

Chapter 5

1. For each pair of goods listed below, which good would you expect to have the more elastic demand? Why?
 - a. cigarettes; a trip to Florida
 - b. an AIDS vaccine over the next month; an AIDS vaccine over the next five years
 - c. beer; Budweiser
 - d. insulin; aspirin

2. Suppose the Daily News estimates that if it raises the price of its newspaper from €1.00 to €1.50 then the number of subscribers will fall from 50,000 to 40,000.
 - a. What is the price elasticity of demand for the Daily Newspaper when elasticity is calculated using the midpoint method?
 - b. What is the advantage of using the midpoint method?
 - c. If the Daily News's only concern is to maximize total revenue, should it raise the price of a newspaper from €1.00 to €1.50? Why or why not?

3. The table below provides the demand schedule for motel rooms at Small Town Motel. Use the information provided to complete the table. Answer the following questions based on your responses in the table. Use the midpoint method to calculate the percentage changes used to generate the elasticities.

Price	Quantity Demanded	Total Revenue	% Change in Price	% Change in Quantity	Elasticity
€20	24	_____	_____	_____	_____
40	20	_____	_____	_____	_____
60	16	_____	_____	_____	_____
80	12	_____	_____	_____	_____
100	8	_____	_____	_____	_____
120	4	_____	_____	_____	_____

- a. Over what range of prices is the demand for motel rooms elastic? To maximize total revenue, should Small Town Motel raise or lower the price within this range?

- b. Over what range of prices is the demand for motel rooms inelastic? To maximize total revenue, should Small Town Motel raise or lower the price within this range?
- c. Over what range of prices is the demand for motel rooms unit elastic? To maximize total revenue, should Small Town Motel raise or lower the price within this range?
4. The demand schedule from question 3 above is reproduced below along with another demand schedule when consumer incomes have risen to €60,000 from €50,000. Use this information to answer the following questions. Use the midpoint method to calculate the percentage changes used to generate the elasticities.

Price	Quantity Demanded When Income is €50,000	Quantity Demanded When Income is €60,000
€20	24	34
40	20	30
60	16	26
80	12	22
100	8	18
120	4	14

- a. What is the income elasticity of demand when motel rooms rent for €40?
- b. What is the income elasticity of demand when motel rooms rent for €100?
- c. Are motel rooms normal or inferior goods? Why?
- d. Are motel rooms likely to be necessities or luxuries? Why?
5. For each pair of goods listed below, which good would you expect to have the more elastic supply? Why?
- a. televisions; beach front property
- b. crude oil over the next week; crude oil over the next year
- c. a painting by van Gogh; a print of the same painting by van Gogh
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