

Homework #3

- Along a downward-sloping linear demand curve:
 - demand is perfectly elastic when the price is zero.
 - demand is unit elastic at all prices.
 - demand is very inelastic at high prices but becomes more elastic as the price decreases.
 - demand is very elastic at high prices but becomes less elastic as the price decreases.
- The University of Oregon is currently suffering a significant budget shortfall because of the recent cuts by the legislature. Research shows that the demand for slots at the University of Oregon is inelastic. If this is true, then:
 - the University of Oregon should lower the price because its budget will improve.
 - the University of Oregon should raise the price because revenue will increase even though there will be fewer students and it will be less costly to run the University because there will be fewer students.
 - a reduction in the price will increase revenue, but, because more students will enroll, the costs of the University will increase so that it is unclear whether the budget will improve on net.
 - an increase in the price will lower revenue, but, because fewer students will enroll, the costs of the University will decline so that it is unclear whether the budget will improve on net.
 - both (C) and (D).

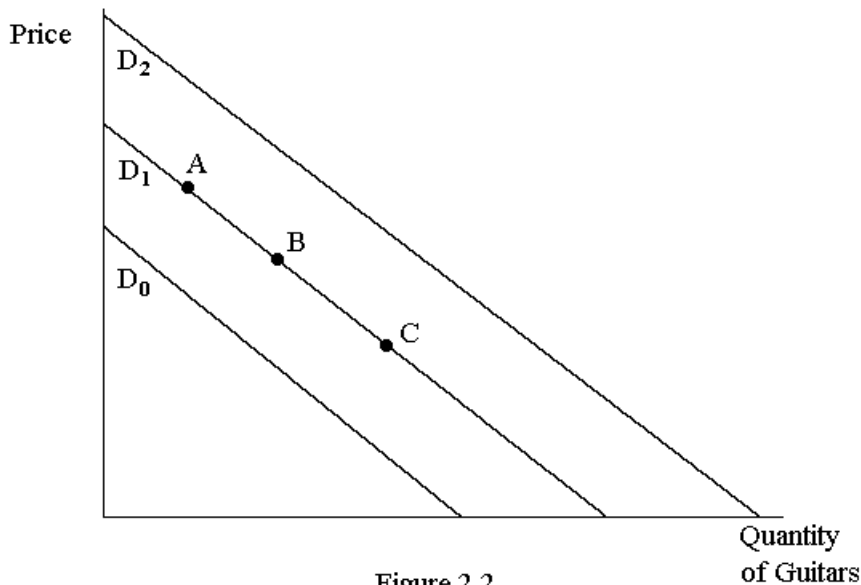


Figure 2.2

- Figure 2.2 illustrates the demand for guitars. Assume that guitars and guitar strings are complements. An increase in the price of guitar strings would bring about a movement from
 - Point B to point C
 - Point B to point A
 - D_1 to D_0
 - D_1 to D_2
 - None of the above.
- Figure 2.2 illustrates the demand for guitars. Assume guitars are an inferior good. An increase in income would bring about a movement from
 - Point B to point C
 - Point B to point A
 - D_1 to D_0
 - D_1 to D_2

5. Figure 2.2 illustrates the demand for guitars. Assume that guitars and banjos are substitutes. A decrease in the price of banjos would bring about a movement from
- A. Point B to point C B. Point B to point A
C. D_1 to D_0 D. D_1 to D_2
6. Which of the following affects the quantity demanded of a product?
- A. The price of the product B. The price of related goods
C. Consumer income D. Consumer expectations.
7. The price elasticity of demand is calculated by:
- A. the change in price divided by the change in quantity demanded.
B. the change in quantity demanded divided by the change in price.
C. the percentage change in price divided by the percentage change in quantity demanded.
D. the percentage change in quantity demanded divided by the percentage change in price.
8. If the price elasticity of demand is 0.5, this means that a ____ increase in price causes a ____ decrease in quantity demanded.
- A. 20%; 100% B. 20%; 10%
C. 20%; 1% D. 5%; 1%
9. If a product is a necessity and has no substitute at all, demand for the product is most likely to be
- A. very inelastic. B. inelastic.
C. unitary elastic. D. elastic.
10. On a linear demand curve, demand is _____ at high quantities than it is at the median quantity.
- A. more elastic B. less elastic
C. equally elastic D. impossible to tell
11. Suppose that the demand curve for school bumper stickers is linear with a slope of -0.01. At a price of \$1, there are 200 units sold. It follows that the elasticity of demand is:
- A. elastic. B. inelastic.
C. unit elastic D. insufficient information.
12. Suppose that there is only one seller in the widget industry. If that seller faces a straight-line, downward sloping demand curve at which point would the seller's total revenue be maximized?
- A. at the highest point on the demand curve where price is the highest
B. at point high on the demand curve, but not at the very top
C. at the midpoint of the demand curve where elasticity is unitary
D. at a point low on the demand curve, but not at the very bottom
13. Suppose that the demand for pizza can be written as $P = 20 - .5Q$. An increase in the price of pizza from 8 to 10 will yield:
- A. a decrease in the quantity of pizza demanded from 24 to 20.
B. a decrease in the quantity of pizza demanded from 32 to 30.
C. a decrease in the demand for pizza from 24 to 20.
D. an increase in the quantity of pizza demanded from 20 to 24.
14. Suppose that the demand for pizza can be written as $P = 20 - .5Q$. The consumer surplus at a price of 20 is:
- A. zero. B. 20.
C. 40. D. insufficient information.

15. Suppose that the demand for pizza can be written as $P = 20 - .5Q$. The consumer surplus at a price of 10 is:

- A. zero.
- B. 100.
- C. 200.
- D. insufficient information.

16. Suppose that the demand for pizza can be written as $P = 20 - .5Q$. Total revenue is maximized at a price of:

- A. 5.
- B. 10.
- C. 15.
- D. none of the above.

17. Suppose that the demand for pizza can be written as $P = 20 - .5Q$. Let the price of pizza increase from \$5 to \$6. We know that the elasticity of demand will:

- A. increase.
- B. decrease.
- C. remain constant.
- D. insufficient information.

18. Suppose that the demand for pizza can be written as $P = 20 - .5Q$ and the price of pizza is \$15. The elasticity of demand is:

- A. 0
- B. 0.5
- C. 0.75
- D. 2.0
- E. 3.0

Suppose you have a demand schedule given by:

P	Q
20	0
19	2
18	4
17	6

Use this information to answer question 19 and 20.

19. Your consumer surplus at a price of 17 is:

- A. 2.
- B. 4.
- C. 6.
- D. 8.
- E. 12.

20. Suppose the manufacture of this product sold the first 2 goods for a price of 19, and the second 2 goods for 18, and the final 2 goods for 17. Based on the information you have in the schedule, your consumer surplus is:

- A. zero.
- B. 2.
- C. 4.
- D. 8.
- E. 12.