Practice Questions Week 3 Day 1

<table>
<thead>
<tr>
<th>Price Per Pair</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>$4</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>$6</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>$8</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$10</td>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>

1. **Figure 4-1** shows the supply and demand for socks. If a price ceiling of $10 per pair is imposed by the government, the number of pairs actually purchased will be
   a. 2 pairs
   b. 8 pairs
   c. 5 pairs
   d. 1 pair
   e. 6 pairs

2. Price ceilings are primarily targeted to help __________, while price floors generally benefit __________.
   a. producers; no one
   b. increase tax revenue for governments; producers
   c. increase tax revenue for governments; consumers
   d. producers; consumers
   e. consumers; producers

3. Price floors and price ceilings
   a. lead to the same prices and quantities that would be found in a competitive market
   b. lead to technical efficiency
   c. cause the demand curve to shift to the left
   d. usually result from government intervention
   e. cause the supply curve to shift to the right
4. In Figure 4-2, if the government imposes a price ceiling of $2, the result will be
a. equilibrium
b. excess supply
c. no different than before the price ceiling is imposed
d. excess demand
e. the demand shifts leftward and supply shifts rightward

<table>
<thead>
<tr>
<th>Price Per Pair</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>$4</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>$6</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>$8</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$10</td>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>

5. Figure 4-3 shows the supply and demand for socks. If a price floor of $6 is imposed, the quantity of socks actually purchased will be
a. 10 pairs
b. 5 pairs
c. 6 pairs
d. 15 pairs
e. 13 pairs
6. **Figure 4-4** depicts a market in which the government has imposed a price floor of $5.00 per unit. To maintain the price floor, the government should
   a. buy 200 units of the good
   b. sell 200 units of the good
   c. buy 700 units of the good
   d. sell 700 units of the good
   e. buy 500 units of the good

7. The price elasticity of demand measures the
   a. responsiveness of a good's price to a change in quantity demanded
   b. adaptability of suppliers when a change in demand alters the price of a good
   c. responsiveness of quantity demanded to a change in a good's price
   d. adaptability of buyers when there is a change in demand
   e. responsiveness of quantity supplied to a change in quantity demanded

8. If the price elasticity of demand for Cheer detergent is 3.0, then a
   a. 12 percent drop in price leads to a 36 percent rise in the quantity demanded
   b. 12 percent drop in price leads to a 4 percent rise in the quantity demanded
   c. $1,000 drop in price leads to a 3,000-unit rise in the quantity demanded
   d. $1,000 drop in price leads to a 333-unit rise in the quantity demanded
   e. 12 percent rise in price leads to a 36 percent rise in the quantity demanded

9. The concept of elasticity is used to
   a. indicate the economy's ability to rebound from a recession
   b. measure the robustness of a variable
   c. measure the sensitivity of one variable to changes in another
   d. measure price changes
   e. measure income changes
10. If a 20 percent decrease in the price of chicken results in a 10 percent increase in the quantity demanded, the price elasticity of demand has a value of
   a. 0.5
   b. 2
   c. 1
   d. 0.1
   e. none of these
Practice Questions Week 3 Day 1
Answer Section

MULTIPLE CHOICE

1. E  
2. E  
3. D  
4. D  
5. C  
6. A  
7. C  
8. A  
9. C  
10. A
Practice Questions Week 3 Day 2

Multiple Choice
Identify the choice that best completes the statement or answers the question.

<table>
<thead>
<tr>
<th>Good</th>
<th>Price</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haircuts per Week</td>
<td>$20</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>$16</td>
<td>60</td>
</tr>
<tr>
<td>Manicures per Week</td>
<td>$12</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>$ 8</td>
<td>120</td>
</tr>
</tbody>
</table>

1. **Figure 4-6** shows the prices of two services offered by Earl's Barber Shop and the resulting quantities demanded by customers. In this example, the price elasticity of demand for manicures (using the midpoint formula) is
   a. 1
   b. 2
   c. 3
   d. 0.5
   e. 0.4

2. **Figure 4-6** shows the prices of two services offered by Earl's Barber Shop and the resulting quantities demanded by customers. In this example, the price elasticity of demand for haircuts (using the midpoint formula) is
   a. 1
   b. 1.8
   c. 3.5
   d. 2.25
   e. 0.5
3. Consider demand curve D in Figure 4-7. Between points F and G, the price elasticity of demand is
   a. 1
   b. 0.5
   c. 2
   d. 0.2
   e. none of these

4. In Figure 4-7, compare demand curve D between points F and G to demand curve D' between points J and K. Which of the following statements is correct?
   a. Both demand curves have the same slope, but D' is more elastic in the $2 to $3 range.
   b. Both demand curves have the same slope, but D' is less elastic in the $2 to $3 range.
   c. Both demand curves have the same price elasticity of demand, but D' has a larger slope.
   d. Both demand curves have the same price elasticity of demand, but D' has a smaller slope.
   e. Both demand curves have the same slope and the same value for the price elasticity of demand.
5. In Figure 4-8, the price elasticity of demand equals __________ between points T and U and equals __________ between points V and W.
   a. 0.33; 1.86  
   b. 0.54; 3  
   c. 3; 0.54  
   d. 1.86; 0.33  
   e. 2; 2

6. The slope of the demand curve and the price elasticity of demand are
   a. basically the same thing  
   b. determined by supply  
   c. are derived from production and distribution costs  
   d. different because slope is based on absolute changes and elasticity is based on percentage changes  
   e. implicit in the shape of the supply curve

7. If the demand curve is a straight line and has the normal negative slope, then as quantity demanded increases, demand
   a. becomes more elastic  
   b. becomes more inelastic  
   c. is unitary elastic  
   d. rises and then falls  
   e. is an inverse function of supply

8. Moving downward along a straight-line demand curve, the absolute value of the price elasticity of demand
   a. always rises  
   b. rises until the midpoint of the curve is reached, and then falls  
   c. falls until the midpoint of the curve is reached, and then rises  
   d. always falls  
   e. falls from 1 to 0
9. Suppose that when the price of aspirin rises from $2 to $3 per bottle, the quantity demanded falls from 800 bottles per day to 700 bottles per day. Over this range, the demand for aspirin is
   a. elastic
   b. unitary elastic
   c. perfectly elastic
   d. inelastic
   e. perfectly inelastic

10. A local store noticed that when it increased the price of milk from $2.50 to $3.50 per gallon, it sold the same amount of milk per week (165 gallons). Since everything else remained the same, we would say the
   a. demand for milk is perfectly elastic
   b. demand for milk is elastic
   c. demand for milk is perfectly inelastic
   d. demand for milk is unitary elastic
   e. law of supply does not apply in this situation

11. If the percentage change in quantity demanded is smaller (in absolute value) than the percentage change in price, then demand is
   a. inelastic
   b. elastic
   c. unit elastic
   d. determined by supply
   e. inadequate compared to supply

12. If demand is perfectly elastic, then
   a. the demand curve is a horizontal line
   b. supply is perfectly inelastic
   c. supply is perfectly elastic
   d. the demand curve is a vertical line
   e. the demand curve is downward sloping

13. A public university knows that demand from potential students is elastic. If the university wants to increase tuition revenue, it should
   a. raise its tuition rate
   b. hold its tuition rate constant and increase faculty salaries
   c. increase its financial aid
   d. lower its tuition rate
   e. increase its enrollment

14. If demand is unitary elastic, a price decrease results in
   a. an increase in total seller’s total revenue
   b. no change in total seller’s total revenue
   c. a decrease in total expenditure on the good
   d. a decrease in quantity demanded of the good
   e. an increase in supply of the good

15. As a result of heavy spring rains in the Midwest, the corn crop declined sharply. If corn growers experienced an increase in sales revenue, the demand for corn must be
   a. price elastic
   b. price inelastic
   c. unitary elastic
   d. perfectly inelastic
   e. perfectly elastic
Practice Questions Week 3 Day 2
Answer Section

MULTIPLE CHOICE

1. A
2. B
3. B
4. B
5. D
6. D
7. B
8. D
9. D
10. C
11. A
12. A
13. D
14. B
15. B
Practice Questions Week 3 Day 3

Multiple Choice
Identify the choice that best completes the statement or answers the question.

___ 1. Generally, as goods are more broadly defined,
   a. demand becomes more price elastic
   b. demand becomes less price elastic
   c. total expenditure falls as the price decreases
   d. the demand curve becomes straighter
   e. more substitute goods can be identified
___ 2. In general, the more of an individual's total budget that is spent on a given product, the
   a. greater the supply-side response
   b. less elastic is the demand for that good
   c. more elastic is the demand for that good
   d. more the demand curve will shift when the price changes
   e. less the demand curve will shift when the price changes
___ 3. The more available substitutes there are for a good, the
   a. larger the number of consumers
   b. smaller the number of consumers
   c. smaller the supply side response
   d. more elastic the demand for that good
   e. less elastic the demand for that good
___ 4. The long-run price elasticity of demand for a good is
   a. zero
   b. smaller (in absolute value) than the short-run price elasticity
   c. larger (in absolute value) than the short-run price elasticity
   d. infinite
   e. the same as the short-run elasticity
___ 5. For which of the following is demand likely to be the most price elastic?
   a. a good for which there are no close substitutes
   b. a good for which there are no easily-obtained substitutes
   c. a good with close substitutes that are difficult to obtain
   d. a good that is no longer being produced
   e. a good for which close substitutes are easily obtained
___ 6. If the income elasticity of demand for a good is -2.5, then
   a. it is a normal good, and its demand curve will shift to the left if buyers' incomes increase
   b. it is a normal good, and its demand curve will shift to the right if buyers' incomes increase
   c. it is an inferior good, and its demand curve will shift to the right if buyers' incomes increase
   d. it is an inferior good, and its demand curve will shift to the left if buyers' incomes increase
   e. there is insufficient information to determine whether the good is normal or inferior
7. The cross-price elasticity of demand is measured by the
   a. change in quantity demanded of one good divided by the change in price of another good
   b. percentage change in quantity demanded of one good divided by the percentage change in its price
   c. percentage change in demand for one good divided by the percentage change in income
   d. percentage change in quantity supplied of one good divided by the percentage change in the price of another good
   e. percentage change in quantity demanded of one good divided by the percentage change in price of another good

8. If the cross-price elasticity of demand between two goods is -2.2, then the
   a. two goods are substitutes
   b. two goods are complements
   c. income elasticity of demand must be between 0 and 1.0
   d. goods are both normal goods
   e. goods are both inferior goods

<table>
<thead>
<tr>
<th>Figure 4-17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price</strong></td>
</tr>
<tr>
<td>$45</td>
</tr>
<tr>
<td>$55</td>
</tr>
<tr>
<td>$65</td>
</tr>
<tr>
<td>$75</td>
</tr>
</tbody>
</table>

9. Bill's Office Furniture sells office chairs and desks. Bill's has changed the price per chair by $10 in each of four successive weeks. **Figure 4-17** shows the four prices along with the corresponding sales of desks. What is the cross-price elasticity of demand of desks with respect to chairs when the price of a chair changes in the $45 to $55 range?
   a. -2.0
   b. 2.0
   c. 0.5
   d. -0.5
   e. 1.0

10. The price elasticity of supply
    a. is a number between 0 and 1.
    b. measures the percent change in quantity supplied as a result of a 1-percent change in price.
    c. measures the percent change in quantity supplied as a result of a 1-percent change in cost.
    d. measures the shift in supply as the result of a price change.
    e. measures the movement of a supply curve along a fixed demand curve.
Practice Questions Week 3 Day 3
Answer Section

MULTIPLE CHOICE

1. B
2. C
3. D
4. C
5. E
6. D
7. E
8. B
9. D
10. B