

Elasticity Questions for Exercises and Exams

AEC 250

The price elasticity of demand is inelastic for gasoline and elastic for tablets. Suppose that technological advance doubles the supply of both products (that is, the quantity supplied at each price is twice what it was).

- a. What happens to the equilibrium price and quantity in each market? Use a supply-and-demand graph for both gasoline and tablets and analyze which product experiences a larger change in price and which product experiences a larger change in quantity.
- b. What happens to total revenue for each product? Briefly explain.

AEC 221

The own-price elasticity of demand for beer in the United States and Germany is -0.55 and -0.15, respectively. What do these values tell us about the elasticity of beer in the two countries? How would a 2% increase in price of beer in the U.S. affect the quantity demanded in this country?

AEC 311

In a small village in Malawi, there are 100 small dairy farmers who sell milk to the residents in the village. The supply function of milk by each dairy farmer is given by $q_s = -2 + 2P$ where q_s represents the quantity milk of supplied in liters and P is the price of milk per liter. The market demand for milk by the residents of the villages is given by $Q_D = 400 - 100P$ where Q_D is the total market demand for milk in liters.

1. Derive the equation for the market supply of milk.
2. Find the equilibrium price and quantity of milk.
3. What is the market price elasticity of demand at the equilibrium point?
4. What is the market price elasticity of supply at the equilibrium point?

AEC 461

"Because I know that the demand for my product is _____, I am very concerned with the new, additional production costs I face." Why?

In implementing the new subsidy provided to consumers, the policymakers made sure that the producers had an _____ supply. Why?

"Since both the demand and the supply for the good are very _____, I am confident that prices will change very little no matter what happens."