Solutions:

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ECON 101

TA Worksheet, Module 5

Name:_____   DATE:_____

1. Think of some goods you buy that (for you) have very inelastic demand. Why is your demand inelastic for these products?

For me: Coffee beans.

2. My son, Levi, wanted to sell lemonade on the sidewalk by our house. I told him he had to charge $1 per cup. After selling 10 cups he got tired and gave up. The next day I said he could charge $2 per cup. That day he decided to stay out longer and sold 30 cups. Using this info, what can we calculate? What number to we get?

$P = 1$ $P' = 2$ So:

$Q = 10$ $Q' = 30$ $E_s = \dfrac{\frac{20}{10}\frac{1}{2}}{\frac{1}{3}} = \dfrac{3}{2}$

3. Suppose we have this demand curve: Q=20-0.5P. What is the price elasticity of demand if the price falls from 6 to 4?

At $P = 6$, $Q = 20 - 0.5(6) = 17$

$P' = 4$, $Q' = 20 - 0.5(4) = 18$

$E_D = \dfrac{\frac{1}{35}}{\frac{-1}{5}} = \dfrac{-\frac{5}{35}} = -\dfrac{1}{7}$

4. Suppose two goods are PERFECT complements (you never buy one without buying the other). How does the cross-price elasticity of demand relate to the products' PRICE elasticity of demand?

They're equal! (eg Right and Left Shoe)

A change in the price in one good affects the other's demand one-to-one.

5. At a price of $12/dozen, Doug's 'Nuts sells 100 dozen doughnuts. At a price of $8/dozen Doug's would sell 200 dozen. Is demand elastic or inelastic?

$P = 12$ $Q = 100$

$P' = 8$ $Q' = 200$

$E_D = \dfrac{\frac{1}{3}}{\frac{-1}{5}} = -\dfrac{5}{3} \approx -1.6$

PRACTICE QUESTIONS – from Practice Exam 1 Old

Question 9 — 1 pts

SUBSTITUTE

(Figure: Market for Stevia) Stevia is a natural sweetener that is used as a sugar substitute. Which of the following graphs illustrates the impact of a rise in the price of Stevia on the demand for sugar?

"RIVAL"

A | B | C | D

- ○ Graph A
- ○ Graph B
- ○ Graph C
- X Graph D

Question 14 — 1 pts

Holding all else constant, if people eat out more at expensive restaurants when they earn more, then expensive restaurant meals are

- ○ goods with a congestion-effect.
- ○ goods with a network-effect.
- ○ inferior goods.
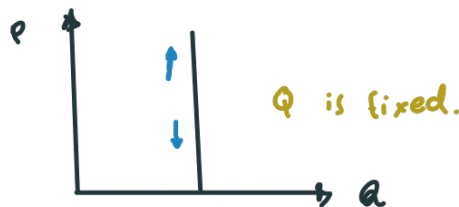- X normal goods.

Question 26 — 1 pts

The price elasticity of demand for a good with a vertical demand curve is:

- ○ elastic.
- ○ inelastic.
- ○ perfectly elastic.
- X perfectly inelastic.

Q is fixed.

Question 34 — 1 pts

tends to lower prices

Suppose supply shifts out and demand shifts back. What happens to the equilibrium price and quantity?

- X Price falls. The effect on quantity is uncertain.
- ○ Quantity falls. The effect on price is uncertain.
- ○ Both price and quantity fall.
- ○ Quantity rises. The effect on price is uncertain.
- ○ Price rises. The effect on quantity is uncertain.
- ○ Both price and quantity rise.