**Economics MCQ – Chapter 2 – The Allocation of Resources: How the market works; Market Failure**

**Section 4 – Price Elasticity of Demand and Supply**

**Q1. Which change would make the supply of a product more price elastic?**

1. an increase in the number of close substitutes for the product
2. an increase in the proportion of firms working at full capacity
3. a reduction in the time taken to make the product
4. a reduction in the time that the product can be stored

 ( )

**Q2. There is a sales tax (VAT) on a good which has a price elasticity of demand greater than 1 (>1). Which of the following correctly matches a change in sales tax to the change in total expenditure on the good?**



( )

**Q3. Many people are life-long, devoted fans of the Los Angeles Lakers basketball team in the United States. The team’s stadium can seat 19 000 spectators and tickets are always sold out.**

**What does this suggest about the price elasticity of demand and the price elasticity of supply of tickets to watch the Lakers play?**



( )

**Q4. The demand for a good is totally inelastic with regard to price. What will happen to the firm’s revenue if the price rises by 20 %?**

1. It will fall by 20 %.
2. It will fall to zero.
3. It will remain unchanged.
4. It will rise by 20 %.

( )

**Q5. The graphs, drawn to the same scale, show the demand curves of four firms. The market price is $10. The price then falls to $8. Which firm will have the largest increase in total revenue?**



( )

**Q6. The table illustrates the demand and supply for rice in a market in Africa.**

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**When the price rises from $20 to $30 per kg, what is the approximate price elasticity of demand for rice?**

1. 0.25
2. 0.5
3. 1.0
4. 2.0

( )

**Q7. A product has a totally inelastic price elasticity of demand. What will happen to total revenue if the price of the product falls by 25 %?**

1. It will fall by 25 %.
2. It will fall to zero.
3. It will remain unchanged.
4. It will rise by 25 %.

( )

**Q8. What could cause the demand for a product to become more price-elastic?**

1. a smaller proportion of income being spent on the product
2. more substitutes coming onto the market
3. the product becoming more of a necessity
4. the product falling in price

( )

**Q9. When the price of a product rises from $10 to $15, the demand falls from 5000 to 4000 units. What is the value of the price elasticity of demand for the product?**

1. 0.2
2. 0.4
3. 1.5
4. 2.5 ( )

**Q10. A firm produces a good with a price elasticity of demand greater than 1. What must the firm experience if there is a fall in the price of this good?**

1. a decrease in costs
2. a decrease in sales
3. an increase in revenue
4. an increase in profits

( )

**Q11. The table shows the value of the price elasticity of demand for four products.**



**What would have an increase in sales revenue if prices rose by 10 %?**

1. cars only
2. cars and mobile phones
3. radios and salt
4. salt only

( )

**Q12. The demand for cocoa beans is price-inelastic. What is most likely to increase as a result of a decrease in demand for cocoa beans?**

1. income of cocoa bean producers
2. price of cocoa bean products
3. production of cocoa beans
4. unemployment among cocoa bean farmers

( )

**Q13. There are a fixed number of seats at a concert. Most of the audience would continue to attend even if the seat prices were increased. Which diagram represents this situation?**



( )

**Q14. A bus company knows that demand for travel before 09 00 hours is price-inelastic and that after 09 00 hours it is price-elastic. How is the company certain to increase total revenue?**

1. by increasing all fares
2. by increasing fares before 09 00 hours
3. by reducing all fares
4. by reducing fares before 09 00 hours

( )

**Q15. Which of the following is true for any price-inelastic demand curve?**

1. A price cut causes a fall in expenditure.
2. A price rise has no effect on demand.
3. A price rise has no effect on total profit.
4. The percentage change in demand is greater than the percentage change in price.

( )