

O LEVEL **A** ECONOMICS

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?

- A. an increase in the number of close substitutes for the product
- B. an increase in the proportion of firms working at full capacity
- C. a reduction in the time taken to make the product
- D. a reduction in the time that the product can be stored

(c)

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?

	sales tax	total expenditure on the good
A	decrease	increases
B	decrease	remains the same
C	increase	increases
D	increase	remains the same

(a)

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?

	price elasticity of demand	price elasticity of supply
A	highly elastic	perfectly elastic
B	highly elastic	perfectly inelastic
C	highly inelastic	perfectly elastic
D	highly inelastic	perfectly inelastic

(d)

Our Address:

Bishan Branch: Blk 283, Bishan Street 22 #01-185 Singapore 570283

Bukit Timah Branch: 140, Upper Bukit Timah Road #02-11 Beauty World Plaza Singapore 588176

Contact: Call Simon @ 9689 0510 Email: simonngchinsun@gmail.com

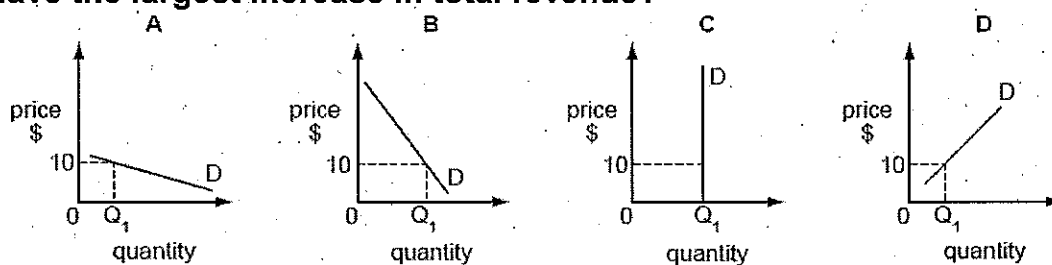
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Q4. The demand for a good is totally inelastic with regard to price. What will happen to the firm's revenue if the price rises by 20 %?

- A. It will fall by 20 %.
- B. It will fall to zero.
- C. It will remain unchanged.
- D. It will rise by 20 %.

(d)

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?



(a)

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

price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40

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

- A. 0.25
- B. 0.5
- C. 1.0
- D. 2.0

$$25\% \div 50\%$$

(b)

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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 %?

- A. It will fall by 25 %.
- B. It will fall to zero.
- C. It will remain unchanged.
- D. It will rise by 25 %.

(a)

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

- A. a smaller proportion of income being spent on the product
- B. more substitutes coming onto the market
- C. the product becoming more of a necessity
- D. the product falling in price

(b)

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?

- A. 0.2
- B. 0.4
- C. 1.5
- D. 2.5

(b)

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?

- A. a decrease in costs
- B. a decrease in sales
- C. an increase in revenue
- D. an increase in profits

(a)

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

product	price elasticity of demand
cars	2.0
mobile phones	1.0
radios	0.5
salt	0.1

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

- A. cars only
- B. cars and mobile phones
- C. radios and salt
- D. salt only

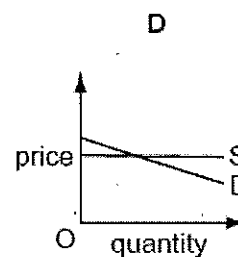
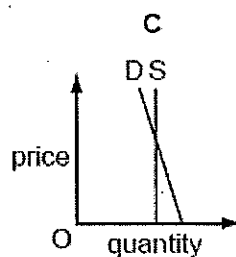
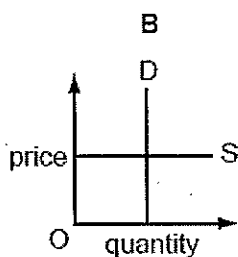
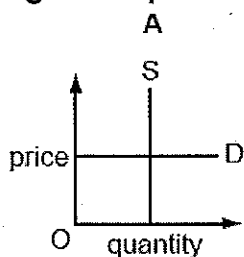
(c)

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?

- A. income of cocoa bean producers
- B. price of cocoa bean products
- C. production of cocoa beans
- D. unemployment among cocoa bean farmers

(b)

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?



(c)

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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?

- A. by increasing all fares
- B. by increasing fares before 09 00 hours
- C. by reducing all fares
- D. by reducing fares before 09 00 hours

(b)

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

- A. A price cut causes a fall in expenditure.
- B. A price rise has no effect on demand.
- C. A price rise has no effect on total profit.
- D. The percentage change in demand is greater than the percentage change in price.

(d)

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