1.

A demand curve for insulin is likely to be

○ (a)   somewhat elastic.

○ (b)   very inelastic.

○ (c)   perfectly elastic.

○ (d)   moderately inelastic.

2.

If the price elasticity of demand is greater than 0 and less than 1, ignoring the minus sign, demand is said to be

○ (a)   unit elastic.

○ (b)   elastic.

○ (c)   inelastic.

○ (d)   None of the above.

3.

Other things being equal, an increase in the availability of substitutes

○ (a)   has no impact on the price elasticity of demand.

○ (b)   increases the price elasticity of demand.

○ (c)   decreases the price elasticity of demand.

○ (d)   None of the above.

4.

The demand for automobiles is elastic. Other things being equal, if the price of automobiles declines, total revenue from the sale of automobiles will

○ (a)   decrease.

○ (b)   either increase or decrease.

○ (c)   remain unchanged.

○ (d)   increase.

1. Problem: The price elasticity of demand for furniture you sell is estimated to be –3. What will be the effect on the quantity you sell if you lower your prices by 10 percent next month? What will happen to the total revenue you take in next month as a result of the price cut?

2. Problem: The price elasticity of demand for Brussels sprouts is estimated to be –0.5. Government authorities want to increase Brussels sprouts consumption by 15 percent. By what percentage must the price to consumers fall to achieve this objective? What will happen to total consumer expenditure on Brussels sprouts as a result of the price cut?