

Elasticity

1) What is Elasticity?

The way consumers respond to price changes.

2) What is the relationship between price elasticity of demand and the number of substitutes for a good?

If there are more substitutes the good will be more elastic.

3) If a good has many substitutes, does it follow that demand for the good is elastic?

Yes

4) What is the relationship between time and elasticity?

over time people can change shopping habits and find alternatives. So goods over time can become elastic if they were inelastic at first.

5) What is the relationship between the percentage of one's budget spent on a good and elasticity?

If a good is inelastic and goes up in price we will spend more & more of our budget on that good.

6) Price elasticity of demand is a measure of the responsiveness of quantity demanded to changes in

- a. Interest rates
- b. Supply
- c. Price
- d. Demand

7) If the percentage change in quantity demanded is greater than the percentage change in price, demand is

- a. Inelastic
- b. Unit elastic
- c. Elastic
- d. Perfectly elastic
- e. Perfectly inelastic

$$\frac{100\%}{25\%}$$

8) If quantity demanded is completely unresponsive to changes in price, demand is

- a. Inelastic
- b. Unit elastic
- c. Elastic
- d. Perfectly inelastic
- e. Perfectly elastic

9) The more substitutes a good has,

- a. The higher its price elasticity of demand
- b. The lower its price elasticity of demand
- c. The less elastic the demand for the good
- d. The more inelastic the demand for the good

10) The price elasticity of demand is lowest for which of the following goods

- a. McDonald's hamburgers
- b. Hamburgers
- c. Wendy's Hamburgers
- d. Burger King's Hamburger

11) The greater the percentage of one's budget spent on a good, the higher the price elasticity of demand
a. True b. False

12) The less time that passes the lower the price elasticity of demand
a. True b. False

Are the following goods Elastic or Inelastic and why?

13) Salt inelastic Why? Really cheap!

14) New Cars Elastic Why? Expensive. We will shop till price is right or buy used.

15) Pork Chops Elastic Why? Substitutes available


16) European Vacation Elastic Why? ^{-luxury-} can travel local instead of not at all.


17) Insulin perfectly inelastic Why? have to have to survive. will pay whatever the cost.

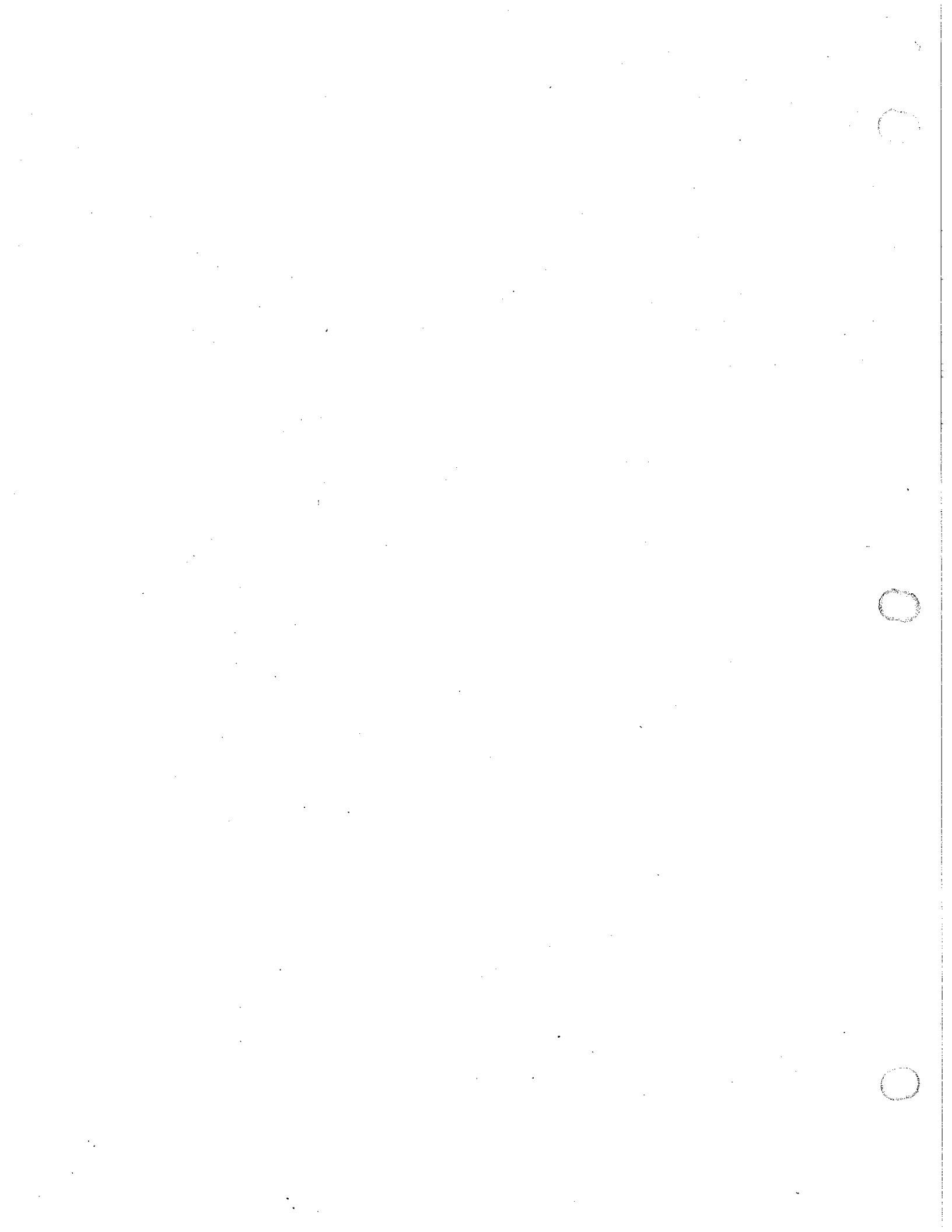
18) What are the determinants of Supply?

- a. _____
- b. _____

19) Draw a graph that depicts and provide one product that you would consider to match that elasticity
a. Elastic Demand B. Inelastic Demand

c.  candy bars
Perfectly Elastic
2 vending machines
\$1 is higher
demand would
prob. fall to
zero.

D.  milk
Perfectly Inelastic Demand
insulin



Handout 2-3C

GRAPHING DEMAND

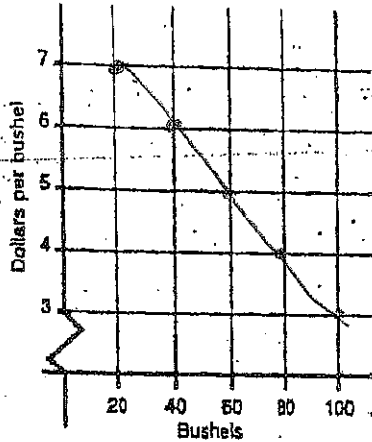
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Name _____ Class _____

Directions: Study each of the demand schedules below and plot them on the graphs. Then answer the questions that accompany the graphs.

APPLES

Price per Bushel	Quantity Demanded (bushels)
\$7	20
6	40
5	60
4	80
3	100

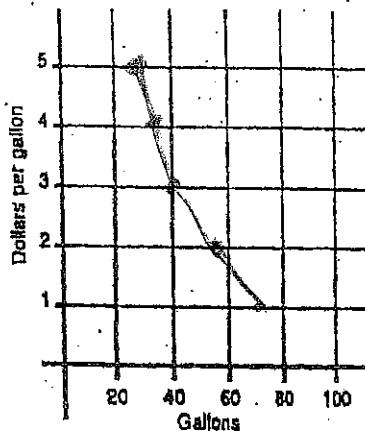


a Which of the three items has the most elastic demand? Why does it have the most elasticity?

apples, steeper slope. People are more responsive to change in price.
 - Qd is sensitive to a change in price
 - lots of substitute
 - curve

GASOLINE

Price per Gallon	Quantity Demanded (gallons)
\$5	27
4	30
3	40
2	55
1	70

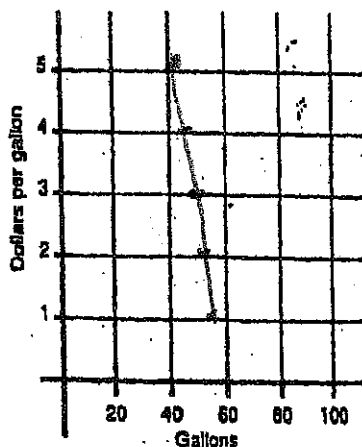


b Which of the three items has the most inelastic demand? Why does it have the most inelasticity?

milk; relatively low price & mamas buy milk for nutrition for their babies.
 - school lunch

MILK

Price per Gallon	Quantity Demanded (gallons)
\$5	40
4	42
3	43
2	45
1	48



c How does the slope of a demand curve differ when it is elastic from when it is inelastic?

An inelastic slope is more straight up and down.

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Inelastic = slope looks more like an I.