) total revenue will remain constant as price remains constant.

Ans: B Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

122. An antidrug policy which reduces the supply of heroin might:
- A) increase street crime because the addict's demand for heroin is highly inelastic.
 - B) reduce street crime because the addict's demand for heroin is highly elastic.
 - C) reduce street crime because the addict's demand for heroin is highly inelastic.
 - D) increase street crime because the addict's demand for heroin is highly elastic.

Ans: A Level: Moderate Main Topic: 4.2 The total - revenue test Page: 92
Subtopic: Applications of price elasticity of demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

123. The price elasticity of supply measures how:
- A) easily labour and capital can be substituted for one another in the production process.
 - B) responsive the quantity supplied of X is to changes in the price of X.
 - C) responsive the quantity supplied of Y is to changes in the price of X.
 - D) responsive quantity supplied is to a change in incomes.

Ans: B Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 93
Subtopic: Price elasticity of supply Type: Definition

124. Suppose that the price of product X rises by 20 percent and the quantity supplied of X increases by 15 percent. The coefficient of price elasticity of supply for good X is:
- A) negative and therefore X is an inferior good.
 - B) positive and therefore X is a normal good.
 - C) less than 1 and therefore supply is inelastic.
 - D) more than 1 and therefore supply is elastic.

Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Application

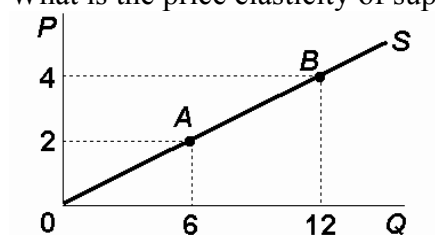
125. Assume that the price of product X rises by 5 percent and the quantity supplied of X increases by 15 percent. The coefficient of price elasticity of supply for good X is:
- A) negative and therefore X is an inferior good.
 - B) positive and therefore X is a normal good.
 - C) less than 1 and therefore supply is inelastic.
 - D) more than 1 and therefore supply is elastic.

Ans: D Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Application

126. Suppose the price elasticity of supply for crude oil is 2.5. How much would price have to rise to increase production by 20 percent?
- A) 8 percent
 - B) $12\frac{1}{2}$ percent
 - C) 20 percent
 - D) 45 percent

Ans: A Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Calculation

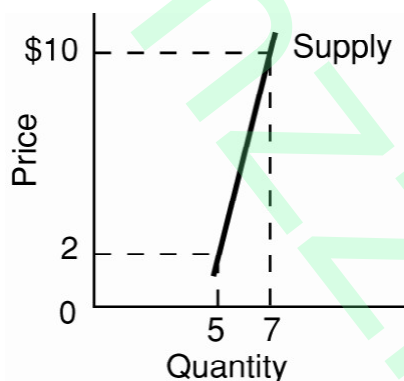
127. What is the price elasticity of supply between points A and B below?



- A) 1
- B) 3
- C) -1
- D) $\frac{1}{3}$

Ans: A Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Calculation

Use the following to answer questions 128-129:



128. Refer to the above diagram and assume that price increases from \$2 to \$10. The coefficient of the price elasticity of supply (midpoints formula) relating to this price change is about:
- A) 5 and supply is elastic.
 - B) 1 and supply is unit elastic.
 - C) .25 and supply is inelastic.
 - D) 2.5 and supply is elastic.

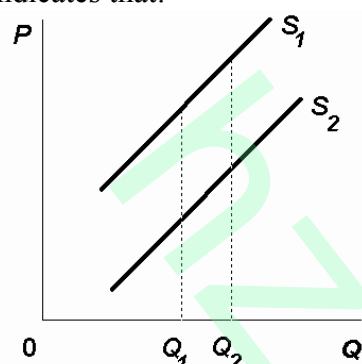
Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Calculation

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

129. Refer to the above diagram and assume that price decreases from \$10 to \$2. The coefficient of the price elasticity of supply (midpoints formula) relating to this price change is about:
- A) 4 and supply is elastic.
 - B) 1 and supply is unit elastic.
 - C) .5 and supply is inelastic.
 - D) .25 and supply is inelastic.

Ans: D Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Calculation

130. The following diagram shows the supply curves for two products. This diagram indicates that:



- A) over range Q_1Q_2 price elasticity of supply is greater for S_1 than for S_2 .
- B) over range Q_1Q_2 price elasticity of supply is greater for S_2 than for S_1 .
- C) over range Q_1Q_2 price elasticity of supply is the same for the two curves.
- D) not enough information is given to compare price elasticities.

Ans: A Level: Difficult Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Graphic

131. The elasticity of supply for a product will be 2 when:
- A) a 1 percent decrease in the price causes a 0.2 percent decrease in quantity supplied.
 - B) a 2 percent decrease in price causes a 1 percent decrease in quantity supplied.
 - C) a 1 percent decrease in price causes a 2 percent decrease in quantity supplied.
 - D) a 2 percent decrease in price causes a 2 percent decrease in quantity supplied.

Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

132. The following data relate to the supply schedule of a product.

Price (\$ per unit)	Quantity supplied (units/week)
5	100
10	200
15	250
20	300
25	350
30	500

Over which price range is the elasticity of supply greater than 1?

- A) \$10 to \$15
- B) \$15 to \$20
- C) \$20 to \$25
- D) \$25 to \$30

Ans: D Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Calculation

133. At a price of \$4 per unit, Gadgets Inc. is willing to supply 20,000 gadgets, while United Gadgets is willing to supply 10,000 gadgets. If the price were to rise to \$8 per unit, their respective quantities supplied would rise to 45,000 and 25,000. If these are the only two firms supplying gadgets, what is the elasticity of supply in the market for gadgets?

- A) 1.2
- B) 1.0
- C) .833
- D) .80

Ans: A Level: Difficult Main Topic: 4.3 Price elasticity of supply
Page: 93 Subtopic: Price elasticity of supply Type: Calculation

134. If the supply of product X is perfectly elastic, an increase in the demand for it will increase:

- A) equilibrium quantity but reduce equilibrium price.
- B) equilibrium quantity but equilibrium price will be unchanged.
- C) equilibrium price but reduce equilibrium quantity.
- D) equilibrium price but equilibrium quantity will be unchanged.

Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

135. Suppose the price of a product rises and the total revenue of sellers increases.
- A) It can be concluded that the demand for the product is elastic.
 - B) It can be concluded that the supply of the product is elastic.
 - C) It can be concluded that the supply of the product is inelastic.
 - D) No conclusion can be reached with respect to the elasticity of supply.

Ans: D Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

136. If the supply of a product is inelastic, the value of the price elasticity coefficient of supply is:
- A) zero.
 - B) greater than one.
 - C) equal to one.
 - D) less than one.

Ans: D Level: Easy Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Definition

137. Suppose the supply of product X is perfectly inelastic. If there is an increase in the demand for this product, equilibrium price:
- A) will decrease but equilibrium quantity will increase.
 - B) and quantity will both decrease.
 - C) will increase but equilibrium quantity will decline.
 - D) will increase but equilibrium quantity will be unchanged.

Ans: D Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

138. A supply curve which is a vertical straight line indicates that:
- A) production costs for this product cannot be calculated.
 - B) the relationship between price and quantity supplied is inverse.
 - C) a change in price will have no effect on the quantity supplied.
 - D) an unlimited amount of the product will be supplied at a constant price.

Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

139. A supply curve which is parallel to the horizontal axis suggests that:
- A) the industry is organized monopolistically.
 - B) the relationship between price and quantity supplied is inverse.
 - C) a change in demand will change price in the same direction.
 - D) a change in demand will change the equilibrium quantity but not price.

Ans: D Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

140. An increase in demand will increase equilibrium price to a greater extent:
- A) if the product is a normal good.
 - B) if the product is an inferior good.
 - C) the less elastic the supply curve.
 - D) the more elastic the supply curve.

Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

141. Assume there is an increase in the demand for hand calculators. The subsequent:
- A) increase in price will be greater in the long run than in the short run.
 - B) increase in price will be greater the greater the inelasticity of supply.
 - C) increase in price will be greater the greater the elasticity of supply.
 - D) decline in price will be greater the greater the elasticity of supply.

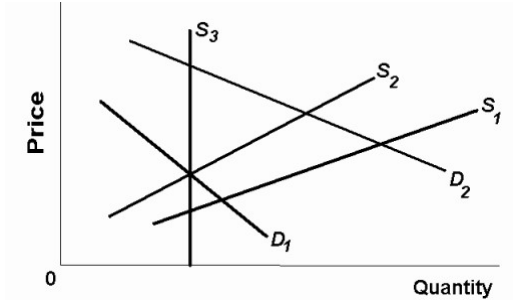
Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Subtopic: Price elasticity of supply Type: Application

142. The main determinant of elasticity of supply is the:
- A) number of close substitutes for the product available to consumers.
 - B) amount of time the producer has to adjust inputs in response to a price change.
 - C) urgency of consumer wants for the product.
 - D) number of uses for the product.

Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 94 Subtopic: The market period Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

Use the following to answer questions 143-146:



143. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. Supply curves S_1 , S_2 , and S_3 apply to the:
- A) immediate market period, long run, and short run respectively.
 - B) immediate market period, short run, and long run respectively.
 - C) long run, short run, and immediate market period respectively.
 - D) short run, long run, and immediate market period respectively.

Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 94 Subtopic: The market period Type: Graphic

144. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. In the immediate market period the increase in demand will:
- A) have no effect on either equilibrium price or quantity.
 - B) increase equilibrium price, but not equilibrium quantity.
 - C) increase equilibrium quantity, but not equilibrium price.
 - D) increase both equilibrium price and quantity.

Ans: B Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 94
Subtopic: The market period Type: Graphic

145. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. In the long run the increase in demand will:
- A) have no effect on either equilibrium price or quantity.
 - B) increase equilibrium price, but not equilibrium quantity.
 - C) increase equilibrium quantity, but not equilibrium price.
 - D) increase both equilibrium price and quantity.

Ans: D Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 94
Subtopic: The market period Type: Graphic

146. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. On the basis of this illustration we can conclude that:
- A) short-run adjustments are more economically efficient than are long-run adjustments.
 - B) the amount of time producers have to adjust to a change in demand is not a determinant of supply elasticity.
 - C) supply is more elastic the greater the amount of time producers have to adjust to a change in demand.
 - D) supply is less elastic the greater the amount of time producers have to adjust to a change in demand.

Ans: C Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 94
Subtopic: The market period Type: Graphic

147. If a product has a short-run elasticity of supply equal to zero, then an increase in the demand for the product will:
- A) have no effect on price or quantity sold.
 - B) increase price and leave quantity sold unchanged.
 - C) increase price and reduce the quantity sold to zero.
 - D) leave the price unchanged and reduce the quantity sold.

Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 95 Subtopic: The short run Type: Application

148. Economists distinguish between the short run and the long run by noting that:
- A) no inputs can be varied in the long run.
 - B) some inputs cannot be varied in the short run.
 - C) input prices are subject to fluctuations in the short run.
 - D) output prices are subject to fluctuations in the long run.

Ans: B Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 95
Subtopic: The short run Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

149. To economists the main differences between "the short run" and "the long run" are that:
- A) the law of diminishing returns applies in the long run, but not in the short run.
 - B) in the short run all resources are fixed, while in the long run all resources are variable.
 - C) in the long run all resources are variable, while in the short run at least one resource is fixed.
 - D) fixed costs are more important to decision making in the long run than they are in the short run.

Ans: C Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 95 Subtopic: The short run Type: Application

150. Price elasticity of supply is:
- A) positive in the short run but negative in the long run.
 - B) greater in the long run than in the short run.
 - C) greater in the short run than in the long run.
 - D) independent of time.

Ans: B Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 95
Subtopic: The long run Type: Application

151. Supply curves tend to be:
- A) perfectly elastic in the long run because consumer demand will have sufficient time to adjust fully to changes in supply.
 - B) more elastic in the long run because there is time for firms to enter or leave the industry.
 - C) perfectly inelastic in the long run because the law of scarcity imposes absolute limits upon production.
 - D) less elastic in the long run because there is time for firms to enter or leave an industry.

Ans: B Level: Easy Main Topic: 4.3 Price elasticity of supply Page: 95
Subtopic: The long run Type: Application

152. For an increase in demand, the price effect is smallest and the quantity effect is largest:
- A) when supply is least elastic.
 - B) in the long run.
 - C) in the short run.
 - D) in the immediate market period.

Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 95 Subtopic: The long run Type: Application

153. The supply of known Monet paintings is:

- A) perfectly elastic.
- B) perfectly inelastic.
- C) relatively elastic.
- D) relatively inelastic.

Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 95 Subtopic: Applications of price elasticity of supply
Type: Application

154. The main sources for the fluctuation in price of gold are:

- A) the shifts in supply and highly inelastic demand.
- B) the shifts in demand and highly inelastic supply.
- C) the unlimited supply of gold and perfectly inelastic demand.
- D) the unlimited demand and supply.

Ans: B Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 96 Subtopic: Applications of price elasticity of supply
Type: Application

155. The formula for cross elasticity of demand is percentage change in:

- A) quantity demanded of X/percentage change in price of X.
- B) quantity demanded of X/percentage change in income.
- C) quantity demanded of X/percentage change in price of Y.
- D) price of X/percentage change in quantity demanded of Y.

Ans: C Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand
Page: 96 Subtopic: Cross elasticity of demand Type: Definition

156. Cross elasticity of demand measures how sensitive purchases of a specific product are to changes in:

- A) the price of some other product.
- B) the price of that same product.
- C) income.
- D) the general price level.

Ans: A Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand
Page: 96 Subtopic: Cross elasticity of demand Type: Definition

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

157. The larger the positive cross elasticity coefficient of demand between products X and Y, the:
- A) stronger their complementarity.
 - B) greater their substitutability.
 - C) smaller the price elasticity of demand for both products.
 - D) the less sensitive purchases of each are to increases in income.

Ans: B Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

158. We would expect the cross elasticity of demand between Pepsi and Coke to be:
- A) positive, indicating normal goods.
 - B) positive, indicating inferior goods.
 - C) positive, indicating substitute goods.
 - D) negative, indicating substitute goods.

Ans: C Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

159. If a 10 percent increase in the price of one good results in an increase of 5 percent in the quantity demanded of another good, then it can be concluded that the two goods are:
- A) complements.
 - B) substitutes.
 - C) independent.
 - D) normal.

Ans: B Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

160. A 3 percent increase in the price of tea causes a 6 percent increase in the demand for coffee. The cross elasticity of demand for coffee with respect to the price of tea is:
- A) -0.5.
 - B) +0.5.
 - C) -2.0.
 - D) +2.0.

Ans: D Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Calculation

161. Suppose that a 10 percent increase in the price of normal good Y causes a 20 percent increase in the quantity demanded of normal good X. The coefficient of cross elasticity of demand is:
- A) negative and therefore these goods are substitutes.
 - B) negative and therefore these goods are complements.
 - C) positive and therefore these goods are substitutes.
 - D) positive and therefore these goods are complements.

Ans: C Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

162. The cross elasticity of demand for product X with respect to the price of product Y is 1. It can be concluded that X and Y are:
- A) substitute products.
 - B) complementary products.
 - C) luxury products.
 - D) unrelated products.

Ans: A Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

163. A study shows that the coefficient of the cross price elasticity of Coke and Sprite is positive. This information indicates that Coke and Sprite are:
- A) normal goods.
 - B) complementary goods.
 - C) independent goods.
 - D) substitute goods.

Ans: D Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

164. A study reported that the coefficient of the cross price elasticity of popcorn and potato chips is positive. Based on this report, you can conclude that popcorn and potato chips are:
- A) normal goods.
 - B) complementary goods.
 - C) substitute goods.
 - D) independent goods.

Ans: C Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

165. Cross elasticity of demand between complementary products is:

- A) positive but less than 1.
- B) unitary.
- C) zero.
- D) negative.

Ans: D Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

166. We would expect the cross elasticity of demand between dress shirts and ties to be:

- A) positive, indicating normal goods.
- B) positive, indicating inferior goods.
- C) negative, indicating substitute goods.
- D) negative, indicating complementary goods.

Ans: D Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

167. The cross elasticity of demand between bikes and bike helmets is likely to be:

- A) zero.
- B) a negative number.
- C) a positive number greater than 1.
- D) a positive number between zero and -1.

Ans: B Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

168. If a 10 percent increase in the price of one good results in a decrease of 5 percent in the quantity demanded of another good, then it can be concluded that the two goods are:

- A) complements.
- B) substitutes.
- C) independent.
- D) normal.

Ans: A Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

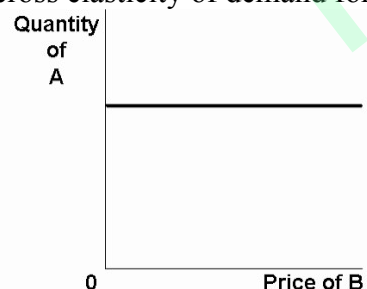
169. Suppose that a 20 percent increase in the price of normal good Y causes a 10 percent decline in the quantity demanded of normal good X. The coefficient of cross elasticity of demand is:
- A) negative and therefore these goods are substitutes.
 - B) negative and therefore these goods are complements.
 - C) positive and therefore these goods are substitutes.
 - D) positive and therefore these goods are complements.

Ans: B Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

170. Considering coffee, we would expect the cross elasticity of demand for:
- A) tea to be negative, but positive for cream.
 - B) tea to be positive, but negative for cream.
 - C) both tea and cream to be negative.
 - D) both tea and cream to be positive.

Ans: B Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

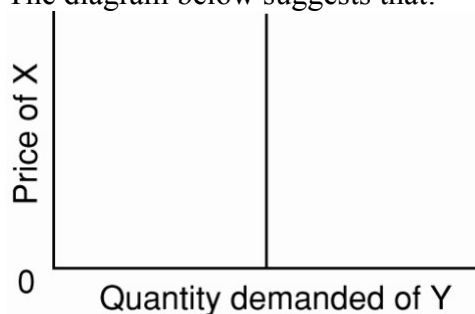
171. The graph below shows the relationship between the price of product B and the quantity of product A demanded over a period of time. It may be concluded that the cross elasticity of demand for A with respect to B is:



- A) zero.
- B) infinity.
- C) positive but greater than 1.
- D) positive but less than 1.

Ans: A Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Graphic

172. The diagram below suggests that:



- A) X and Y are both inferior goods.
- B) X and Y are both normal goods.
- C) X and Y are substitute goods.
- D) X and Y are independent goods.

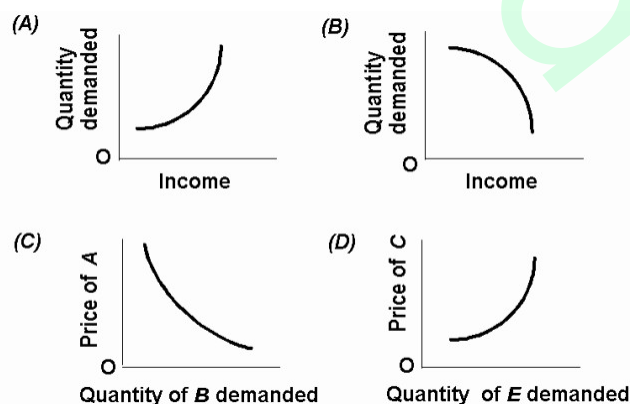
Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Graphic

173. We would expect the cross elasticity of demand for Pepsi in relation to other soft drinks to be greater than that for soft drinks generally because:

- A) soft drinks are normal goods.
- B) the income effect always exceeds the substitution effect.
- C) there are fewer good substitutes for soft drinks generally than for Pepsi.
- D) there are more good substitutes for soft drinks generally than for Pepsi.

Ans: C Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Application

Use the following to answer questions 174-177:



Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

174. Refer to the above diagrams. In which case would the coefficient of cross elasticity of demand be positive?

- A) A.
- B) B.
- C) C.
- D) D.

Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Graphic

175. Refer to the above diagrams. In which case would the coefficient of cross elasticity of demand be negative?

- A) A
- B) B
- C) C
- D) D

Ans: C Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Graphic

176. Refer to the above diagrams. The case of substitute goods is represented by figure:

- A) A.
- B) B.
- C) C.
- D) D.

Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Graphic

177. Refer to the above diagrams. The case of complementary goods is represented by figure:

- A) A.
- B) B.
- C) C.
- D) D.

Ans: C Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Subtopic: Cross elasticity of demand Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

178. Suppose the income elasticity of demand for toys is +2.00. This means that:
- A) a 10 percent increase in income will increase the purchase of toys by 20 percent.
 - B) a 10 percent increase in income will increase the purchase of toys by 2 percent.
 - C) a 10 percent increase in income will decrease the purchase of toys by 2 percent.
 - D) toys are an inferior good.

Ans: A Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand
Type: Application

179. Suppose that when your income increases from \$28,000 to \$30,000 per year, your purchases of X increase from 4 to 5 units because of that income increase. Thus:
- A) X is an inferior good.
 - B) X is a substitute good.
 - C) the income effect exceeds the substitution effect.
 - D) the demand for X is elastic with respect to income.

Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand
Type: Application

180. A positive income elasticity of demand coefficient indicates that:
- A) a product is an inferior good.
 - B) a product is a normal good.
 - C) two products are substitute goods.
 - D) two products are complementary goods.

Ans: B Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand
Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

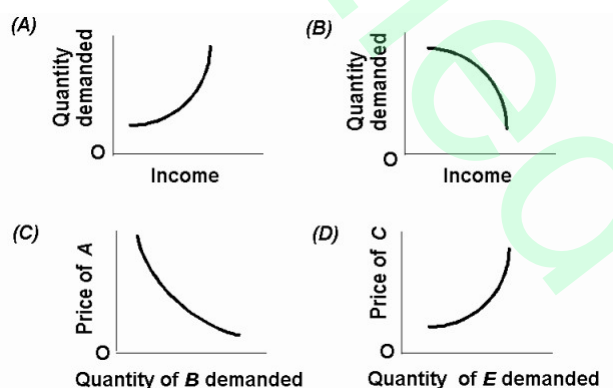
181. A consumer's weekly income is \$300 and the consumer buys 5 bars of chocolate per week. When income increases to \$330, the consumer buys 6 bars per week. The income elasticity of demand for chocolate by this consumer is about:
- A) 0.
 - B) .5.
 - C) 1.
 - D) 2.

Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Calculation

182. Assume that a 4 percent increase in income in the economy produces an 8 percent increase in the quantity demanded of good X. The coefficient of income elasticity of demand is:
- A) negative and therefore X is an inferior good.
 - B) negative and therefore X is a normal good.
 - C) positive and therefore X is an inferior good.
 - D) positive and therefore X is a normal good.

Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Application

Use the following to answer questions 183-186:



Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

183. Refer to the above diagrams. The case of a normal good is represented by figure(s):

- A) A.
- B) B.
- C) C.
- D) D.

Ans: A Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Graphic

184. Refer to the above diagrams. In which case would the coefficient of income elasticity be positive?

- A) A.
- B) B.
- C) C.
- D) D.

Ans: A Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Graphic

185. Refer to the above diagrams. The case of an inferior good is represented by figure(s):

- A) A only.
- B) B only.
- C) C.
- D) D.

Ans: B Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Graphic

186. Refer to the above diagrams. In which case would the coefficient of income elasticity be negative?

- A) A.
- B) B.
- C) C.
- D) D.

Ans: B Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

187. If turnips are an example of an inferior good, then a decrease in the demand for turnips could be brought about by a(n):
- A) increase in consumer incomes.
 - B) decrease in consumer incomes.
 - C) increase in the price of turnips.
 - D) decrease in the price of some other product.

Ans: A Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Application

188. If the income elasticity of demand for lard is -3.00, this means that:
- A) lard is a substitute for butter.
 - B) lard is a normal good.
 - C) lard is an inferior good.
 - D) more lard will be purchased when its price falls.

Ans: C Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Application

189. Assume that a 3 percent increase in income in the economy produces a 1 percent decline in the quantity demanded of good X. The coefficient of income elasticity of demand for good X is:
- A) negative and therefore X is an inferior good.
 - B) negative and therefore X is a normal good.
 - C) positive and therefore X is an inferior good.
 - D) positive and therefore X is a normal good.

Ans: A Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Application

190. If average consumer incomes increase proportionately faster than the demand for a product, then the income elasticity of demand for the product is:
- A) zero.
 - B) greater than zero but less than 1.
 - C) greater than 1.
 - D) equal to 1.

Ans: B Level: Difficult Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

191. Based on the information in the table below, which product would be an inferior good?

<u>Product</u>	<u>% Change in income</u>	<u>% Change in quantity demanded</u>
A	-10	-10
B	+5	+5
C	-3	+3
D	-3	-3

- A) Product A
B) Product B
C) Product C
D) Product D

Ans: C Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Application

192. The income elasticity of demand for a food is unity. A consumer's monthly income is \$2,000, of which 20 percent is spent on food. If income doubles, the amount spent on food will be:

- A) \$400 per month.
B) \$500 per month.
C) \$1000 per month.
D) \$800 per month.

Ans: D Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Subtopic: Income elasticity of demand Type: Calculation

Use the following to answer questions 193-194:

Demand and supply data for a competitive market:

<u>Quantity demanded</u>	<u>Price</u>	<u>Quantity supplied</u>
1,500	\$10	3,500
2,000	9	3,000
2,500	8	2,500
3,000	7	2,000
3,500	6	1,500

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

193. Refer to the data provided above. If government levies a per unit excise tax of \$1 on suppliers of this product, equilibrium price and quantity will be:
- A) \$9 and 3,000.
 - B) \$7.50 and 2,250.
 - C) \$8.50 and 2,250.
 - D) \$7 and 3,000.

Ans: C Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Calculation

194. Refer to the data provided above. If government levies a per unit excise tax of \$1 on suppliers of this product, its revenue from this tax would be:
- A) \$2,500.
 - B) \$1,750.
 - C) \$3,000.
 - D) \$ 2250.

Ans: D Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Calculation

Use the following to answer questions 195-198:

The equations for the demand and supply curves for a particular product are $P = 10 - .4Q$ and $P = 2 + .4Q$, where P is price and Q is quantity expressed in units of 100. After an excise tax is imposed on the product the supply equation is $P = 3 + .4 Q$.

195. Refer to the information provided above. The excise tax on each unit of the product is:
- A) \$1.
 - B) \$2.
 - C) \$3.
 - D) \$4.

Ans: A Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Formula

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

196. Refer to the information provided above. The equilibrium quantity before the imposition of the tax is:

- A) 800 units.
- B) 1000 units.
- C) 1200 units.
- D) 1400 units.

Ans: B Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Formula

197. Refer to the information provided above. The equilibrium quantity after the excise tax is imposed is:

- A) 750 units.
- B) 850 units.
- C) 875 units.
- D) 950 units.

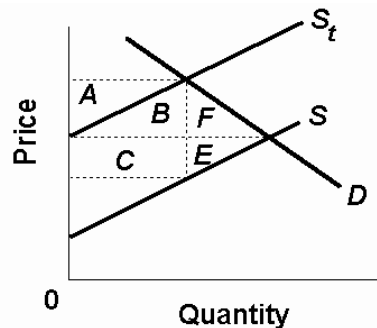
Ans: C Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Formula

198. Refer to the information provided above. Government's revenue from this tax is:

- A) \$875.
- B) \$1500.
- C) \$125.
- D) \$800.

Ans: A Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Calculation

Use the following to answer questions 199-201:



Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

199. Refer to the diagram above in which S is the before-tax supply curve and S_t is the supply curve after the imposition of an excise tax. The total tax payment to government is shown by area(s):

A) A only.
B) A + B + C.
C) A + B + C + E + F.
D) E + F.

Ans: B Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Graphic

200. Refer to the diagram above in which S is the before-tax supply curve and S_t is the supply curve after the imposition of an excise tax. The total amount of the tax paid by consumers is shown by area(s):

A) A + B.
B) A + B + F.
C) A + B + C.
D) E + F.

Ans: A Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Graphic

201. Refer to the diagram above in which S is the before-tax supply curve and S_t is the supply curve after the imposition of an excise tax. The total amount of the tax paid by producers is shown by area(s):

A) A + B + F.
B) C only.
C) A + B + C.
D) E + F.

Ans: B Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Subtopic: Elasticity and tax incidence Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

202. Assume the Ministry of the Environment imposes an excise tax on polluting firms. In which of the following situations would we expect the additional costs to be borne most heavily by consumers?
- A) demand is highly elastic and supply is highly inelastic
 - B) demand and supply are both highly elastic
 - C) demand and supply are both highly inelastic
 - D) demand is highly inelastic and supply is highly elastic

Ans: D Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

203. If the demand for a product is perfectly elastic and supply is upward sloping, a \$1 excise tax per unit on suppliers will:
- A) not raise price at all.
 - B) lower price by \$1.
 - C) raise price by more than \$1.
 - D) raise price by \$1.

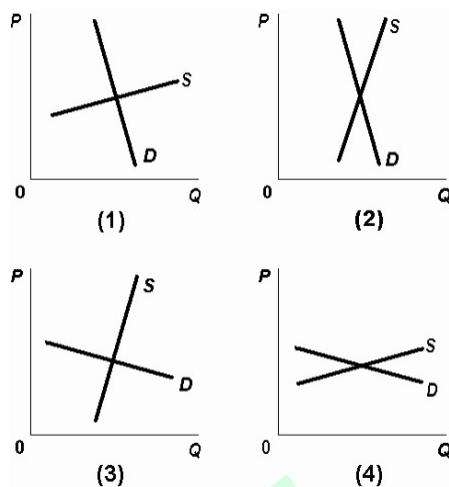
Ans: A Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

204. If the supply of a product is perfectly elastic and demand is downward sloping, an excise tax of \$2 per unit will increase price by:
- A) more than \$2.
 - B) less than \$2.
 - C) \$2 and increase equilibrium output.
 - D) \$2 and reduce equilibrium output.

Ans: D Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

Use the following to answer questions 205-206:



205. Refer to the graphs above. In which of the market situations will the largest portion of an excise tax of a specified amount per unit of output be borne by producers?

- A) 4
- B) 3
- C) 1
- D) 2

Ans: B Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Graphic

206. Refer to the graphs above. In which of the market situations will the largest portion of an excise tax of a specified amount per unit of output be borne by buyers?

- A) 4
- B) 3
- C) 2
- D) 1

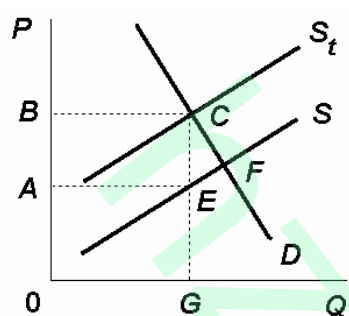
Ans: D Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

207. Assume the demand for automobile tires is highly inelastic and that the supply is highly elastic. The burden of a \$2 excise tax on each tire will be:
- A) borne by resource suppliers who provide the inputs for manufacturing tires.
 - B) shared about equally by buyers and sellers of tires.
 - C) borne primarily by buyers of tires.
 - D) borne primarily by sellers of tires.

Ans: C Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

Use the following to answer question 208:



208. Refer to the figure above in which S is the before-tax supply curve and S_t is the supply curve after the imposition of an excise tax. The burden of this tax is borne:
- A) equally by consumers and producers.
 - B) most heavily by consumers.
 - C) most heavily by producers.
 - D) only by consumers.

Ans: B Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Graphic

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

209. Which of the following generalizations is correct?
- A) the more elastic the supply of a product, the larger the portion of an excise tax which is borne by buyers
 - B) the more elastic the demand for a product, the larger the portion of an excise tax which is borne by buyers
 - C) the more inelastic the supply of a product, the larger the portion of an excise tax which is borne by buyers
 - D) the more inelastic the demand for a product, the larger the portion of an excise tax which is borne by sellers

Ans: A Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

210. Assume the supply curve for product X is perfectly elastic and that government imposes a \$2 per unit excise tax. We can conclude that the resulting:
- A) increase in output will be greater the less elastic the demand curve.
 - B) decrease in output will be greater the less elastic the demand curve.
 - C) decrease in output will be greater the more elastic the demand curve.
 - D) increase in output will be greater the more elastic the demand curve.

Ans: C Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

211. If the demand for a product is perfectly inelastic and the supply curve is upward sloping, the imposition of a \$1 excise tax per unit of output will:
- A) raise price by less than \$1.
 - B) raise price by more than \$1.
 - C) raise price by \$1
 - D) lower price by \$1.

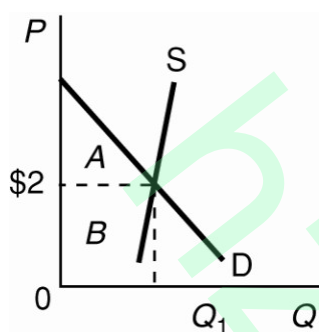
Ans: C Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

212. If the demand for a product is perfectly inelastic, the incidence of an excise tax will be:
- A) entirely on the buyer.
 - B) mostly on the buyer.
 - C) entirely on the seller.
 - D) mostly on the seller.

Ans: A Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 99-100 Subtopic: Elasticity and tax incidence Type: Application

Use the following to answer questions 213-214:



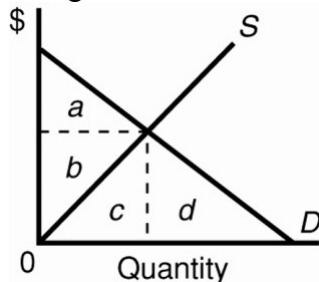
213. Refer to the above graph of the market for asparagus. At the market price of \$2, area A + B represents:
- A) total consumer benefit.
 - B) total revenue to sellers.
 - C) consumer surplus.
 - D) returns to capital and to labour.

Ans: A Level: Moderate Main Topic: 4.6 Consumer and producer surplus Page: 101 Subtopic: Consumer surplus Type: Graphic

214. Refer to the above graph of the market for asparagus. At the market price of \$2, area A represents:
- A) total consumer utility.
 - B) total revenue to sellers.
 - C) consumer surplus.
 - D) economic profit.

Ans: C Level: Easy Main Topic: 4.6 Consumer and producer surplus Page: 101 Subtopic: Consumer surplus Type: Graphic

215. Refer to the diagram. The area of consumer surplus would be represented by triangular area:



- A) a.
B) b.
C) c.
D) d.

Ans: A Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 101 Subtopic: Consumer surplus Type: Definition

216. "Consumer surplus" refers to:

- A) The total amount consumer pays for the product
B) The area under the demand curve
C) The price consumer pays for the product
D) The difference between the total amount consumers pays for the product and the value of the purchase to the consumers

Ans: D Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 101 Subtopic: Consumer surplus Type: Definition

217. If the price of a product increases:

- A) the consumer surplus will decrease.
B) the consumer surplus will increase.
C) total revenue will increase if demand is price elastic.
D) total revenue will decrease if demand is price inelastic.

Ans: A Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 101-102 Subtopic: Consumer surplus Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

Use the following to answer questions 218-219:

The following table presents the demand schedule for product Z:

<u>Quantity demanded</u>	<u>Price per unit (\$)</u>
1	20
2	15
3	12
4	8

218. Refer to the table above. Assuming that the price of Z at equilibrium is \$12, what is the total consumer surplus?

- A) \$12
- B) \$11
- C) \$8
- D) \$20

Ans: B Level: Moderate Main Topic: 4.6 Consumer and producer surplus
Page: 101-102 Subtopic: Consumer surplus Type: Calculation

219. Refer to the table above. If the price of product Z increases to \$15, what would be the consumer surplus?

- A) \$3
- B) \$8
- C) \$5
- D) \$15

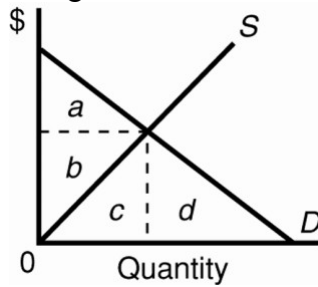
Ans: C Level: Moderate Main Topic: 4.6 Consumer and producer surplus
Page: 101-102 Subtopic: Consumer surplus Type: Calculation

220. "Producer surplus" refers to:

- A) The total amount producer spends for making the product
- B) The area under the demand curve above the equilibrium price
- C) The price the producer receives.
- D) The difference between producer's revenue from selling the product and the cost of producing it.

Ans: D Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 102 Subtopic: Producer surplus Type: Definition

221. Refer to the diagram. The area of producer surplus would be represented by triangular area:



- A) a.
B) b.
C) c.
D) d.

Ans: B Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 102-103 Subtopic: Producer surplus Type: Definition

222. If the price of a product increases:
A) the consumer surplus will increase.
B) the producer surplus will increase.
C) the price increase has no effect on the producer surplus.
D) the consumer surplus will not change.

Ans: B Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 102-103 Subtopic: Producer surplus Type: Application

223. The term "productive efficiency" refers to:
A) the situation where producer surplus is greater than consumer surplus.
B) the production of the product-mix most desired by consumers.
C) the production of a good at the lowest average total cost.
D) the production of any good which producer desires to produce.

Ans: C Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 103 Subtopic: Efficiency revisited Type: Definition

224. The term "allocative efficiency" refers to:
A) the production of the product-mix most desired by consumers.
B) the allocation of resources to the production of a particular product.
C) the production of the product-mix most desired by producers.
D) the production of a good at the lowest average total cost.

Ans: A Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 103-104 Subtopic: Efficiency revisited Type: Definition

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

225. In long-run equilibrium, purely competitive markets:

- A) minimize total cost.
- B) maximize consumer surplus.
- C) yield economic profits to most sellers.
- D) inevitably degenerate into monopoly in increasing cost industries.

Ans: B Level: Moderate Main Topic: 4.6 Consumer and producer surplus
Page: 104 Subtopic: Efficiency revisited Type: Application

226. In a purely competitive industry at equilibrium price and quantity

- A) the producer surplus exceeds the consumer surplus.
- B) the sum of consumer and producer surplus is maximized.
- C) the consumer surplus exceeds producer surplus.
- D) the willingness of consumers to pay exceeds the opportunity cost of producing the product.

Ans: B Level: Moderate Main Topic: 4.6 Consumer and producer surplus
Page: 104 Subtopic: Efficiency revisited Type: Application

227. The term "Efficiency losses" refers to:

- A) the producer loss due to the high cost of production.
- B) the reductions of combined consumer and producer surplus associated with underproduction or overproduction of a product.
- C) the consumer surplus minus the producer surplus.
- D) the sum of consumer and producer surplus.

Ans: B Level: Moderate Main Topic: 4.6 Consumer and producer surplus
Page: 104-105 Subtopic: Efficiency losses (or deadweight losses)
Type: Definition

228. Efficiency loss refers to:

- A) the situation where the maximum willingness to pay for a product is less than minimum acceptable price.
- B) the situation where the maximum willingness to pay for a product is equal to the minimum acceptable price.
- C) the difference between consumer and producer surplus.
- D) the sum of consumer and producer surplus.

Ans: B Level: Moderate Main Topic: 4.6 Consumer and producer surplus
Page: 104-105 Subtopic: Efficiency losses (or deadweight losses)
Type: Definition

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

229. In a highly competitive market all buyers pay the same market price:
- A) regardless of their individual demand elasticities.
 - B) regardless of their individual needs.
 - C) which is less than the cost of producing the product.
 - D) based on their individual demand elasticities.

Ans: A Level: Moderate Main Topic: Last Word Page: 106
Type: Application

230. Which of the following industries best describe the situation where the producer can charge different prices according to the buyers' demand elasticities:
- A) the agriculture industry.
 - B) the automobile industry.
 - C) the airline industry.
 - D) the pharmaceutical industry.

Ans: C Level: Easy Main Topic: Last Word Page: 106
Type: Application

231. Refer to the data. The demand for this product is elastic in the \$8-\$7 price range.

Quantity demanded per month	Price	Quantity supplied per month
30	\$8	44
36	7	38
42	6	30
50	5	20

Ans: True Level: Moderate Main Topic: 4.1 Price elasticity of Demand
Page: 84 Type: Calculation

232. If price and total revenue are directly related, demand is inelastic.

Ans: True Level: Easy Main Topic: 4.2 The total - revenue test Page: 88
Type: Application

233. If price changes and total revenue changes in the opposite direction, demand is relatively elastic.

Ans: True Level: Easy Main Topic: 4.2 The total - revenue test Page: 88
Type: Application

234. The smaller the number of substitutes for a product, the greater will be the price elasticity of demand for it.

Ans: False Level: Easy Main Topic: 4.2 The total - revenue test Page: 90
Type: Application

235. Generally speaking, the smaller the percentage of one's total budget devoted to a particular product, the more price elastic will be the demand for that product.

Ans: False Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Type: Application

236. Generally speaking, the demand for luxury goods is more price elastic than is the demand for necessities.

Ans: True Level: Easy Main Topic: 4.2 The total - revenue test Page: 91
Type: Application

237. Refer to the data. The supply of this product is inelastic in the \$6-\$5 price range.

Quantity demanded per month	Price	Quantity supplied per month
30	\$8	44
36	7	38
42	6	30
50	5	20

Ans: False Level: Moderate Main Topic: 4.3 Price elasticity of supply
Page: 93-94 Type: Calculation

238. Cross elasticity of demand measures the effect of a change in the price of one product upon the quantity demanded of another product.

Ans: True Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Type: Definition

239. If the coefficient of cross elasticity of demand is positive, the two products are complementary goods.

Ans: False Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Type: Definition

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

240. A cross elasticity of demand coefficient of +2.5 indicates that the two products are substitutes.

Ans: True Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Type: Application

241. We would expect the coefficient of cross elasticity of demand for cameras and film to be positive.

Ans: False Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 96 Type: Application

242. Income elasticity measures the effect of a change in income on the purchases of some good or service.

Ans: True Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Type: Definition

243. If the coefficient of income elasticity of demand is positive, the product is an inferior good.

Ans: False Level: Easy Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Type: Definition

244. An income elasticity coefficient of -1.8 means the product is a normal good.

Ans: False Level: Moderate Main Topic: 4.4 Cross elasticity and income elasticity of demand Page: 97 Type: Application

245. With a specific demand, the more inelastic the supply, the smaller the proportion of the tax borne by producers.

Ans: False Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Type: Application

246. If the demand for wheat is highly price inelastic, a bumper crop may reduce farm incomes.

Ans: True Level: Moderate Main Topic: 4.5 Elasticity and Real-world applications Page: 98-99 Type: Application

Chapter 4 Elasticity, Consumer Surplus, and Producer Surplus

247. If the demand for agricultural products is inelastic, a relatively small increase in supply will cause farm prices and incomes to decline.

Ans: True Level: Difficult Main Topic: 4.5 Elasticity and Real-world applications
Page: 99-100 Type: Application

248. Consumer surplus and the market price are positively related.

Ans: False Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 101 Type: Application

249. There is a positive relationship between equilibrium price and the amount of producer surplus.

Ans: True Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 102 Type: Application

250. Productive efficiency means that the society is producing the combination of the output most desirable by consumers.

Ans: False Level: Easy Main Topic: 4.6 Consumer and producer surplus
Page: 103 Type: Definition