1. Suppose that a 20 percent cut in the price of cabbage leads to a 10 percent increase in the quantity of cabbage demanded. What is the price elasticity of demand for cabbage?

To answer the next 2 questions, suppose that the price elasticity of demand for cabbage is 3. If the price of cabbage increases by 5 percent.

2. the quantity demanded for cabbage would (rise, fall) by ____ percent.

3. total revenue from cabbage sales would (rise, fall) by ____ percent.

To answer the next 5 questions, refer to the supply and demand diagram for oil drawn below.

4. Using the midpoint formula, what is the price elasticity of demand over the $20 to $25 price range?

5. At the equilibrium price given above, what is the dollar value of consumers’ surplus?

6. At the equilibrium price given above, what is the dollar value of producers’ surplus?

7. If there are no positive or negative externalities for oil, the total cost of producing 750 million barrels of oil would be $_______. (Note that quantity is measured in millions of barrels.)

8. If there are no positive or negative externalities for oil, the total benefits to consumers from 750 million barrels of oil would be $_______. (Note that quantity is measured in millions of barrels.)
9. The cross-price elasticity of demand between Fila shoes and Adidas shoes is most likely:
   a. negative. 
   b. zero. 
   c. positive.

10. A luxury good is best described as a good with:
   a. a large price elasticity of demand.
   b. a small price elasticity of demand.
   c. a large income elasticity of demand.
   d. a small income elasticity of demand.

11. An inferior good is best described as a good with:
   a. a large price elasticity of demand.
   b. a small price elasticity of demand.
   c. a positive income elasticity of demand.
   d. a negative income elasticity of demand.

12. The price elasticity of demand generally rises as the number of substitutes for the good (rises, falls) and the fraction of income spent on the good (rises, falls).
   a. rises; rises. 
   b. rises; falls. 
   c. falls; falls. 
   d. falls; rises.

13. According to the article on bus fare elasticities, “peak-hour commuters are much less responsive to fare changes than transit passengers travelling during off-peak hours.” An implication of this statement is that:
   a. the price elasticity of demand is greater for peak hour commuters.
   b. the price elasticity of demand is less for peak hour commuters.
   c. the cross-price elasticity of demand between peak and non-peak travel is small.
   d. the cross-price elasticity of demand between peak and non-peak travel is large.

14. According to the article on “measures to reduce smoking for tobacco”, the demand for tobacco is more price elastic:
   a. in the short run than in the long run.
   b. for teens than adults.
   c. in high income countries.
   d. all of the above.

15. Other things being the same, an increase in supply will cause the price of a product to drop more if demand is:
   a. more elastic
   b. less elastic.

16. Suppose that a hot dog vender at the baseball game estimates that the demand for hot dogs is price-inelastic. If she raises the price for hot dogs,
   a. her total revenue and profits will both rise.
   b. her total revenue will fall and her profits may rise or fall.
   c. her total revenue and profits will fall.
   d. her total revenue will fall, but profits may rise or fall.
To answer the next 5 questions, refer to the diagram below representing the electricity market.

17. Based on the information given in the diagram above, it would be correct to conclude that the electricity market has:
   a. positive externalities.
   b. negative externalities.
   c. neither positive or negative externalities.
   d. both positive and negative externalities.

18. The equilibrium price of electricity is ____ per kilowatt.

19. The equilibrium quantity of electricity is ____ million kilowatts.

20. The deadweight loss from allowing the market outcome in the electricity market is $______.

21. Increasing electricity production from 100 to 120 million would lead to an increase in social benefits of $______.

22. Increasing electricity production from 100 to 120 million would lead to an increase in producer costs of $______.
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