QUIZ 3 (ON CHAPTER 5) ECO 10 SPRING 2013 UDAYAN ROY

Each correct answer is worth 1 point. The maximum score is 10 points.

_____ 1. The price elasticity of demand measures how responsive
   a. buyers are to a change in income.
   b. sellers are to a change in price.
   c. buyers are to a change in price.
   d. sellers are to a change in buyers' incomes.

_____ 2. If a good is a necessity, demand for the good would tend to be
   a. elastic.
   b. horizontal.
   c. unit elastic.
   d. inelastic.

_____ 3. Werthers candy tends to have an elastic demand because
   a. the candy market is too broadly defined.
   b. there are many close substitutes for Werthers.
   c. Werthers are considered by some to be a necessity.
   d. it is usually eaten quickly and therefore the time horizon is short.

_____ 4. Holding constant all other factors that affect buyers' decisions, when the price of gasoline rises, the number of gallons of gasoline demanded would fall substantially over a ten-year period because
   a. buyers will have substantially more income over a ten-year period.
   b. buyers tend to be much _less_ sensitive to a change in price when given more time to react.
   c. buyers tend to be much _more_ sensitive to a change in price when given more time to react.
   d. None of these answers are correct.

_____ 5. When the price of bubble gum is $0.50, the quantity demanded is 400 packs per day. When the price falls to $0.40, the quantity demanded increases to 600. Given this information, the demand for bubble gum is
   a. inelastic.
   b. elastic.
   c. unit elastic.
   d. perfectly inelastic.

_____ 6. Suppose the price of Twinkies is reduced from $1.45 to $1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. If we use the midpoint formula, the price elasticity of demand for Twinkies is one of the answers below. Which one?
   a. 2.00.
   b. 1.55.
   c. 1.00.
   d. 0.64.

_____ 7. The price elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the demand curve will be
  a. steeper.
  b. further to the right.
  c. flatter.
  d. closer to the vertical axis.

_____ 8. When demand is inelastic, a decrease in price will cause
  a. an increase in total revenue.
  b. a decrease in total revenue.
  c. no change in total revenue.
  d. There is insufficient information to answer this question.

_____ 9. Because the demand for wheat tends to be inelastic, the development of a new, more productive variety of wheat would tend to
  a. increase the total revenue of wheat farmers.
  b. decrease the total revenue of wheat farmers.
  c. weaken the demand for wheat.
  d. weaken the supply of wheat.

_____ 10. Knowing that the demand for wheat is inelastic, if all farmers voluntarily destroyed 10 percent of their wheat crop, then
  a. consumers of wheat would buy more wheat.
  b. wheat farmers would suffer a reduction in their revenue.
  c. wheat farmers would increase their revenue.
  d. the demand for wheat would decrease.

_____ 11. Those who prefer a drug education program over a drug interdiction program[1] would argue that drug education
  a. lowers total revenue to drug dealers.
  b. lowers demand.
  c. would produce positive results more quickly.
  d. All of the above are correct.
  e. Both (a) and (b) are correct.

_____ 12. If marijuana is legalized, it is likely that there would be an *increase* in the supply of marijuana. Advocates of marijuana legalization argue that this would significantly *reduce* the total revenue going to the criminal organizations that currently sell marijuana. These advocates believe that the
  a. supply for marijuana is price elastic.
  b. demand for marijuana is price elastic.
  c. supply for marijuana is price inelastic.
  d. demand for marijuana is price inelastic.

---

[1] Drug education attempts to reduce the *demand* for drugs, whereas interdiction tries to reduce the *supply* of drugs through law enforcement measures.

Chapter 5 Elasticity S13
Answer Section

MULTIPLE CHOICE

   1. ANS: C   DIF: 1   REF: SECTION: 1
       OBJ: TYPE: M
   2. ANS: D   DIF: 2   REF: SECTION: 1
       OBJ: TYPE: M
   3. ANS: B   DIF: 2   REF: SECTION: 1
       OBJ: TYPE: M
   4. ANS: C   DIF: 2   REF: SECTION: 1
       OBJ: TYPE: M
   5. ANS: B   DIF: 3   REF: SECTION: 2
       OBJ: TYPE: M
   6. ANS: D   DIF: 3   REF: SECTION: 1
       OBJ: TYPE: M
   7. ANS: C   DIF: 2   REF: SECTION: 1
       OBJ: TYPE: M
   8. ANS: B   DIF: 2   REF: SECTION: 1
       OBJ: TYPE: M
   9. ANS: B   DIF: 2   REF: SECTION: 3
       OBJ: TYPE: M
 10. ANS: C   DIF: 2   REF: SECTION: 3
       OBJ: TYPE: M
 11. ANS: E   DIF: 2   REF: SECTION: 3
       OBJ: TYPE: M
 12. ANS: D   DIF: 3   REF: SECTION: 3
       OBJ: TYPE: M