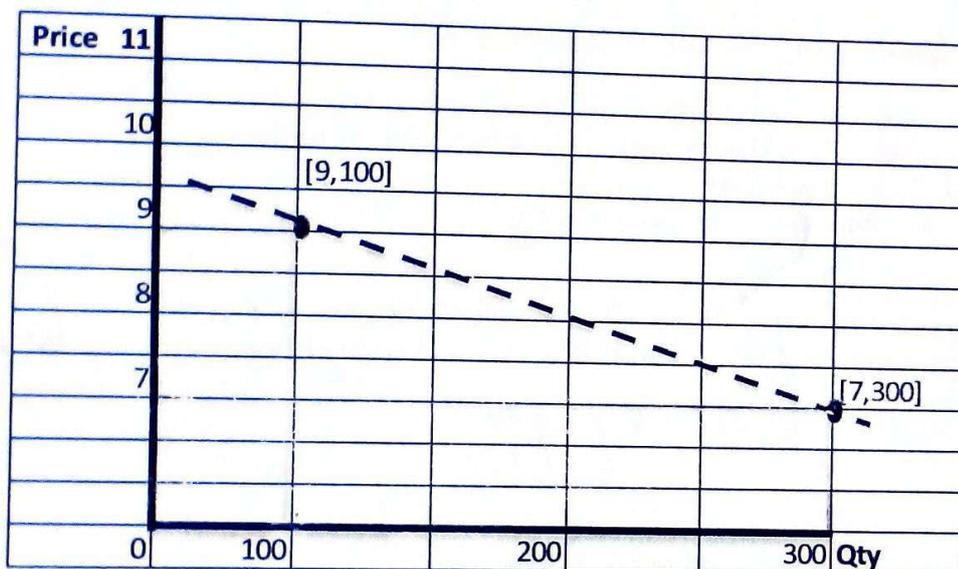


THE DEPARTMENT OF ECONOMICS
 INTRODUCTION TO MICRO ECONOMICS ECN 1115
 QUIZ 3 March 20, 2017

Attempt ALL Questions: 60 Minutes

Question One

The figure shows the demand for movie tickets. Is the demand for movie tickets elastic or inelastic over the price range \$7 to \$9 a ticket? If the price falls from \$9 to \$7 a ticket, explain how the total revenue from the sale of movie tickets will change. Calculate the price elasticity of demand for movie tickets when the price is \$8 a ticket.



Question Two

Use the following information to work Problems **a** and **b**

The price of a plane ride rises by 10 percent. The price elasticity of demand for plane rides is 0.5 and the price elasticity of demand for train rides is 0.2. The cross elasticity of demand for train rides with respect to the price of a plane ride is 0.4.

- Calculate the percentage changes in the quantity demanded of plane rides and train rides.
- Given the rise in the price of a plane ride, what percentage change in the price of a train ride will leave the quantity demanded of train rides unchanged?

Question 3

A survey found that when incomes increased by 10 percent, the following changes in the quantities demanded occurred: spring water up by 5 percent; sports drinks down by 2 percent; cruises up by 15 percent. Which demand is income elastic? Which is income inelastic? Which are normal goods?

Question 4

I) When the price of ice cream rises from \$3 to \$5 a scoop, the quantity of ice cream bought decreases by 10 percent. The price elasticity of demand for ice cream is _____.

- A. 5 B. 0.2 C. 50 D. 2.5

II) The price elasticity of demand for bus rides is 0.5. When the price of a bus ticket rises by 5 percent, _____.

- A. the demand for bus rides increases by 10 percent
B. the quantity of bus rides demanded increases by 2.5 percent
C. the demand for bus rides decreases by 2.5 percent
D. the quantity of bus rides demanded decreases by 2.5 percent

III) When the price of a good rises from \$5 to \$7 a unit, the quantity supplied increases from 110 to 130 units a day. The price elasticity of supply is _____. The supply of the good is _____.

- A. 60; elastic B. 10; elastic C. 0.5; inelastic D. 2; inelastic

IV) The cross elasticity of demand for good *A* with respect to good *B* is 0.2. A 10 percent change in the price of good *B* will lead to a _____ percent change in the quantity of good *A* demanded. Goods *A* and *B* are _____.

- A. 2; substitutes B. 0.5; complements C. -2; complements D. -0.5; substitutes

V) A 2 percent increase in income increases the quantity demanded of a good by 1 percent. The income elasticity of demand for this good is _____. The good is a _____ good.

- A. 2; normal B. -2; inferior C. 1/2; normal D. 2; inferior

Question 5

Draw a straight-line demand curve and note three points on the curve:-

Point A should have an elasticity greater than 1, point B should have an elasticity equal to 1, and point C should have an elasticity less than 1.

Question 6

Suppose that when the price of a burger decreases from \$2.00 to \$1.75 and other things remain the same, the quantity demanded of burgers increases from 200 an hour to 400 an hour and the quantity demanded of pizza decreases from 400 an hour to 200 an hour. At the same time, the quantity demanded of soda increases from 150 an hour to 300 an hour.

- Calculate the cross elasticity of demand for soda with respect to burgers.
- Are soda and burgers substitutes or complements? Why?
- Calculate the cross elasticity of demand for pizza with respect to burgers.
- Are pizza and burgers substitutes or complements? Why?
- Describe how the demand for soda and the demand for pizza have changed.