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Richards

**Econ112**

**Principles of Microeconomics**

**Price Elasticity of Demand Exercises-Part I**

1. Explain the concept of Price Elasticity of Demand. What does it measure?
2. Suppose a 3% decrease in the price of bread results in a 9% increase in the quantity of bread demanded. What is the price elasticity of demand?
3. If the price elasticity of demand for good X is 3.2, how much will quantity demanded increase if the price falls by 2%?
4. Suppose the price elasticity of demand for gasoline is .7. If the price of gasoline falls, what will happen to the total revenue from selling gasoline?
5. Describe the relationship between the slope of the demand curve and the price elasticity of demand. What is the elasticity of a steep demand curve compared to a flat demand curve?

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| 6 | If the local electricity utility wants to raise revenues, it should raise its price because demand for electricity is likely to be inelastic.  |
| A) | True |
| B) | False  |
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| 7. | If the percentage change in price for a good is equal to the percentage change in quantity demanded of that good, then the demand for that good, with respect to price, is  |
| A) | elastic  |
| B) | inelastic  |
| C) | unitary elastic  |
| D) | perfectly elastic  |
| E) | perfectly inelastic  |

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| 8. | To increase total revenues, firms with \_\_\_\_\_\_ demand should lower price and firms with \_\_\_\_\_\_ demand should increase price.  |
| A) | elastic; elastic  |
| B) | elastic; inelastic  |
| C) | inelastic; elastic  |
| D) | inelastic; inelastic  |
| E) | elastic; unit elastic  |

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| 9. | The demand for a good is unitary elastic with respect to price, if the price elasticity of demand is  |
| A) | equals one  |
| B) | greater than one  |
| C) | less than one  |
| D) | equals negative one  |
| E) | greater than negative one  |

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| 10. | If the price of roller- blades increase by one percent and the quantity demanded falls by 4 percent, then the price elasticity of demand for roller- blade has a value of  |
| A) | 0.04  |
| B) | 0.25  |
| C) | 0.40  |
| D) | 4  |
| E) | 40  |

**Answers**

1. Price elasticity of demand measures the responsiveness of quantity demanded to a change in price.
2. 9%/3%=3. This means that every 1% change in price is associated with a 3% change in quantity.
3. Since every 1% change in price is associated with a 3.2% change in quantity, it follows that a 2% change in price would be associated with a 6.4% change in quantity.
4. Since .7 is inelastic, it follows that a fall in the price of gasoline would result in lower revenues to gasoline sellers.
5. The steeper the demand curve, the more inelastic it is and vice versa. A very steep demand curve is inelastic. A flat demand curve is elastic.
6. A
7. C
8. B
9. A
10. D