

February 20, 2007

ECON 6901-----Quiz 4

Name: _____

1. If a decrease in the price of theater tickets increases the total revenue earned by the theater, this is evidence that demand is:
 - a. price elastic.
 - b. price inelastic.
 - c. unitary elastic.
 - d. perfectly inelastic.

2. The president of Tucker Motors says, "Lowering the price won't sell a single additional Tucker car." The president believes that the price elasticity of demand is:
 - a. perfectly elastic.
 - b. perfectly inelastic.
 - c. unitary elastic.
 - d. elastic.
 - e. inelastic.

3. As one moves down a straight-line, down-sloping demand curve, price elasticity will:
 - a. change from elastic, to unit elastic, then to inelastic.
 - b. remain the same between any two points.
 - c. change from inelastic, to elastic, then to unit elastic.
 - d. change from unit elastic, to elastic, then to inelastic.
 - e. change from elastic, to inelastic, then to unit elastic.

4. An economist estimates that .67 is the price elasticity of demand for disposable diapers. This suggests that disposable diaper producers could:
 - a. advertise more to raise the price elasticity of demand.
 - b. encourage more parents to use cloth diapers.
 - c. lower the price of disposable diapers to raise more revenue.
 - d. raise the price of disposable diapers to raise more revenue.

5. The short-run price elasticity of demand for airline travel is .05, while the long-run elasticity is 2.36. This means that a significant increase in airline ticket prices will cause airline companies to:
 - a. collect less revenue from short-notice travelers.
 - b. collect more revenue from travelers who book well in advance.
 - c. lose money on short-notice travelers.
 - d. collect less revenue from travelers who book well in advance.
 - e. lose many of its short-notice travelers.

6. A public transit company finds that when it reduces the price of a bus ticket, total revenues remain the same. One can conclude from this that:
- the demand curve is horizontal, reflecting infinite price elasticity.
 - the company sells the same number of bus tickets both before and after the price change.
 - the demand curve for bus tickets must have shifted to the right.
 - the firm is operating in a range of the demand curve that is unit elastic.
 - the price should be lowered further so that a larger quantity can be sold.
7. Which of the following describes a situation in which demand must be elastic?
- Total revenue increases by 15 percent when the price of corn dogs rises by 15 percent.
 - Total revenue increases by less than 15 percent when the price of corn dogs rises by 15 percent.
 - Total revenue decreases by more than 15 percent when the price of corn dogs rises by 15 percent.
 - Total revenue increases by \$15 when the price of corn dogs rises by \$15.
 - Total revenue increases by more than \$15 when the price of corn dogs rises by \$15.
8. A product would be more demand price inelastic:
- the shorter the time the consumer has to adjust to price changes.
 - the higher the price of the good.
 - the more the number of good substitutes.
 - the less the essential nature of the good.
 - if the supply is more price elastic.
9. A young chef is considering opening his own sushi bar. To do so, he would have to quit his current job, which pays \$20,000 a year, and take over a store building that he owns and currently rents to his brother for \$6,000 a year. His expenses at the sushi bar would be \$50,000, for food and \$2,000 for gas and electricity. What are his implicit costs?
- \$26,000.
 - \$66,000.
 - \$78,000.
 - \$52,000.
 - \$72,000.
10. An economist left his \$100,000-a-year teaching position to work full-time in his own consulting business. In the first year, he had total revenue of \$200,000 and business expenses of \$150,000. She made a (an):
- implicit profit.
 - economic loss.
 - economic profit.
 - accounting loss but not an economic loss.
 - zero economic profit.