2012 Macro
Chapter 5 Practice Questions

1. Elasticity is
   a. a measure of how much buyers and sellers respond to changes in market conditions.
   b. the study of how the allocation of resources affects economic well-being.
   c. the maximum amount that a buyer will pay for a good.
   d. the value of everything a seller must give up to produce a good.
ANS: A

2. A 10 percent increase in gasoline prices reduces gasoline consumption by about
   a. 6 percent after one year and 2.5 percent after five years.
   b. 2.5 percent after one year and 6 percent after five years.
   c. 10 percent after one year and 20 percent after five years.
   d. 0 percent after one year and 1 percent after five years.
ANS: B

3. The price elasticity of demand measures how much
   a. quantity demanded responds to a change in price.
   b. quantity demanded responds to a change in income.
   c. price responds to a change in demand.
   d. demand responds to a change in supply.
ANS: A

4. Which of the following statements about the price elasticity of demand is correct?
   a. The price elasticity of demand for a good measures the willingness of buyers of the good to buy less of the good as its price increases.
   b. Price elasticity of demand reflects the many economic, psychological, and social forces that shape consumer tastes.
   c. Other things equal, if good x has close substitutes and good y does not have close substitutes, then the demand for good x will be more elastic than the demand for good y.
   d. All of the above are correct.
ANS: D

5. Goods with many close substitutes tend to have
   a. more elastic demands.
   b. less elastic demands.
   c. price elasticities of demand that are unit elastic.
   d. income elasticities of demand that are negative.
ANS: A
6. Which of the following is likely to have the most price inelastic demand?
   a. white chocolate chip with macadamia nut cookies
   b. Mrs. Field’s chocolate chip cookies
   c. milk chocolate chip cookies
   d. cookies
ANS: D

7. For a good that is a luxury, demand
   a. tends to be inelastic.
   b. tends to be elastic.
   c. has unit elasticity.
   d. cannot be represented by a demand curve in the usual way.
ANS: B

8. A person who takes a prescription drug to control high cholesterol most likely has a demand for that drug that is relatively
   a. inelastic.
   b. unit elastic.
   c. elastic.
   d. highly responsive to changes in income.
ANS: A

9. There are very few, if any, good substitutes for motor oil. Therefore,
   a. the demand for motor oil would tend to be inelastic.
   b. the demand for motor oil would tend to be elastic.
   c. the demand for motor oil would tend to respond strongly to changes in prices of other goods.
   d. the supply of motor oil would tend to respond strongly to changes in people’s tastes for large cars relative to their tastes for small cars.
ANS: A

10. The price elasticity of demand for eggs
    a. is computed as the percentage change in quantity demanded of eggs divided by the percentage change in price of eggs.
    b. will be lower if there is a new invention that is a close substitute for eggs.
    c. will be higher if consumers consider eggs to be a luxury good.
    d. All of the above are correct.
ANS: A
11. Refer to Figure 5-2. As price falls from $P_a$ to $P_b$, which demand curve represents the most elastic demand?
   a. $D_1$
   b. $D_2$
   c. $D_3$
   d. All of the above are equally elastic.
   ANS: A

12. Suppose that quantity demand rises by 10% as a result of a 15% decrease in price. The price elasticity of demand for this good is
   a. inelastic and equal to 0.67.
   b. elastic and equal to 0.67.
   c. inelastic and equal to 1.50.
   d. elastic and equal to 1.50.
   ANS: A

13. Alice says that she would buy one banana split a day regardless of the price. If she is telling the truth,
   a. Alice's demand for banana splits is perfectly inelastic.
   b. Alice's price elasticity of demand for banana splits is 1.
   c. Alice's income elasticity of demand for banana splits is 0.
   d. None of the above answers is correct.
   ANS: A

14. A key determinant of the price elasticity of supply is
   a. the ability of sellers to change the price of the good they produce.
   b. the ability of sellers to change the amount of the good they produce.
   c. how responsive buyers are to changes in sellers' prices.
   d. the slope of the demand curve.
   ANS: B
15. The price elasticity of supply measures how responsive
   a. equilibrium price is to equilibrium quantity.
   b. sellers are to a change in buyers' income.
   c. sellers are to a change in price.
   d. consumers are to the number of substitutes.
ANS: C

16. When a supply curve is relatively flat,
   a. sellers are not very responsive to changes in price.
   b. the supply is relatively inelastic.
   c. the supply is relatively elastic.
   d. Both a and b are correct.
ANS: C

17. Last year, Sheila bought 6 pairs of shoes when her income was $40,000. This year, her
    income is $50,000 and she purchased 10 pairs of shoes. Holding other factors constant, it
    follows that Sheila
   a. considers shoes to be a necessity.
   b. considers shoes to be an inferior good.
   c. considers shoes to be a normal good.
   d. has a low price elasticity of demand for shoes.
ANS: C

18. Income elasticity of demand measures how
   a. the quantity demanded changes as consumer income changes.
   b. consumer purchasing power is affected by a change in the price of a good.
   c. the price of a good is affected when there is a change in consumer income.
   d. many units of a good a consumer can buy given a certain income level.
ANS: A

19. For which of the following goods is the income elasticity of demand likely highest?
   a. water
   b. diamonds
   c. hamburgers
   d. housing
ANS: B

20. If an increase in income results in a decrease in the quantity demanded of a good, then for
    that good, the
   a. cross-price elasticity of demand is negative.
   b. price elasticity of demand is elastic.
   c. income elasticity of demand is negative.
   d. income elasticity of demand is positive.
ANS: C
21. Suppose good X has a negative income elasticity of demand. This implies that good X is
   a. a normal good.
   b. a necessity.
   c. an inferior good.
   d. a luxury.
ANS: C

22. Suppose goods A and B are substitutes for each other. We would expect the cross-price elasticity between these two goods to be
   a. positive.
   b. negative.
   c. either positive or negative. It depends whether A and B are normal goods or inferior goods.
   d. either positive or negative. It depends whether the current price level is on the elastic or inelastic portion of the demand curve.
ANS: A

23. Suppose that when the price of good X falls from $10 to $8, the quantity demanded of good Y rises from 20 units to 25 units. Using the midpoint method,
   a. the cross-price elasticity of demand is -1.0, and X and Y are complements.
   b. the cross-price elasticity of demand is -1.0, and X and Y are substitutes.
   c. the cross-price elasticity of demand is 1.0, and X and Y are complements.
   d. the cross-price elasticity of demand is 1.0, and X and Y are substitutes.
ANS: A

24. If the cross-price elasticity of two goods is negative, then those two goods are
   a. necessities.
   b. complements.
   c. normal goods.
   d. inferior goods.
ANS: B

25. If the quantity supplied responds only slightly to changes in price, then
   a. supply is said to be elastic.
   b. supply is said to be inelastic.
   c. an increase in price will not shift the supply curve very much.
   d. even a large decrease in demand will change the equilibrium price only slightly.
ANS: B