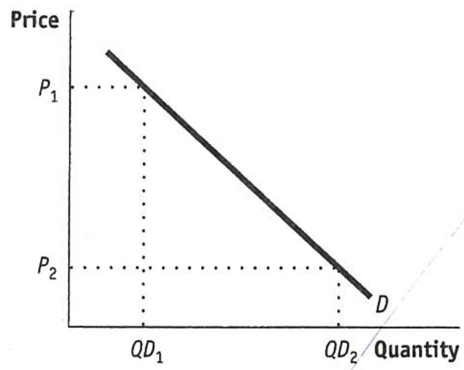
Answer Key

6. Along the demand curve in the accompanying figure, the price elasticity of demand
   a. is constant and equal to its slope.
   b. is larger at P_2 than at P_1.
   c. is smaller at P_2 than at P_1.
   d. is unit-elastic.



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7. If a good has many close substitutes, its price elasticity of demand 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. Since for most people eating in restaurants is a luxury while eating at home is a necessity, the demand for food eaten at home
   a. is less sensitive to changes in price than the demand for food eaten in a restaurant.
   b. is more sensitive to changes in price than the demand for food eaten in a restaurant.
   c. cannot be compared with the demand for food eaten in a restaurant in terms of price elasticity of demand.
   d. has a higher price elasticity of demand than the demand for food eaten in a restaurant.

9. 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.

10. The cross-price elasticity of demand for Coke and Pepsi is
   a. equal to zero.
   b. larger than zero.
   c. less than zero.
   d. cannot be estimated.

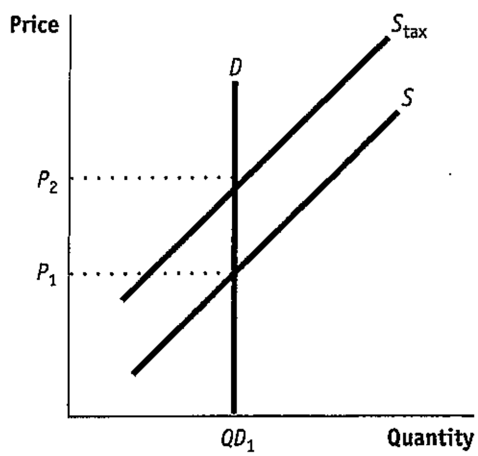
11. When the price of rice rises, quantity demanded of beans falls. The cross-elasticity of demand for rice and beans must be
   a. equal to zero.
   b. larger than zero.
   c. less than zero.
   d. cannot be estimated.

12. When income rises, the quantity demanded 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.

a. The consumers will pay $2.75 for 500 cones after the tax for a burden to them of $0.75 per cone.
b. The consumers will pay $2.50 for 600 cones after the tax for a burden to them of $0.50 per cone.
c. The consumers will pay $2.25 for 700 cones after the tax for a burden to them of $0.25 per cone.
d. The consumers will continue to pay $2.00 for 800 cones after the tax and avoid any burden from the tax.

17. In the problem before, what is the producers' burden from the tax?
a. The producers will receive a price of $1.75 for 600 cones after the tax for a burden to them of $0.25 per cone.
b. The producers will receive a price of $1.50 for 700 cones after the tax for a burden to them of $0.50 per cone.
c. The producers will receive a price of $1.25 for 800 cones after the tax for a burden to them of $0.75 per cone.
d. There is no burden to the producers—the consumers will pay all of the tax.

18. In the accompanying figure, how do the producers and consumers share the burden of the tax?



a. The consumers pay most of the tax.
b. The producers pay most of the tax.
c. The consumers pay all of the tax.
d. The producers pay all of the tax.

19. If the government imposes a price ceiling in a market, the resulting shortage will be smaller when demand is __________ and supply is __________.
a. elastic; inelastic
b. inelastic; inelastic
c. elastic; elastic
d. perfectly inelastic; elastic

20. If the government imposes a price floor in a market, the resulting surplus will be smaller when demand is __________ and supply is __________.
a. elastic; inelastic
b. inelastic; inelastic
c. elastic; elastic
d. perfectly inelastic; elastic