HW#5 Due September 22, 2020

Mankiw Page 107

3. Suppose the price elasticity of demand for heating oil is 0.2 in the short run and 0.7 in the long run.

   a. If the price of heating oil rises from $1.80 to $2.20 per gallon, what happens to the quantity of heating oil demanded in the short run? In the long run? (Use the midpoint method in your calculations.)

   b. Why might this elasticity depend on the time horizon?

7. Suppose that your demand schedule for pizza is as follows:

Price	Quantity Demanded (income = $20,000)	Quantity Demanded (income = $24,000)
$8	40 pizzas	50 pizzas
10	32	45
12	24	30
14	16	20
16	8	12

   a. Use the midpoint method to calculate your price elasticity of demand as the price of pizza increases from $8 to $10 if (i) your income is $20,000 and (ii) your income is $24,000.

   b. Calculate your income elasticity of demand as your income increases from $20,000 to $24,000 if (i) the price is $12 and (ii) the price is $16.

3 a.) short run = 0.2
Long run = 0.7

$\eta d = \frac{\% \Delta QD}{\% \Delta P}$

① $0.2 = \frac{X}{\frac{2.2-1.8}{2} \times \cancel{100}^{50}}$

$0.2 = \frac{X}{20}$

$X = -4$

② $0.7 = \frac{X}{\frac{2.2-1.8}{2} \times \cancel{100}^{50}}$

$0.7 = \frac{X}{20}$

$X = -14$

∴ In short run, It decrease in percentage Change in quantity demand of 4 and In Long run, It decrease in percentage change in quantity demand of 14.

b.) In the long run term, people can reduce the cost of heating oil and in the long run has more elasticity than short run.

4 a) income 20,000 and 24,000

income 20,000

$$\eta_d = \frac{\%\Delta QD}{\%\Delta P}$$

$$= \frac{\dfrac{40-32}{36} \times 100}{\dfrac{10-8}{9} \times 100}$$

$$= 1$$

income 24,000

$$\eta_d = \frac{\%\Delta QD}{\%\Delta P}$$

$$= \frac{\dfrac{50-45}{47.5} \times 100}{\dfrac{10-8}{9} \times 100}$$

$$= 0.4736$$

b.)

$$\eta_I = \frac{\dfrac{30-24}{27} \times 100}{\dfrac{24000-20000}{22,0\cancel{00}} \times \cancel{100}}$$

$$= 1.2$$

$$\eta_I = \frac{\dfrac{8-12}{\cancel{10}} \times 10\cancel{0}}{\dfrac{24,000-20000}{22,\cancel{000}} \times \cancel{100}}$$

$$= -2.2$$