

Short Answer Questions

Chapter 5.

1. Outline what you would expect the price and income elasticity of demand of the following goods to be and why:
 - a. 1 litre cartons of milk
 - b. Ski holidays
 - c. Pizza's delivered to the home
 - d. A tube of Colgate toothpaste
 - e. A tube of toothpaste

Note: you are at liberty to suggest a value for elasticity in each case, however, it is also acceptable to refer to the degree of elasticity which you think applies.

2. Outline three determinants of the price elasticity of demand for a product and comment on the importance of these in determining the degree of elasticity.
3. Explain what you think is the most important determinant of the price elasticity of supply for a product of your choice.
4. The price elasticity of demand for a cup of coffee at a well known coffee retail outlet in a busy shopping and office area of a city is estimated at -1.2. The manager of the outlet wants to increase revenue at the outlet. Suggest to her the most appropriate pricing strategy given the price elasticity of demand above and explain what factors you have taken into consideration given the information at your disposal.
5. Explain why the midpoint method of calculating elasticity is more accurate than the point elasticity method.
6. Using the concept of elasticity, explain why a black market often exists for tickets for concerts and sporting events with the result that price paid by consumers is often far in excess of the equilibrium market price.
7. If the income elasticity of demand for supermarket own brand ice cream is -1.4, what is likely to happen to demand for this ice cream in 2011 if incomes rise by an average of 2.5 per cent over the year. Explain your answer.
8. What would you expect to happen to the demand for DVDs if the price of DVDs fell by 3.5 per cent and the cross elasticity of demand for these products was estimated at 0.45?
9. Explain the difference between the nature of the cross elasticity of demand for two goods when the relationship between them is a substitute compared to when goods are complements.
10. Do any products ever have the characteristics of perfectly inelastic supply? Explain your answer and illustrate with suitable examples if appropriate.

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