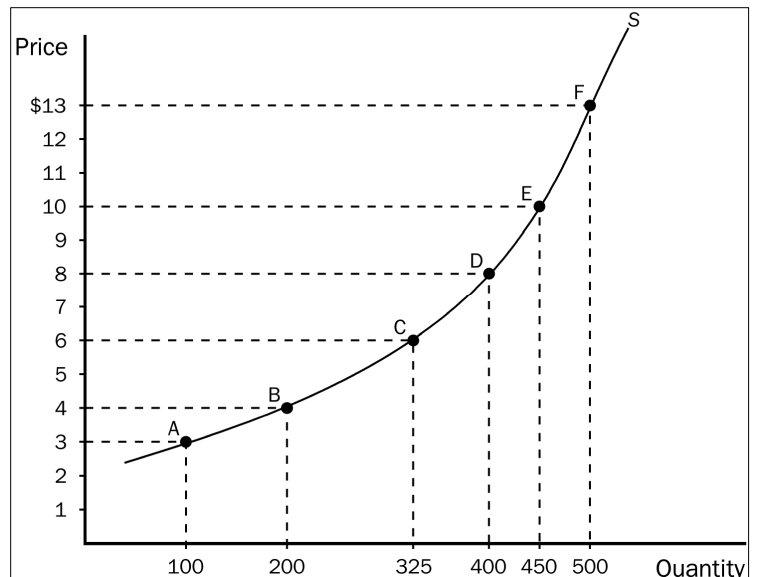


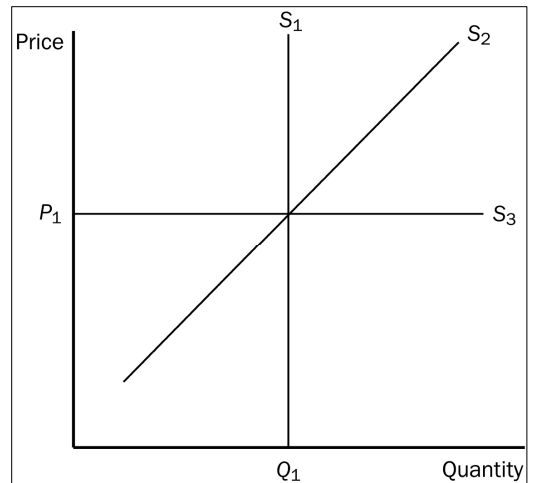
ARE 201 Spring 2009 HW #3
Due Date: Thursday Feb 26th, 2009 before class

MULTIPLE CHOICE

1. In general, elasticity is
 - a. the friction that develops between buyers and sellers in a market.
 - b. a measure of how much government intervention is prevalent in a market.
 - c. a measure of how competitive a market is.
 - d. a measure of how much buyers and sellers respond to changes in market conditions.
2. Demand is said to be inelastic if
 - a. the quantity demanded changes only slightly when the price of the good changes.
 - b. demand shifts only slightly when the price of the good changes.
 - c. buyers respond substantially to changes in the price of the good.
 - d. the price of the good responds only slightly to changes in demand.
3. When the price of bubble gum is \$0.50, the quantity demanded is 400 packs per day. When the price falls to \$0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, you know that the demand for bubble gum is
 - a. inelastic.
 - b. elastic.
 - c. unit elastic.
 - d. perfectly inelastic.
4. If the quantity supplied is the same regardless of price, then the supply curve would be
 - a. elastic.
 - b. perfectly elastic.
 - c. perfectly inelastic.
 - d. inelastic.
5. According to the graph, which of the following would be most inelastic?
 - a. from E to F
 - b. from C to D
 - c. from A to B
 - d. from A to C
6. According to the graph, what is the elasticity of supply between points D and E?
 - a. 1.89
 - b. 1.26
 - c. 0.53
 - d. 0.34



7. Because the demand for wheat tends to be inelastic, the development of a new, more productive hybrid wheat would tend to
 - a. increase the total revenue of wheat farmers.
 - b. decrease the total revenue of wheat farmers.
 - c. weaken the demand for wheat.
 - d. weaken the supply of wheat.
8. If wheat farmers know that the demand for wheat is inelastic, and they want to increase their total revenue, they should all
 - a. plant more wheat so that they would be able to sell more each year.
 - b. increase spending on fertilizer in an attempt to produce more on the acres they farm.
 - c. reduce the number of acres they plant in wheat.
 - d. use better machinery.
9. Suppose that you are in charge of pricing at a local sandwich shop. The business needs to increase revenue and your job is on the line. If the demand for sandwiches is elastic you
 - a. should increase the price of sandwiches.
 - b. should decrease the price of sandwiches.
 - c. should not change the price of sandwiches.
 - d. could not determine what to do with price until you determine whether supply is elastic or inelastic
10. In the graph shown, which supply curve is perfectly inelastic?
 - a. S1
 - b. S2
 - c. S3
 - d. It is impossible to tell without more information

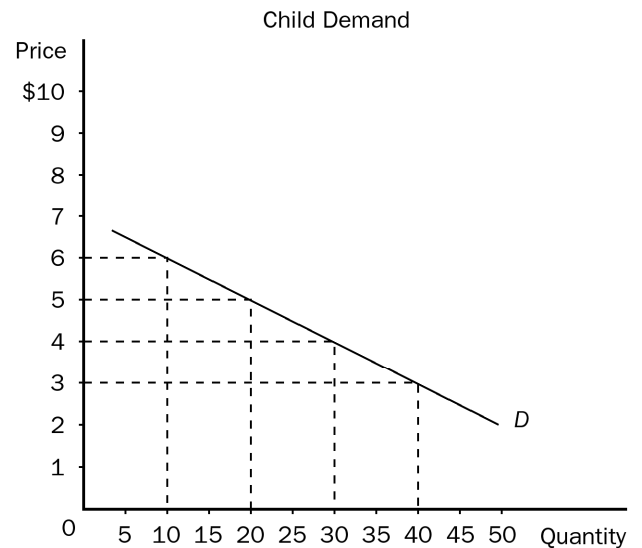
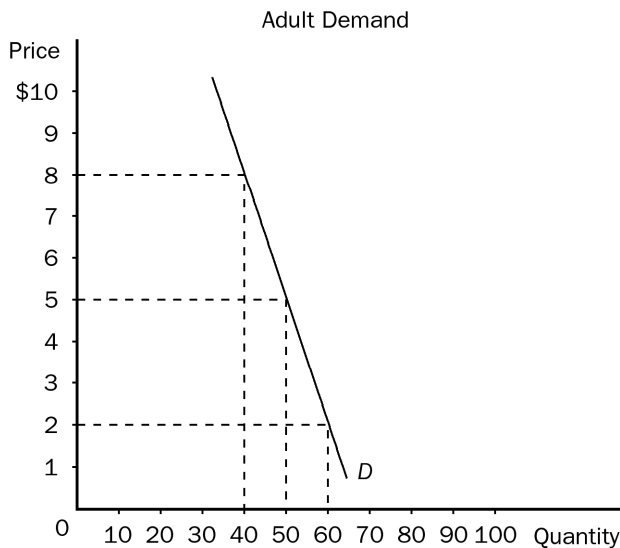


TRUE/FALSE

1. Necessities tend to have price inelastic demands, whereas luxuries have price elastic demands.
2. The demand for gasoline will respond more to a change in price over a period of five weeks than over a period of five years.
3. Supply is said to be inelastic if the quantity supplied responds substantially to changes in the price, and elastic if the quantity supplied responds only slightly to price.
4. A government program that reduces land under cultivation hurts farmers but helps consumers.
5. OPEC failed to maintain a high price of oil in the long run because both the supply of oil and the demand for oil are more elastic in the long run than in the short run.

**SHORT ANSWER
APPLICATION/SCENARIO**

You own a small town movie theatre. You currently charge \$5 per ticket for everyone who comes to your movies. Your friend who took an economics course in college tells you that there may be a way to increase your total revenue. Given the demand curves shown, answer the following questions.



- a. What is your current total revenue for both groups?
- b. The elasticity of demand is more elastic in which market?
- c. Which market has the more inelastic demand?
- d. What is the elasticity of demand between the prices of \$5 and \$2 in the adult market? Is this elastic or inelastic?
- e. What is the elasticity of demand between \$5 and \$3 in the children's market? Is this elastic or inelastic?
- f. Given the graphs and what your friend knows about economics, he recommends you to increase the price of adult tickets to \$8 each and lower the price of a child's ticket to \$3. How much could you increase total revenue if you take his advice?