ECON 107 Practice Questions 4

1. Shortly define the following concepts. You do not need to provide a formal definition, but make sure to use the appropriate terminology.

· Own-price elasticity of demand:

· Perfectly inelastic demand:

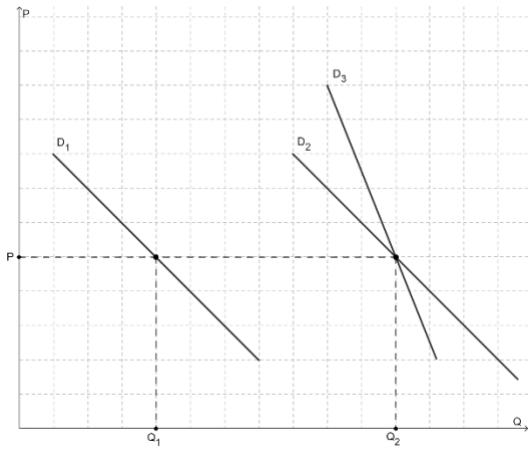
· Relatively inelastic demand:

· Relatively elastic demand:

· Perfectly elastic demand:

2. For each of the pairs below, which good has a higher own-price elasticity of demand? Explain.
· fizzy drinks vs. Coca-Cola
· water vs. Coca-Cola
· lightbulb vs. chandelier
· toothpick vs. wireless headphones
· petrol (lt/week) vs. pertrol (lt/year)

3. Consider the linear demand curves in the graph. Demand D_1 is parallel to demand D_2. Let ε^1, ε^2 and ε^3 denote the own-price elasticity for each of the respective demands, at the price P*. Rank the absolute values of these elasticities lowest to highest. Explain your reasoning.



4. Market demand function for lattes is given by Q(P)=20-0.5P where P is the price of a cup of latte in TL/cup and Q is cups of lattes demanded per day.
    a. Draw the demand graph. What is the slope of the demand curve? What are the intercepts on price and quantity axis?
    b. Find own price elasticity of demand when price is equal to 10TL/cup? Is demand relatively elastic, relatively inelastic or unit elastic at this price?
    c. Find own price elasticity of demand when price is equal to 20TL/cup? Is demand relatively elastic, relatively inelastic or unit elastic at this price?
    d. Find own price elasticity of demand when price is equal to 30TL/cup? Is demand relatively elastic, relatively inelastic or unit elastic at this price?
5. Consider your answers to question 4. As price increases absolute value of own price elasticity of demand is increasing although the slope of the demand graph is constant. Can you provide economic intuition for this result? Give examples if you can.