

Elasticity

Practice Answers

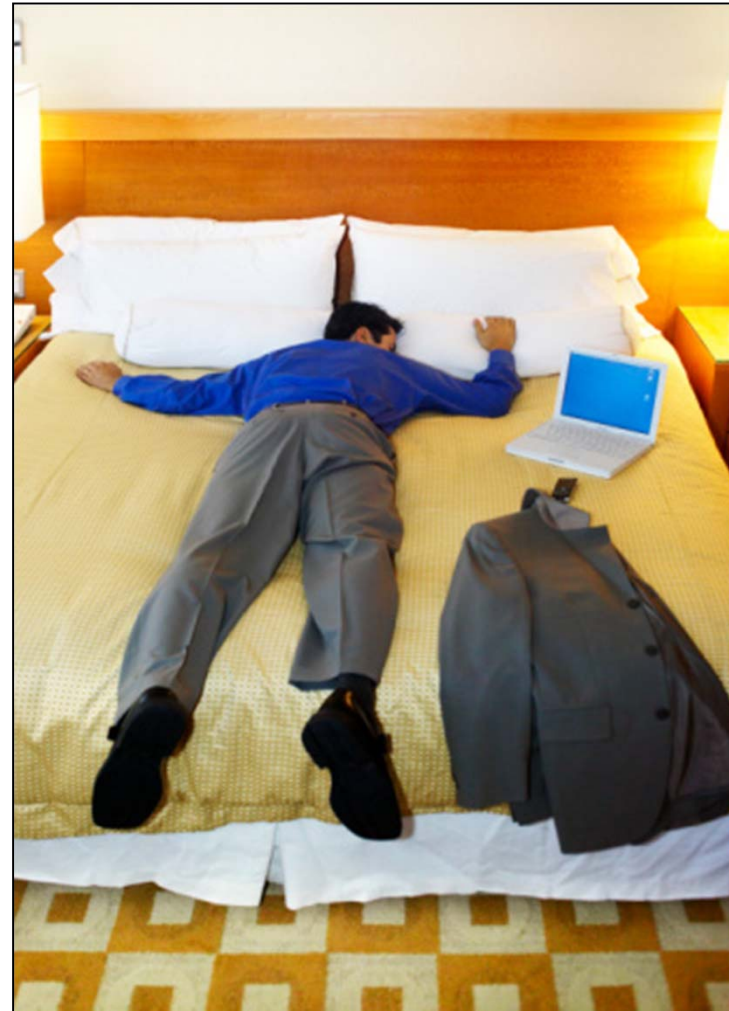
ACTIVE LEARNING 1

Calculate an elasticity

Use the following information to calculate the price elasticity of demand for hotel rooms:

if $P = \$70$, $Q^d = 5000$

if $P = \$90$, $Q^d = 3000$



ACTIVE LEARNING 2

Elasticity and expenditure/revenue

- A.** Pharmacies raise the price of insulin by 10%. Does total expenditure on insulin rise or fall?

- B.** As a result of a fare war, the price of a luxury cruise falls 20%. Does luxury cruise companies' total revenue rise or fall?

ACTIVE LEARNING 3

Elasticity and changes in equilibrium

- The supply of beachfront property is inelastic. The supply of new cars is elastic.
- Suppose population growth causes demand for both goods to double (at each price, Q^d doubles).
- For which product will P change the most?
- For which product will Q change the most?