

Winthrop University
College of Business Administration

Principles of Microeconomics
Sample Elasticity Questions

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1. The elasticity of Good X was calculated to be -3.2 . Interpret this number.
A one percent
2. The price of the lunch special increased from \$5.00 to \$6.00, which caused the number of lunch specials demanded to change from 100 to 80. What was the elasticity of the good "lunch specials?"
3. Using the information from question 2, what happened to the total revenue when the price increased from \$5.00 to \$6.00?
4. Using the information from question 2, should the company raise their price? Why, why not?
5. If the price elasticity is equal to -1.8 , the good can be considered
a. inferior b. elastic c. unit elastic d. inelastic
6. If the price elasticity is equal to $-.5$, what should the business do to raise their revenues?
7. Total revenue is at its highest point (maximized) when price elasticity is
a. Elastic b. Inelastic c. Unit elastic

Use the information below to answer questions 8 – 10.

If the price of good X is \$4, the quantity demanded of good X is 40 units. When the price of good X is \$2.50, the quantity demanded is 68 units.

8. Solve for the price elasticity

9. Interpret your results

A percent in the price of causes

10. Is this good elastic, inelastic, unit elastic, inferior, necessity, luxury?

Use the information below to answer questions 11 through 16.

	P_x	Q_x	P_y	Q_y	I
Original information	200	100	45	200	300
a. Change in P_x	220			180	
b. Change in I		120			600

In scenario "a" the price of good X increases, causing a decrease in the demand for Good Y.

In scenario "b" income increased causing an increase in the demand for Good X.

11. Calculate the cross price elasticity in scenario a.

12. Calculate the income elasticity in scenario b.

13. What does the answer from number 11 tell you (for example is the good elastic, are the goods substitutes, or is the good inferior)?

14. What does the answer from number 12 tell you?

15. Interpret your results from question 11.
A one percent

16. Interpret your results from question 12.
A one percent

17. If prices increase in the elastic portion of the demand curve total revenue will

18. If prices decrease in the inelastic portion of the demand curve total revenue will

19. If prices decrease in the unit elastic portion of the demand curve total revenue will

20. A company that is trying to maximize their revenue should set their prices where.....

21. Write down the formula for all three elasticities. What do they all have in common?

22. If the price elasticity is equal to -3 , the good can be considered

- a. inferior b. elastic c. unit elastic d. inelastic

23. If the cross price elasticity is equal to 1.05, the good(s) is(are)

- a. substitutes
- b. complements
- c. inferior
- d. inelastic

24. If the income elasticity is equal to .8, the good(s) is(are)

- a. necessity
- b. elastic
- c. luxury
- d. substitutes

25. Solve for the elasticity

	Original data	After the
change		
Price of adidas basketball shoes	\$140.00	\$140.00
Price of Nike basketball shoes	\$170.00	\$150.00
Adidas' Advertising per month	\$100,000	\$100,000
Average Income in area per week	\$600	\$600
Number of pairs of Adidas shoes demanded	12,000	11,500

26. Interpret your results: for example was the good elastic, unit elastic, inelastic, inferior, luxury, necessity, substitute, or complement. It can only be one of these, the answer depends on the type of elasticity you solved for. Circle the correct answer.

27. Solve for the elasticity

	Original data	After the
change		
Price of adidas basketball shoes	\$140.00	\$140.00
Price of Nike basketball shoes	\$170.00	\$170.00
Adidas' Advertising per month	\$100,000	\$100,000
Average Income in area per week	\$600	\$650
Number of pairs of Adidas shoes demanded	12,000	11,800

28. Interpret your results for example was the good elastic, unit elastic, inelastic, inferior, luxury, necessity, substitute, or complement. It can only be one of these, the answer depends on the type of elasticity you solved for. Circle the correct answer.

29. Interpret your results from question 8 by completing the following sentence. A one percent

30. If the goal of a firm was to maximize revenue, and they realized the demand for their good was inelastic, they should

- a. raise their prices
- b. lower their prices
- c. leave their prices alone