1. Suppose the price of gasoline increases 10% and quantity demanded in Orlando drops 5% per day. The price elasticity of demand for gasoline in Orlando is:
   A) price elastic.
   B) price inelastic.
   C) price unit-elastic.
   D) perfectly price inelastic.

Use the following to answer question 2:

Figure: Demand Curve for Crossings

2. (Figure: Demand Curve for Crossings) In the accompanying figure, demand is price ______ between $0.90 and $1.10, since total revenue ______ when price ______.
   A) elastic; increases; decreases.
   B) inelastic; stays the same; decreases.
   C) unit elastic; stays the same; increases.
   D) inelastic; increases; increases.

Use the following to answer question 3:

Figure: Market for Lattes

3. (Figure: Market for Lattes) In the market for lattes shown in the accompanying figure, what is the price elasticity of supply between prices of $2 and $2.50 per cup using the midpoint formula?
   A) 1
   B) 1.29
   C) 1.51
   D) 2.12

4. For which of the following is the cross-price elasticity of demand most likely a large positive number?
   A) hockey pucks and hockey sticks
   B) DVD's and milk
   C) french fries and onion rings
   D) All of the above are correct, because the cross-price elasticity is always a positive number.
5. Suppose the price of cereal rose by 25% and the quantity of milk sold decreased by 50%. Then we know the:
   A) cross-price elasticity between cereal and milk is –2.
   B) cross-price elasticity between cereal and milk is –0.5.
   C) price elasticity of demand for milk is 2.
   D) cross-price elasticity of demand for milk is 2.

Use the following to answer question 6:

![Demand Curve](image)

6. (Figure: Demand Curve) In the accompanying figure, the price elasticity of demand between $1 and $2, which you can calculate by using the midpoint method, is approximately:
   A) 0.16.
   B) 0.56.
   C) 1.8.
   D) 5.67.

7. Which of the following would be most likely to have a vertical supply curve?
   A) salt
   B) oil
   C) insulin
   D) paintings by Van Gogh

8. The price elasticity of demand for a good such as water is likely to be very low because:
   A) the price is very low.
   B) water has no good substitutes.
   C) water is considered a necessity.
   D) all of the above are correct.

9. Suppose the price elasticity of demand for yachts equals 4.04, while the price elasticity of supply for yachts equals 0.22. If Congress reinstates a luxury tax on yachts, who will pay more of the tax?
   A) Yacht builders will pay more.
   B) Yacht buyers will pay more.
   C) Yacht builders and buyers will pay equally.
   D) It's impossible to tell without additional information.

10. Local cable companies recently increased the price of basic services. A news expert reporting on the increase stated, “While prices have increased 40%, the cable company reports only a 20% increase in revenue.” This remark suggests the demand for basic cable service is elastic.
    A) True
    B) False

11. You are the manager of a supermarket, and know that the cross-price elasticity of peanut butter to jelly is exactly –2.0. Due to a bad grape harvest, grape jelly prices are expected to rise by 10% next year. Knowing this, you should stock 10% more peanut butter.
    A) True
    B) False
12. The demand for textbooks is price inelastic. Which of the following would explain this?
   A) Many alternative textbooks can be used as substitutes.
   B) Students have a lot of time to adjust to price changes.
   C) Textbook purchases consume a large portion of most students' income.
   D) The good is a necessity.

13. Each month Jessica buys exactly 15 Big Macs regardless of the price. Jessica's price elasticity of
demand for Big Macs is:
   A) zero.
   B) one.
   C) greater than one.
   D) less than one.

14. Sonik, a local wireless phone company, tested the effect of a price reduction for text messaging.
   It lowered prices from $0.08 to $0.04 per message and found that the number of messages sent
   tripled. This means:
   A) the demand for text messaging is inelastic in this price range.
   B) the demand curve for text messaging shifted to the right.
   C) the supply curve of text messaging shifted to the left.
   D) the demand for text messaging is elastic in this price range.

15. Since for most people, eating in restaurants is a luxury while eating at home is a necessity, the
   price elasticity of demand for food eaten at home is less that the price elasticity of demand for
   eating in restaurants.
   A) True
   B) False

16. A perfectly inelastic demand curve for insulin would mean that quantity demanded does not
   respond at all to changes in the price of insulin.
   A) True
   B) False

17. Suppose you manage a convenience mart and are in charge of ordering products but do not set
   the price. The home office provides the prices. In your area, the income elasticity of demand for
   peanut butter is –0.5. Due to local factory closings, you expect local incomes to decrease by
   20%, on average, in the next month. As a result, you should:
   A) stock 20% more peanut butter on the shelves.
   B) stock 5% more peanut butter on the shelves.
   C) stock 10% more peanut butter on the shelves.
   D) stock 10% less peanut butter on the shelves.

Use the following to answer question 18:

Use the following to answer question 18:

Use the following to answer question 18:

Use the following to answer question 18:
18. (Figure: Market for Lattes) In the market for lattes shown in the accompanying figure, what is the price elasticity of demand between prices of $2 and $2.50 per cup using the midpoint formula?
   A) 1
   B) 1.29
   C) 2.51
   D) 3

19. The price elasticity of demand for skiing lessons in New Hampshire is over 1.00. This means that the demand is ______ in New Hampshire.
   A) price elastic
   B) price inelastic
   C) price unit-elastic
   D) perfectly price elastic

20. (Figure: Demand Curve for Oil) In the accompanying figure, demand is price ______ between $20 and $21, since total revenue ______ when price ______.
   A) elastic; increases; decreases.
   B) inelastic; stays the same; decreases.
   C) elastic; decreases; increases.
   D) inelastic; increases; increases.

21. The cross-price elasticity of electricity with respect to the price of natural gas has been estimated as being equal to 0.2. This implies that:
   A) natural gas and electricity are both normal goods.
   B) electricity and natural gas are complements.
   C) electricity and natural gas are substitutes.
   D) one of the two goods is inferior while the other is normal, but we need additional information to determine which of them is inferior.

22. The Cozy Chair Company believes it can sell 200 chairs at $200 per chair, or 300 chairs at $150 per chair. Using the midpoint formula, you can calculate that the price elasticity of demand (to the nearest tenth) for Cozy Chairs is:
   A) 2.5.
   B) 1.4.
   C) 0.7.
   D) 0.5.

23. If demand is perfectly inelastic, changes in price leave total revenue unchanged.
   A) True
   B) False
24. Each month Jacquelyn spends exactly $50 on ice cream regardless of the price. Jacquelyn's price elasticity of demand for ice cream is:
   A) zero.
   B) one.
   C) greater than one.
   D) less than one, but greater than zero.

25. If demand is perfectly inelastic and the supply curve is upward sloping, then the burden of an excise tax is:
   A) borne entirely by consumers.
   B) borne entirely by producers.
   C) is shared by consumers and producers, with the burden falling mainly on consumers.
   D) is shared by consumers and producers, with the burden falling mainly on producers.

26. Suppose the price of University sweatshirts increases from $10 to $20, and the quantity supplied increases from 20 to 30. Using the midpoint formula, you calculate the price elasticity of supply to be:
   A) 0.66.
   B) 1.50.
   C) 0.60.
   D) 1.66.

27. When the demand for foods low in carbohydrates began to increase, in the short run the price elasticity of supply was lower than it will be in the long run. This is because:
   A) in the short run, inputs are more available to produce these foods than in the long run.
   B) in the short run, some food producers did not have as much time to produce low-carb foods as they will have in the long run.
   C) in the short run, prices tend to stay constant.
   D) in the long run, the price elasticity of supply tends to be perfectly inelastic.

28. The long-run price elasticity of supply of crude oil is ______ the short-run price elasticity of supply of crude oil.
   A) less than
   B) greater than
   C) equal to
   D) not comparable to

29. Sometimes airlines raise ticket prices as the flight departure date approaches in the hope of increasing revenue. The airlines raise their prices on the assumption that:
   A) consumer demand becomes more price elastic as departure time approaches.
   B) consumer demand becomes less price elastic as departure time approaches.
   C) consumers are not aware of airline prices.
   D) consumer demand is unrelated to prices.

30. A price floor will cause a larger surplus when demand is ______ and supply is ______.
   A) elastic; inelastic
   B) inelastic; inelastic
   C) elastic; elastic
   D) perfectly inelastic; elastic

31. Given a price increase for any good, the price effect on revenue is always larger than the quantity effect on revenue.
   A) True
   B) False
32. Gas prices recently increased by 25%. In response, purchases of gasoline decreased by 5%. The price elasticity of demand for gas is:
   A) 5.
   B) 2.
   C) 0.2.
   D) 0.5.

33. The income elasticity of demand for an inferior good, such as a macaroni and cheese dinner, is negative.
   A) True
   B) False

Use the following to answer question 34:
Figure: Demand Curve for Crossings

34. (Figure: Demand Curve for Crossings) Price elasticity of demand between $0.90 and $1.10 in the accompanying figure is price:
   A) elastic, since the price elasticity is less than 1.
   B) unit elastic, since the price elasticity is equal to 1.
   C) elastic, since the price elasticity is a negative number.
   D) inelastic, since the price elasticity is less than 1.

Use the following to answer questions 35-36:
Figure: Demand Curve

35. (Figure: Demand Curve) In the accompanying figure, the price elasticity of demand between $3 and $4, which you can calculate by using the midpoint method, is approximately:
   A) 0.19.
   B) 0.54.
   C) 1.
   D) 1.86.

36. (Figure: Demand Curve) In the accompanying figure, the price elasticity of demand between $8 and $9, which you can calculate by using the midpoint method, is approximately:
   A) 0.18.
   B) 0.56.
   C) 1.8.
   D) 5.67.

37. The price elasticity of demand for gasoline is likely to be higher in the long run than in the short run.
   A) True
   B) False
38. If demand for a good is perfectly inelastic, then consumers will bear the entire burden of an excise tax imposed on that good.
   A) True
   B) False

39. A major state university in the South recently raised tuition by 12%. An economics professor at this university asked his students, “Due to the increase in tuition, how many of you will transfer to another university?” One student out of about 300 said that he or she would transfer. Based on this information, the price elasticity of demand for education at this university is:
   A) one.
   B) highly elastic.
   C) highly inelastic.
   D) zero.

40. The only producer of chocolate bunnies in the world, Choco's Bunny Company, recently expanded its production capacity from 1,000 bunnies per day to 2,000 per day. Supposing the price elasticity of demand for Bunnies is 3.33, if you use the midpoint method of estimating the price elasticity of demand, by how much will the company need to reduce its price to sell the additional 1,000 bunnies?
   A) 2.5%
   B) 25%
   C) 125%
   D) 20%

41. A group of dairy farmers are trying to raise milk prices by 10%. If the price elasticity of demand for milk is 0.75, and the price elasticity of supply for milk is 0, then by how much should farmers reduce their milk production to obtain the 10% increase?
   A) 10%
   B) 7.5%
   C) 15%
   D) 13%

42. The price elasticity of demand is the ratio of the percent change in the quantity demanded to the percent change in the price as one moves along the demand curve.
   A) True
   B) False

43. The price elasticity of demand:
   A) measures the responsiveness of quantity demanded to a change in price.
   B) measures the responsiveness of price to a change in quantity demanded.
   C) measures the extent to which prices are flexible and respond to market forces.
   D) measures the responsiveness of demand when price is held constant and demand increases or decreases.
44. (Figure: Demand Curve for Oil) In the accompanying figure, the price elasticity of demand between $20 and $21 using the midpoint method is approximately:

A) 0.21.
B) 0.49.
C) 2.1.
D) 4.9.