

# **Sample Elasticity Test Questions**

## Textbook Chapter 4

1. Moving up a linear demand curve, as the price rises and the quantity demanded decrease, the price elasticity of demand
  - a. Falls
  - b. Does not change
  - c. Rises
  - d. First rises then falls
  - e. None of the above
  
2. By reviewing its sales records, IBM economists discover that when it lowers the price of its personal computers, the total revenue IBM obtains from the sale of its personal computers rises. Hence
  - a. Supply of IBM personal computers is elastic
  - b. Demand for IBM personal computers is elastic
  - c. Supply of IBM personal computers is inelastic
  - d. Demand for IBM personal computers is inelastic
  
3. For which of the following pairs of goods is the cross elasticity of demand positive?
  - a. Tennis balls and tennis rackets
  - b. Videotapes and laundry detergent
  - c. Airline trips and textbooks
  - d. Beef and chicken
  
4. Suppose that the income elasticity of demand for apartments is  $-.2$ . This value indicates that
  - a. The demand for apartments is price elastic
  - b. The demand for apartments is unit elastic
  - c. A rise in the rent for apartments lowers the total revenue from renting apartments
  - d. Apartments are an inferior good
  - e. Apartments are a normal good
  
5. The demand for enrollment at RTC University is price inelastic. When the board of trustees faces a budget shortfall and needs to increase tuition revenue, they should
  - a. Raise tuition because the increase in tuition will more than offset the fall in enrollment and total revenue will rise.
  - b. Lower tuition because the increase in enrollment will more than offset the lower tuition and total revenue will rise.
  - c. Raise tuition because enrollment will increase along with the tuition
  - d. Raise tuition because enrollment will not change and the higher tuition per student will increase total revenue.
  
6. When the price of insulin rises, even diabetics who do not have insurance and pay the full cost of their medication do not cut back on how much they demand. We describe this type of demand as
  - a. Perfectly price elastic

- b. Elastic
- c. Unit-elastic
- d. Perfectly price inelastic

7. If a good has many close substitutes, its price elasticity will be
- a. Constant
  - b. Larger than if there existed few close substitutes
  - c. Smaller than if there existed few close substitutes
  - d. Unit-elastic
8. When the price of a good rises, it may take time for consumers to find suitable substitutes. Therefore, as the time available to find substitutes increases, the price elasticity of demand will usually
- a. Decrease
  - b. Increase
  - c. Stay the same
  - d. Fall before rising
9. When income rises, the quantity demand of movie tickets also rises. The income elasticity of demand for movie tickets is
- a. Equal to zero
  - b. Larger than zero
  - c. Less than zero
  - d. Cannot be estimated

Use the table below to answer questions 10 and 11.

<b>Price per Cone</b>	<b>Quantity Demanded (in cones)</b>
\$1.00	1,200
\$1.50	1,000
\$2.00	800
\$2.50	600
\$3.00	400

10. The accompanying table above shows the weekly demand schedule for ice cream in a particular town. What is the price elasticity of demand between the prices of \$2.50 and \$3.00 a cone?
- a. 0
  - b. .25
  - c. 1
  - d. 2.2
11. Given the demand schedule for ice cream shown above, as the price of a cone rises from \$2.50 to \$3.00, total revenue
- a. Falls from \$1500 to \$1200
  - b. Falls from \$400 to \$600
  - c. Rises from \$1500 to \$2000
  - d. Rises from \$1000 to \$1200