Elasticity of Demand Questions:

Question: Define price elasticity of demand.

Answer: Price elasticity of demand measures the responsiveness of quantity demanded to a change in price. It is calculated as the percentage change in quantity demanded divided by the percentage change in price.

Question: If the price of a good increases by 10% and the quantity demanded decreases by 15%, what is the price elasticity of demand?

Answer: Price elasticity of demand = (% change in quantity demanded) / (% change in price)

Price elasticity of demand = (-15%) / (10%) = -1.5

Question: What does an elasticity value of -0.5 imply about demand?

Answer: An elasticity value of -0.5 implies that demand is inelastic. This means that the percentage change in quantity demanded is smaller than the percentage change in price.

Question: If the price elasticity of demand is 2, what will happen to total revenue if the price of the good increases?

Answer: If the price elasticity of demand is 2, demand is elastic. When the price of an elastic good increases, total revenue will decrease.

Elasticity of Supply Questions:

Question: Define price elasticity of supply.

- Answer: Price elasticity of supply measures the responsiveness of quantity supplied to a change in price. It is calculated as the percentage change in quantity supplied divided by the percentage change in price.

Question: If the price of a good increases by 8% and the quantity supplied increases by 12%, what is the price elasticity of supply?

Answer: Price elasticity of supply = (% change in quantity supplied) / (% change in price)

- Price elasticity of supply = (12%) / (8%) = 1.5

Question: What does an elasticity value of 0.2 imply about supply?

- Answer: An elasticity value of 0.2 implies that supply is inelastic. This means that the percentage change in quantity supplied is smaller than the percentage change in price.

Question: If the price elasticity of supply is 3, what will happen to total revenue if the price of the good increases?

- Answer: If the price elasticity of supply is 3, supply is elastic. When the price of an elastic good increases, total revenue will increase