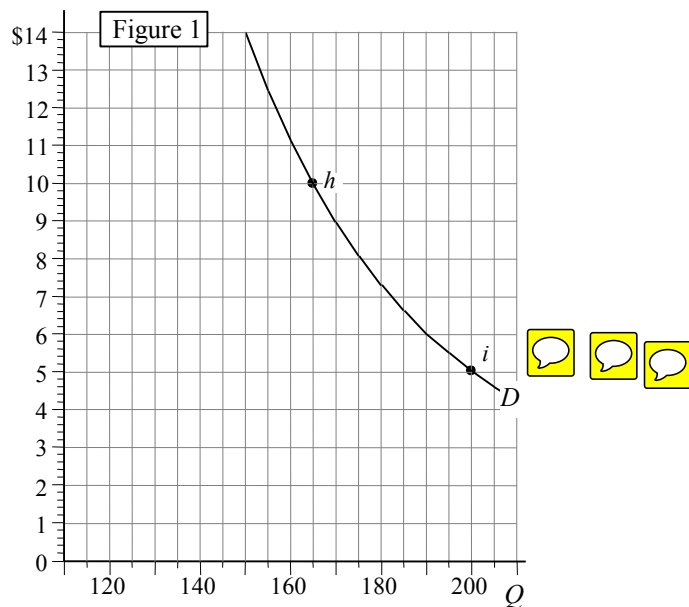


ELASTICITY PRACTICE QUESTIONS

Find the elasticity of demand between points *h* and *i* in Figure 1 below. Interpret your answer.



ELASTICITY TERMS

① $(\% \Delta Q) > (\% \Delta P)$	$\eta > 1$	Elastic Demand	
② $(\% \Delta Q) < (\% \Delta P)$	$\eta < 1$	Inelastic Demand	
③ $(\% \Delta Q) = (\% \Delta P)$	$\eta = 1$	Unitary Elasticity	
④ $(\% \Delta Q) = 0$	$\eta = 0$	Zero Elasticity (Perfectly Inelastic)	
⑤ $(\% \Delta Q) \rightarrow \infty$	$\eta \rightarrow \infty$	Infinitely Elastic (Perfectly Elastic)	

- ① Suppose $\eta = 1.4$. A correct interpretation of this number would be:
For a typical 1% decrease in price we would get a % (increase) (decrease) in quantity demanded.
- ② Suppose $\eta = .8$. A correct interpretation of this number would be:
If price falls by 10% we would expect quantity demanded to (rise) (fall) by %.
- ③ Suppose $\eta = 1.8$. A correct interpretation of this number would be:
If price rises by 7% we would expect quantity demanded to (rise) (fall) by %.
- ④ Suppose price changes by 30% and quantity demanded changes by 9.6%.
Then $\eta =$.
- ⑤ Suppose $\eta = 2.0$. We observe that, after a price increase, quantity demanded fell by 10%. Then the increase in price must have been %.