

# Quiz econ



**ASSIGN  
BUSTER**

When costs fall, the supply curve increases or shifts to the right. Since changes in producer costs is not a demand factor, there would be no impact on demand.

Points Received: 10 of 10 Comments:

Question 2.

Question : (TCO A) Ceteris paribus, Brand A Plain potato chips, and Brand B Plain potato chips are substitutes in consumption. The price of Brand A Plain potato chips increases. (4 pts. )

- a. What happens to the demand for Brand B Plain potato chips? (6 pts. )
- b. What happens to the demand for Brand

A Plain potato chips?

- a) As the price of A rises demand A falls so that demand for B rises.  
The demand curve for B shifts to the right
- b) As the price of A rises, demand for A falls due to the law of demand.  
The demand curve moves along the upward direction.

Instructor Explanation:

- a. When the price of a substitute good rises, the demand for the other good increases. Price of Brand A rises demand for Brand B increases.
- b. This tests your ability to distinguish between a change in demand and a change in quantity demanded. When the price of Brand A rises THERE IS NO EFFECT ON THE DEMAND for Brand A potato chips.

Remember that the Price of the good itself is NOT a Determinant of Demand for that good.

Points Received: 6 of 10 Comments: In (b) when the price of good changes that only affect quantity demanded. The demand for Brand A remains unchanged (no shift of the demand curve). See instructor explanation, Chapter 3, and the tutorial in week 1 on the difference between a change in demand and a change in quantity demanded. When you say there is a change in demand you are saying that something other than price has SHIFTED the demand curve.

Question 3.

Question: SA 3. (TCO A) The number of wheat producers decreases. (4 pts. ) What happens to the supply of wheat? 6 pts. ) What happens to the demand for wheat? 100 20..... 300

- a) If the number of wheat producers decrease supply for wheat will decrease and prices might go up.
- b) The demand for wheat will stay the same. Instructor Explanation: Instructor Explanation: The supply of wheat would decrease, or shift to the left. The number of suppliers is obviously a supply factor, so the fewer suppliers there are, the smaller would be the supply. The demand for wheat remains the same as before because the number of suppliers is a supply factor, not a demand factor.

Points Received: 10 of 10

Question 4.

Question : (TCO A) A market is in equilibrium with the equilibrium Quantity of MEQ and equilibrium price of MEP. (2 pts. )

- a. What happens to Market Equilibrium Quantity (MEQ) if there is an increase in Demand? (4 pts. )
- b. What happens to Market Equilibrium Price (MEP) if Supply decreases as Demand increases? (4 pts. )
- c. What happens to Market Equilibrium Quantity (MEQ) after there has been an increase in Supply followed by a decrease in Demand which is followed by another increase in Supply?
- d. If there is an increase in demand then the price will rise because there is a move from D1 to D2
- e. When supply decreases prices go down and demand increases until there is a new equilibrium.
- g. An increase in supply will lower prices and move S1 to S2, a decrease in demand will lower prices, following an increase in supply will lower prices, overall the price will go down.

Instructor Explanation:

- a. MEQ increases
- b. MEP increases
- c. MEQ is indeterminate as to the shifts force Quantity in different directions and the sizes of the shifts are not given.

Points Received: 0 of 10 Comments:

Please see instructor explanations for all 3 parts here. You have not answered the questions asked.

## Question 5.

Question: The following table shows part of the demand function for tickets to an outdoor summer concert by a popular singing group: price (P)...

quantity (Q) 5.... 180 (2 pts. ) What is demand elasticity in the \$10- \$20 price range? Is demand elastic, inelastic, or of unitary elasticity? Calculate the value and show all of your work. Be sure to use the midpoint equation used to determine elasticity. 4 pts. Assume demand elasticity is 1.3 in the \$35 - \$50 price range. In this range of demand, by what percentage would quantity demanded change if price increases by 9 percent? Show your detailed calculations. (4 pts. ) What is the effect of a price decline from \$35 to \$20 on total revenue for the event? Does total revenue (TR) increase, decrease, or remain the same? By how much? Show your detailed calculations.

- a)  $200/300 = .6667$   $10-20/20 = .5$ ,  $.6667/.5 = 1.3334$ , demand elastic
- b)  $38.1$   $20*300 = 6000$  Total revenue decreases by 300

Instructor Explanation:

- a. Using the recommended mid-point formula for calculating elasticity one can see that demand is slightly inelastic in this range since the calculated elasticity value equals 0.746 which is slightly less than 1.0.  
Ed =  $\frac{[\text{change in } Q / (\text{sum of } Q/2)]}{[\text{change } P / (\text{sum of } P/2)]} = \frac{[(500-300)/(800/2)]}{[(20-10)/(30/2)]} = .50/.67 = 0.7461$ , rounding.
- b. For this question, the point elasticity formula is best since it contains all of the important elements in the one formula. Since  $Ed = \frac{\% \text{change } Q}{\% \text{change } P}$ , according to the point elasticity formula rearranging

the equation and solving for %change Q, gives us %change Q = (%change P)(Ed). Thus, in this case, %change Q (9) (1.3) = a decline of 11.7 percent.

- c. This question can be answered in 2 ways: (1) You could calculate the elasticity in the \$35 - \$20 range. This is  $[(300 - 180) / 480/2] / [(20 - 35) / 85/2] = [120 / 240] / [15 / 43] = 0.50 / 0.55 = -0.909$ , rounding. Since we have slightly inelastic demand in this range we know that lowering price will result in an DECREASE in total revenue; or (2), Simply calculate the total revenue at the two prices at \$20 total revenue is  $\$20 \times 300 = \$6,000$ , and at \$35, total revenue  $\$35 \times 180 = \$6,300$ . o total revenue DECREASES when the price lowered to \$20 from \$35.  
Points Received: 6 of 10 Comments: Please see instructor explanations for the 1st and 2nd parts here.

#### Question 6.

Question : (TCO B) Use a hypothetical example to illustrate whether you agree or disagree with the following statement: " Unemployment will go up more if the demand for labor is inelastic because the demand for labor will decrease more when you have inelastic demand than if demand were elastic. " Explain why, using hypothetical numbers to illustrate your case. Disagree, Unemployment will not go up if the demand for labor is inelastic. demand for labor would be inelastic when the change in demand for labor is less than or equal to 1, and it will not have an impact on unemployment when the change in labor is elastic it is greater than or equal to 1 so it will have an impact on unemployment.

Instructor Explanation: The unemployment impact would be greater in the case of elastic demand. Starting with an equilibrium quantity of labor equal to, say, 100 units, an increase in the minimum wage would reduce the quantity of labor demanded. Let us say that demand is inelastic and that  $E_d = 0.5$ .

Suppose the minimum wage increases by 10 percent. The quantity of labor demanded would fall by 5 percent. Alternatively, if the demand was elastic such that  $E_d = 2$  (say), then the quantity of labor demanded would fall by 20 percent. Clearly, unemployment is impacted far more in the latter case (elastic demand) than it is in the former (inelastic demand).

Points Received: 5 of 10 Comments: Please see instructor explanation regarding the reason why the statement is false and the hypothetical example.