MULTIPLE CHOICE. Put all answers in the answer table at the end of the quiz. No credit will be given for answers placed elsewhere.

1) The price of a good rises by 12 percent and the price elasticity of demand for the good is 0.85. Which of the following is a correct interpretation of these facts?
   A) For each 1 percent that the price rose, the quantity demanded decreased by 0.85 percent.
   B) When the price rises by 12 percent, the quantity demanded decreased by 0.85 percent.
   C) For each 1 percent that the price rose, the quantity demanded decreased by 10.2 percent.
   D) For each 0.85 percent that the price rose, the quantity demanded decreased by 1 percent.

2) Demand is price inelastic if a relatively ______ price increase leads to a relatively ______ in the quantity demanded.
   A) large; small increase      B) small; large increase
   C) large; small decrease     D) small; large decrease

3) The demand for computer chips is a downward sloping straight line. If there is an increase in the supply of computer chips, this change will
   A) have an unpredictable effect on the elasticity of demand for computer chips.
   B) have no effect on the elasticity of demand for computer chips.
   C) increase the elasticity of demand for computer chips.
   D) decrease the elasticity of demand for computer chips.

4) The above figure shows the demand curve for movie rentals from Blockbuster. If Blockbuster raised its price from $2.50 to $3.00, between these two prices the price elasticity of demand equals
   A) 0.8.             B) 2.0.             C) 1.2.             D) 0.5.

5) According to the total revenue test, a price cut increases total revenue if demand is
   A) elastic.        B) unit elastic.  C) perfectly inelastic.  D) inelastic.

6) One year, the government boosted regulated taxi fares in New York City by 15 percent with the expectation that the total revenue from taxi rides would also increase by 15 percent. The taxi commission that authorized this fare increase must have believed that the demand for taxi service was
   A) unit elastic.     B) perfectly inelastic.
   C) elastic, but not perfectly elastic.  D) inelastic, but not perfectly inelastic.
7) A university conducts a survey of students, which shows that a 10 percent tuition hike would lead to a 12 percent decreases in the enrollment. If the university wants to increase its total revenue, it should _______ tuition because the demand for education at this university is _______.
   A) not raise; elastic  B) raise; inelastic  C) not raise; inelastic  D) raise; elastic

8) If a product has very few substitutes, demand elasticity is likely to be
   A) 1.  B) inelastic.  C) infinitely elastic.  D) elastic.

9) For many goods, the price elasticity of demand increases over time after a price hike because
   A) inflation causes all prices and incomes to increase over time.
   B) the ability to find good substitutes for the product whose price rose increases over time.
   C) consumer incomes tend to increase over time.
   D) ALL of the above answers are correct.

10) The _______ the portion of your income spent on a good, the _______ is your demand for the good.
    A) larger; more income elastic  B) larger; more price elastic
    C) smaller; more income elastic  D) smaller; less price elastic

11) A given change in supply will yield a larger change in the quantity demanded
    A) the larger the percent of income spent on the good of interest.
    B) the longer the time frame under consideration.
    C) the more plentiful are substitutes for the good.
    D) All of the above answers are correct.

12) If there is an increase in the price of broccoli because of disastrous weather that destroys about half of this year's spinach crop, which of the following could be true?
    A) The demand curve for broccoli has shifted rightward and the cross elasticity of demand is positive.
    B) The demand curve for spinach has shifted to the leftward and the cross elasticity of demand is positive.
    C) The demand curves for spinach and broccoli have become more cross inelastic.
    D) The cross elasticity of demand between spinach and broccoli is negative 1.25.

13) Dell lowers the price of their PCs by 10 percent. As a result, the quantity of Gateway computers demanded at the current price decreases by 12 percent. What is the cross elasticity of demand for Gateway computers with respect to the price of Dell computers?
    A) −1.20  B) 0.83  C) 1.20  D) −0.83

14) The income elasticity of demand is
    A) always positive.
    B) always negative.
    C) positive for a normal good and negative for an inferior good.
    D) negative for a normal good and positive for an inferior good.

15) If the elasticity of supply is 4, a 10 percent increase in the price of a good leads to a
    A) 2.5 percent decrease in the quantity demanded.
    B) 4 percent decrease in the quantity demanded.
    C) 2.5 percent increase in the quantity supplied.
    D) 40 percent increase in the quantity of supply.

16) For baseball card collectors, Babe Ruth baseball cards from 1927 are definitely
    A) complements for Albert Belle cards.
    B) perfectly inelastic in supply.
    C) perfectly inelastic in demand.
    D) substitutes for Albert Belle cards.
17) An important determinant of the price elasticity of supply is
   A) the extent to which production requires the use of particularly scarce or specialized resources.
   B) the extent to which the commodity has many complements or substitutes.
   C) the extent to which the commodity is a luxury or a necessity.
   D) the extent to which the demand for it is both price and income elastic.

18) Over time, the supply of a good or service
   A) initially becomes more elastic and then becomes less elastic.
   B) becomes more elastic.
   C) initially becomes less elastic and then becomes more elastic.
   D) becomes less elastic.

19) The above figure shows the demand curve for movie rentals from Blockbuster. Which of the following is a true statement?
   A) The price elasticity of demand for movie rentals falls as Blockbuster raises its price.
   B) Consumer expenditure on movie rentals will always increase whenever Blockbuster lowers its price.
   C) The demand for movie rentals is more price inelastic at $1.00 than it is at $1.50.
   D) Blockbuster will take in more total revenue if it charges $4.00 per movie rental rather than $3.00.

20) The above figure shows the demand curve for movie rentals from Blockbuster. At which of the following prices is the demand unit elastic?
   A) $3.50  B) $2.50  C) $5.00  D) $0.00

Put all answers in the table below.

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