

Principles of Economics

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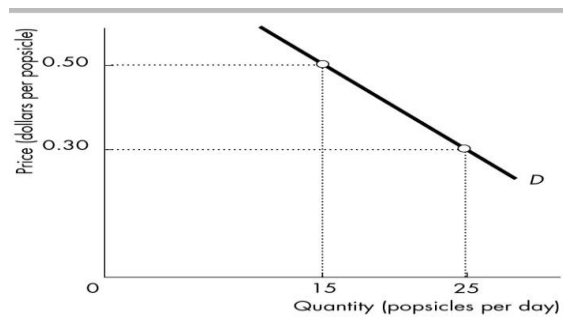
Faculty of Commerce- English Section

Department of Economics

Tutorial on Chapter 4 (Economics, 10e (Parkin))

Question 1: Choose the best answer for the following questions:

- The price elasticity of demand measures
 - how often the price of a good changes.
 - the slope of a budget curve.
 - how sensitive the quantity demanded is to changes in demand.
 - the responsiveness of the quantity demanded to changes in price.
- Dan sells newspapers. Dan says that a 4 percent increase in the price of a newspaper will decrease the quantity of newspapers demanded by 8 percent. According to Dan, the demand for newspapers is _____.
 - inelastic
 - unit elastic
 - perfectly elastic
 - elastic
- If a 6 percent decrease in the price leads to a 5 percent increase in the quantity demanded, the price elasticity of demand is
 - 0.30.
 - 0.60.
 - 0.83.
 - 1.20.

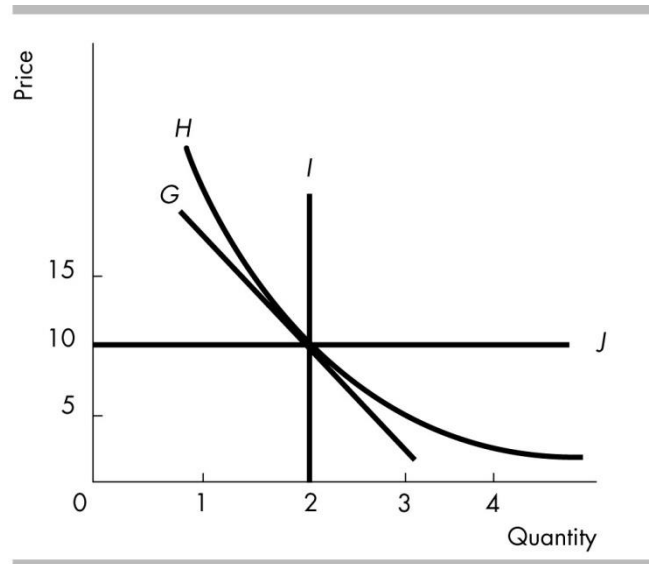


- The figure shows the demand curve for popsicles. The price elasticity of demand when the price of a popsicle increases from \$0.30 to \$0.50 is _____.
 - 0
 - 1
 - $\frac{1}{2}$
 - 2
- The price elasticity of demand can range between
 - zero and one.
 - negative infinity and infinity.
 - zero and infinity.
 - negative one and one.
- If the quantity demanded changes by a relatively small amount for a given change in price, then demand is
 - perfectly inelastic.
 - perfectly elastic.
 - elastic.
 - inelastic.
- If the price elasticity is between 0 and 1, demand is
 - elastic.
 - inelastic.
 - unit elastic.
 - perfectly elastic.

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8. When the price elasticity of demand for a good equals
- A) 0, the demand curve is vertical.
 - B) 0, the demand curve is horizontal.
 - C) 1, the demand curve is vertical.
 - D) 1, the demand curve is horizontal.



9. In the above figure, which demand curve illustrates perfectly elastic demand?
- A) G
 - B) H
 - C) I
 - D) J
10. To maximize its revenue,
- A) a firm facing inelastic demand should always raise its price.
 - B) a firm facing elastic demand should always raise its price.
 - C) a firm should always charge the highest price possible regardless of the elasticity of demand.
 - D) None of the above answers is correct.
11. The closer the substitutes for a good, the
- A) more elastic is the demand for the good.
 - B) less elastic is the demand for the good.
 - C) smaller the degree of substitutability between the goods.
 - D) larger the proportion of income that is spent on the good.
12. The _____ the portion of your income spent on a good, the _____ is your demand for the good.
- A) larger; more income elastic
 - B) larger; more income elastic
 - C) smaller; less price elastic
 - D) smaller; more income elastic
13. The cross elasticity of demand is calculated as the percentage change in the
- A) quantity demanded of one good divided by the percentage change in the price of another good
 - B) price of one good divided by the percentage change in the quantity demanded of another good.
 - C) quantity demanded of one good divided by the percentage change in the quantity demanded of another good
 - D) price of one good divided by the percentage change in the price of another good.

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14. If the cross elasticity of demand between two goods is -0.56, then a fall in the price of one good leads to a _____ shift in the _____ of the other good.
A) rightward; demand B) rightward; supply C) leftward; demand D) leftward; supply
15. The income elasticity of demand is
A) always positive.
B) always negative.
C) negative for a normal good and positive for an inferior good.
D) positive for a normal good and negative for an inferior good.
16. The elasticity of supply measures the sensitivity of
A) supply to changes in costs.
B) quantity supplied to quantity demanded.
C) quantity supplied to a change in price.
D) price to changes in supply.
17. The elasticity of supply equals _____ if the supply curve is vertical.
A) 0 B) 1 C) infinity D) -1
18. The supply of lettuce in the short run will be _____ than the supply in the long run and _____ than the supply today.
A) more elastic; less elastic B) more elastic; more elastic
C) less elastic; more elastic D) less elastic; less elastic