

Elasticity Practice Problems

1. According to a study done by the National Bureau of Economic Research (NBER), the price elasticity of demand for beer is equal to -1.18 . If this number is correct, then any government policy which resulted in a 20% increase in beer prices should result in what change in quantity?
2. Suppose that you work as an accountant for a bookseller. According to your records, when the seller charged \$5 per book, she sold 50 books and when she had a sale and offered the books for sale at a price 10% lower, her sales increased by 8%. Based on this information, what is the price elasticity of demand?
3. Yesterday, the price of envelopes was \$3 a box, and Julie was willing to buy 10 boxes. Today, the price has gone up to \$3.75 a box, and Julie is now willing to buy 8 boxes. Is Julie's demand for envelopes elastic or inelastic? What is Julie's elasticity of demand?

4. Katherine advertises to sell cookies for \$4 a dozen. She sells 50 dozen, and decides that she can charge more. She raises the price to \$6 a dozen and sells 40 dozen. What is the elasticity of demand?

5. There is a fall in the price of rutabagas from \$10.50 to \$9.50 a bushel. That causes the quantity demanded to increase from 20,500 to 24,700 bushels. What is the price elasticity of demand over the interval?

6. Create your own problem and solve it.