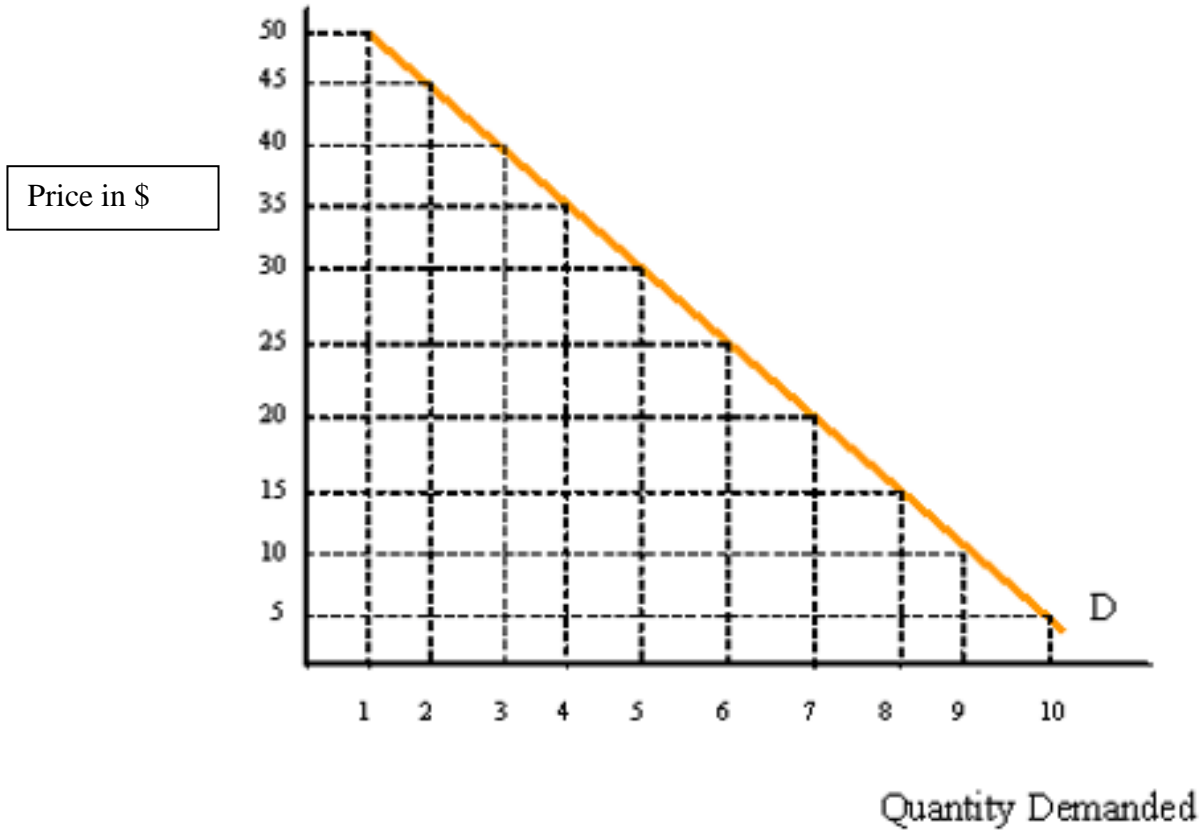


Print out and Submit Pages 1 and 2. Submit only a **Scantron®** for pages 3-6.



Given the demand curve above calculate the Price Elasticity of Demand for each change in Price using the Midpoint method; identify each elasticity as Elastic, Unit Elastic, or Inelastic.

- | | |
|------------------------|------------------------|
| 1: \$50 to \$45: _____ | 6: \$25 to \$20: _____ |
| 2: \$45 to \$40: _____ | 7: \$20 to \$15: _____ |
| 3: \$40 to \$35: _____ | 8: \$15 to \$10: _____ |
| 4: \$35 to \$30: _____ | 9: \$10 to \$5: _____ |
| 5: \$30 to \$25: _____ | |

10: If your goal is to maximize revenue, what price would you charge? _____

11: If you discovered a price elasticity of 3.1, How would you adjust your price strategy to increase revenue? _____

12: If a 5% increase in the price of ground beef leads to a 10% increase in the demand for hotdogs, what is the cross price elasticity of these two products? Are these products compliments, substitutes, or unrelated products?

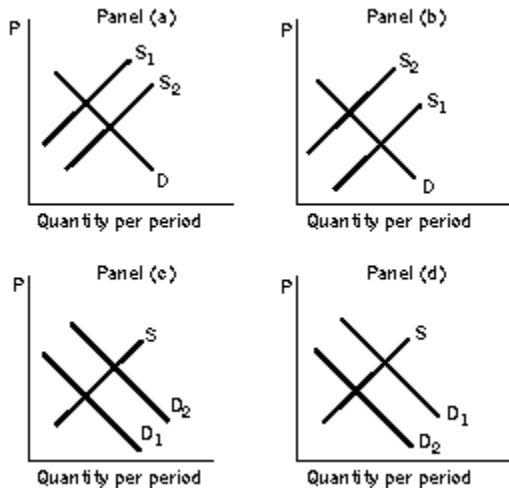
13: If income rises by 8% in your community and the demand for jasmine rice declines by 2%, what is the income elasticity of jasmine rice? Is jasmine rice a normal or an inferior good based on your elasticity measure?

14: If the anticipated wholesale price of raspberries increases by 15% and the supply of raspberries increases in response by 2%, what is the elasticity of supply for raspberries?

15: As an advisor for your state's legislature, you are asked for your suggestion on which of the following products you should apply a tax to if the goal is to maximize the revenue from the new tax. The two products are whiskey and diamond jewelry. In your state the total sales of whiskey and jewelry last year were statistically identical, about \$15 million dollars was spent on each product. Your research also shows you that the price elasticity of demand for whiskey is 0.13 and the price elasticity of demand for diamond jewelry was 1.42. Which product do you recommend as the one likely to generate the greater new revenue? Explain briefly. ?

Mark answers for the remaining questions on a Scantron® to be submitted with your homework.

Use the following to answer questions 1-4:



- (Exhibit: The Determinants of Demand and Supply) The exhibit shows how supply and demand might shift in response to specific events. Suppose consumer incomes increase. Which panel best describes how this will affect the market for used furniture, **an inferior good**?

 - Panel (d)
 - Panel (b)
 - Panel (a)
 - Panel (c)
- (Exhibit: The Determinants of Demand and Supply) The exhibit shows how supply and demand might shift in response to specific events. Suppose scientists discover that eating a tomato a day prevents aging. Which panel best describes how this will affect the market for tomatoes?

 - Panel (b)
 - Panel (d)
 - Panel (c)
 - Panel (a)
- (Exhibit: The Determinants of Demand and Supply) The exhibit shows how supply and demand might shift in response to specific events. Suppose a fall frost destroys one-third of the nation's orange crop. Which panel best describes how this will affect the market for Vitamin C tablets, which are a substitute for oranges?

 - Panel (d)
 - Panel (a)
 - Panel (c)
 - Panel (b)
- (Exhibit: The Determinants of Demand and Supply) The exhibit shows how supply and demand might shift in response to specific events. Suppose the population increases. Which panel best describes how this will affect the market for apples?

 - Panel (b)
 - Panel (d)
 - Panel (c)
 - Panel (a)

5. The law of demand is illustrated when:

- A) an increase in the purchases of personal computers results from lower prices.
- B) higher fees for the use of public golf courses force golfers to purchase fewer golf balls.
- C) an increase in tuition encourages more students to enroll in college because the quality of education has risen.
- D) higher oil prices causes oil companies to drill for new sources of oil.

6. Demand is defined as:

- A) a schedule that shows how much will be purchased at various prices during a particular period, all other things unchanged.
- B) the amount that will be bought at a specific price.
- C) an amount that is purchased at a specific price, given supply.
- D) a schedule that establishes the price of a good.

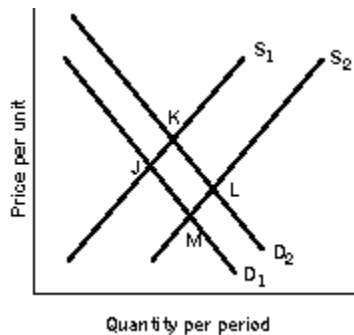
7. When the price of gas goes up and the demand for tires goes down, this means tires and gas are:

- A) both inexpensive.
- B) both expensive.
- C) substitutes.
- D) complements.

8. A shift in the demand curve to the left, all other things unchanged:

- A) will cause the supply curve to shift to the left, too.
- B) will cause a movement upward along the supply curve and a higher price.
- C) will cause a movement downward along the supply curve and a lower quantity.
- D) will result in a lower price and greater quantity.

Use the following to answer questions 9-10:



9. (Exhibit: Simultaneous Shifts in Demand and Supply) D_1 and S_1 are original supply and demand curves, and S_2 and D_2 are new curves. In this market, following the adjustment shown:

- A) price fell and quantity increased.
- B) both demand and supply increased.
- C) quantity had to increase, given the changes in supply and demand.
- D) all of the above are true.

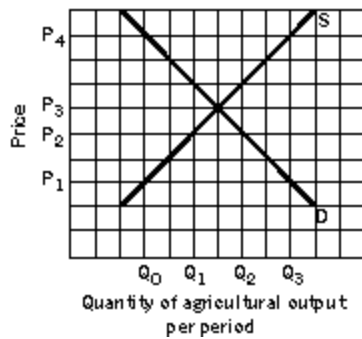
10. (Exhibit: Simultaneous Shifts in Demand and Supply) D_1 and S_1 are original supply and demand curves, and S_2 and D_2 are new curves. In this market for a normal good, the shift in the demand curve may have been a result of:

- A) consumers' expecting the price to go up.
- B) a decrease in the number of buyers.
- C) falling incomes.
- D) a decrease in the price of a substitute good.

11. The equilibrium price established by supply and demand could be called a "just right" price because:
 - A) it is the only price where the quantity demanded and the quantity supplied are equal.
 - B) any price above it would be "too high" and cause a shortage.
 - C) any price below it would be "too low" and cause a surplus.
 - D) of all of the above.

12. A market price support policy establishes price _____ the market equilibrium.
 - A) floors above
 - B) ceilings above
 - C) floors below
 - D) ceilings below

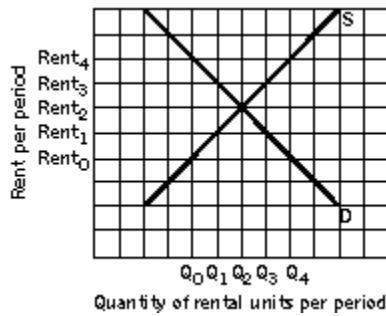
Use the following to answer question 13:



13. (Exhibit: Supply and Demand in Agriculture) To help farmers:
 - A) a price floor would be set at P_1 , causing a shortage of $Q_3 - Q_0$.
 - B) a price ceiling would be set at P_4 , causing a surplus of $Q_2 - Q_1$.
 - C) a price floor would be set at P_2 , causing a surplus of $Q_2 - Q_0$.
 - D) a price floor would be set at P_4 , causing a surplus of $Q_3 - Q_0$.

14. Economists in general agree that rent controls are:
 - A) not very efficient but still a good way to solve the problem of low income.
 - B) an efficient and equitable way to help low-income families.
 - C) an efficient method of dealing with the supply of rental units but don't provide relief for low-income families.
 - D) an inefficient and ineffective way to help low-income families.

Use the following to answer questions 15-17:



15. (Exhibit: Rent Controls) Without rent controls, the equilibrium rent is _____ and the equilibrium quantity is _____ .
- A) Rent₃; Q₃
 - B) Rent₁; Q₁
 - C) Rent₂; Q₁
 - D) Rent₂; Q₂
16. (Exhibit: Rent Controls) If rent controls are imposed, they will most likely be set at either _____ or _____ .
- A) Rent₃; Rent₄
 - B) Rent₁; Rent₃
 - C) Rent₀; Rent₁
 - D) All of the above are equally likely rent control levels.
17. (Exhibit: Rent Controls) If rent controls are set at Rent₀:
- A) there would be a shortage of rental units, but it is impossible to tell how large the shortage is based on the information provided.
 - B) the shortage of rental units is Q₂ to Q₀.
 - C) no one would have to pay a higher actual price than Rent₀ nor would anyone be willing to do so.
 - D) some renters would be willing to pay a price as high as Rent₄ for Q₀ units.
18. Price ceilings which lead to shortages will impose costs on society because they:
- A) will lead to long waiting lines.
 - B) lead to a smaller quantity offered on the market.
 - C) may result in black market prices, which are higher than the market-determined price would be.
 - D) do all of the above.