Elasticity of Demand and Supply

Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

1. Calculating the price elasticity of demand: A step-by-step guide

Aa Aa

Suppose that during the past year, the price of a large-screen television rose from $1,900 to $2,200 per television. During the same time period, consumer sales decreased from 800,000 to 680,000 televisions. Calculate the elasticity of demand between these two points by following the steps shown next. After each step, select the appropriate answer.

Original Quantity	New Quantity	Average Quantity	Change in Quantity	Percentage Change in Quantity

Original Price	New Price	Average Price	Change in Price	Percentage Change in Price

Step 1: Select the correct answers for original quantity, new quantity, original price, and new price.

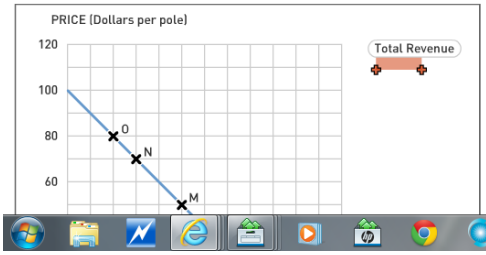
Elasticity of Demand and Supply

Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

2. Elasticity and total revenue

Aa Aa

The following graph shows the demand curve for trekking poles in San Francisco. You can use the red rectangle labeled Total Revenue (cross symbols) to compute total revenue at various prices along the demand curve. To see the area of the Total Revenue rectangle, scroll over the shaded area with your mouse. You will not be graded on where you place the rectangle.

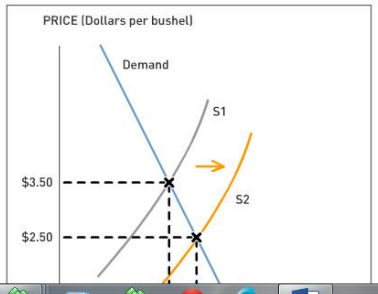


Elasticity of Demand and Supply

Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

3. Application: Demand elasticity and agriculture

Consider the market for wheat. The weekly demand curve for wheat is shown as the blue line on the following graph.



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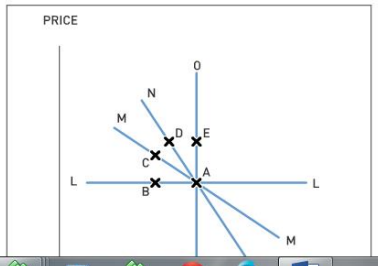
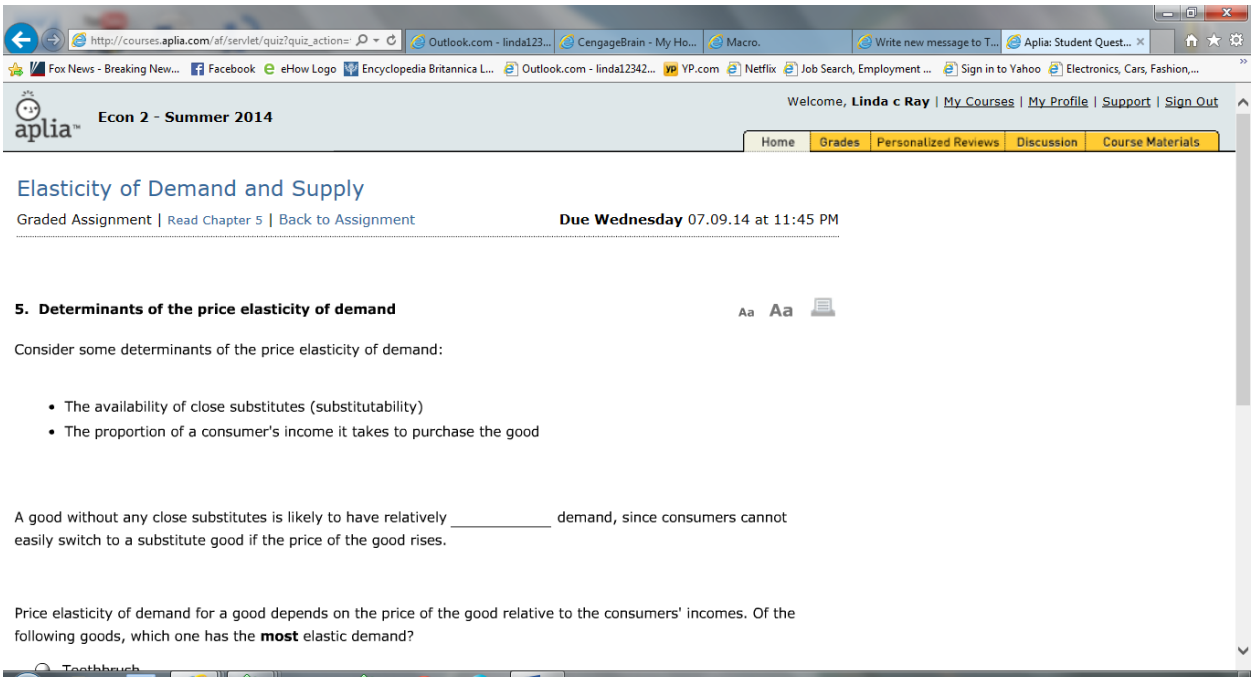
Elasticity of Demand and Supply

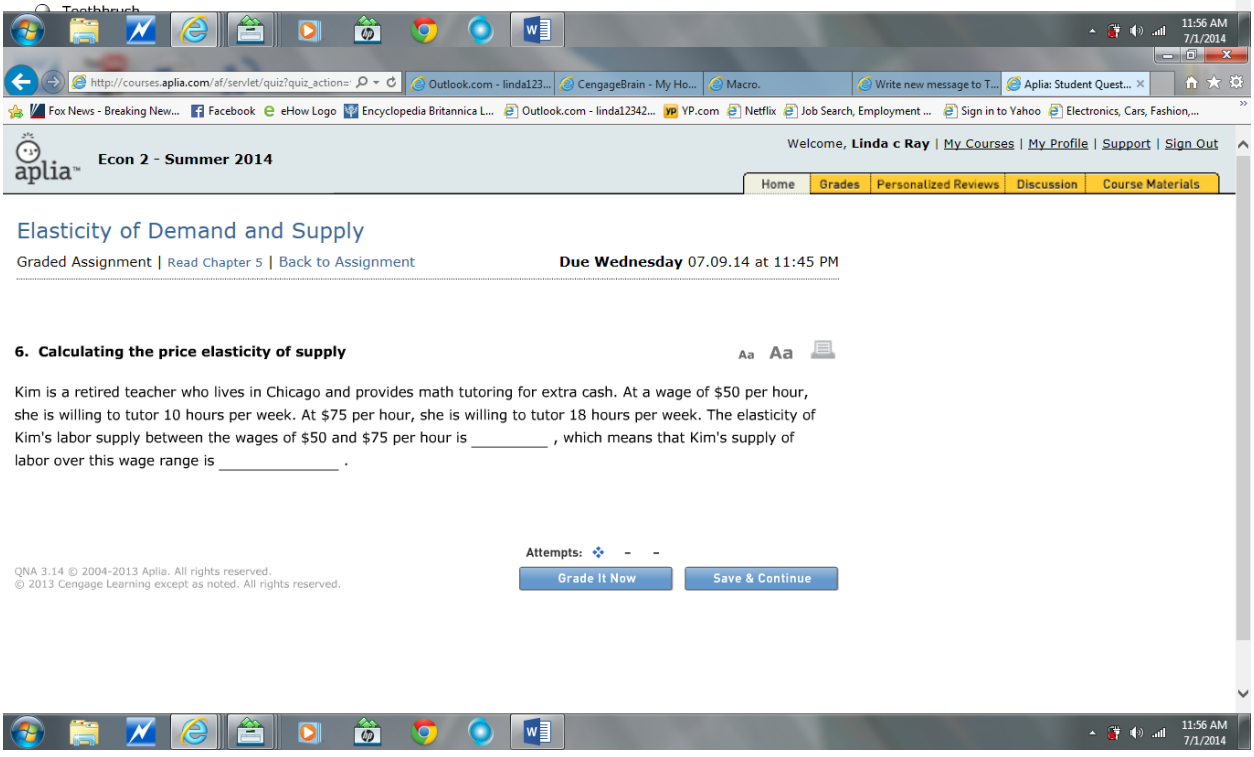
Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

4. The variety of demand curves

Consider the four demand curves shown on the following diagram: LL, MM, NN, and OO. These four lines intersect at point A.





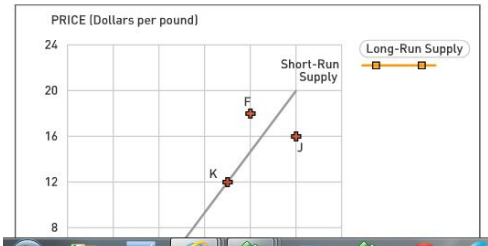


Elasticity of Demand and Supply

Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

8. Determinants of the price elasticity of supply

The following graph shows the short-run supply curve for apples. Place the orange line (square symbols) so that it goes through two of the points and shows the most likely long-run supply curve for apples. It is possible to plot three different straight lines through the three points on this graph. Your job is to choose the most appropriate line.



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Elasticity of Demand and Supply

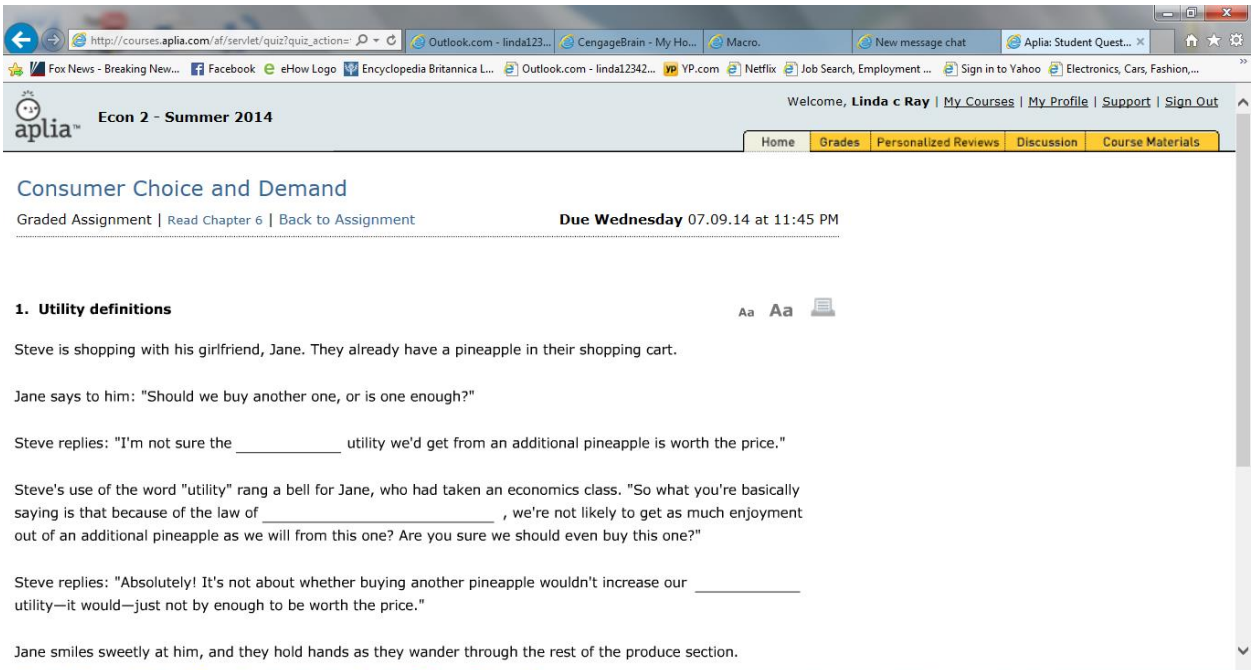
Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

9. Other elasticity measures

Suppose the blue line on the following calculator shows the demand for hotel rooms at the Triple Sevens Hotel and Casino in Las Vegas, Nevada. Three factors that affect the demand for rooms at the Triple Sevens are the average American household income, the roundtrip airfare from San Francisco (SFO) to Las Vegas (LAS), and the room rate at the Exhilaration Hotel and Casino, which is near the Triple Sevens.

Use the calculator to help you answer the following questions. You will not be graded on any changes you make to the calculator.

Tool tip: Use your mouse to drag the green line on the graph. The values in the boxes on the right side of the calculator will change accordingly. You can also directly change the values in the boxes with the white backgrounds by clicking in one of the boxes and typing. The graph and any related values will change accordingly.



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Consumer Choice and Demand

Graded Assignment | Read Chapter 6 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

1. Utility definitions

Steve is shopping with his girlfriend, Jane. They already have a pineapple in their shopping cart.

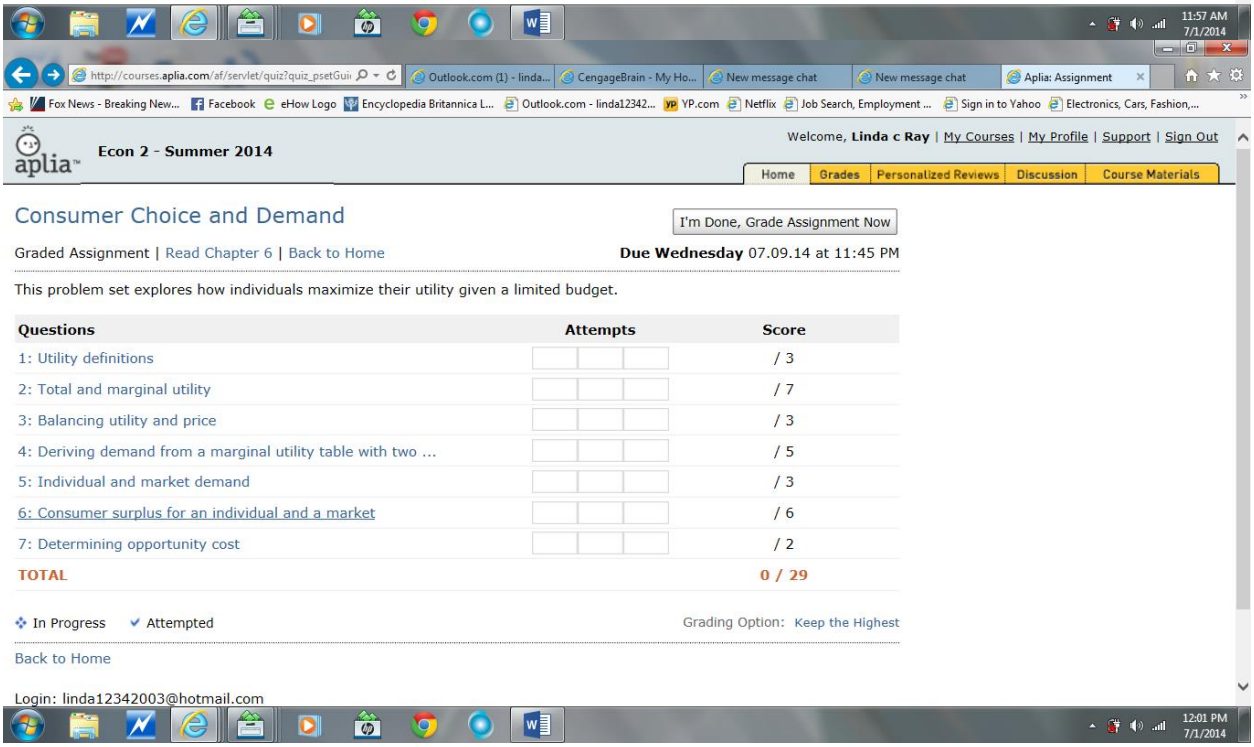
Jane says to him: "Should we buy another one, or is one enough?"

Steve replies: "I'm not sure the _____ utility we'd get from an additional pineapple is worth the price."

Steve's use of the word "utility" rang a bell for Jane, who had taken an economics class. "So what you're basically saying is that because of the law of _____ , we're not likely to get as much enjoyment out of an additional pineapple as we will from this one? Are you sure we should even buy this one?"

Steve replies: "Absolutely! It's not about whether buying another pineapple wouldn't increase our _____ utility—it would—just not by enough to be worth the price."

Jane smiles sweetly at him, and they hold hands as they wander through the rest of the produce section.



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I'm Done, Grade Assignment Now

Graded Assignment | Read Chapter 6 | Back to Home **Due Wednesday** 07.09.14 at 11:45 PM

This problem set explores how individuals maximize their utility given a limited budget.

Questions	Attempts	Score
1: Utility definitions		/ 3
2: Total and marginal utility		/ 7
3: Balancing utility and price		/ 3
4: Deriving demand from a marginal utility table with two ...		/ 5
5: Individual and market demand		/ 3
6: Consumer surplus for an individual and a market		/ 6
7: Determining opportunity cost		/ 2
TOTAL		**0 / 29**

In Progress ✔ Attempted Grading Option: Keep the Highest

Back to Home

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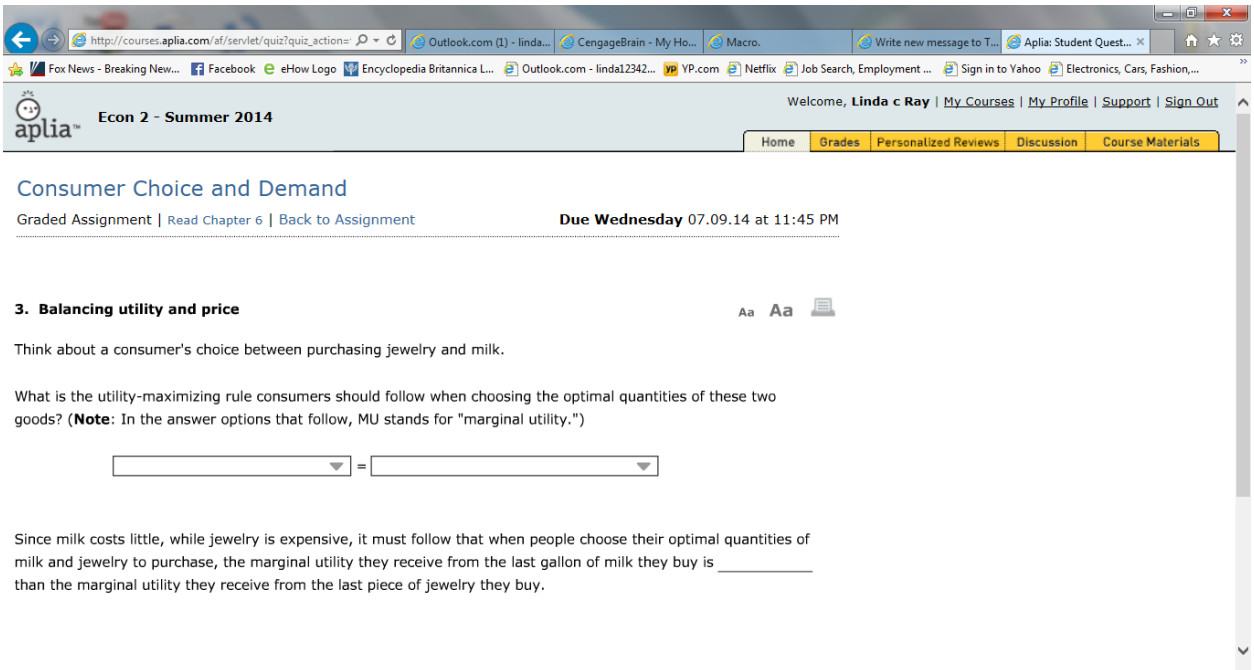

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Consumer Choice and Demand

Graded Assignment | Read Chapter 6 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

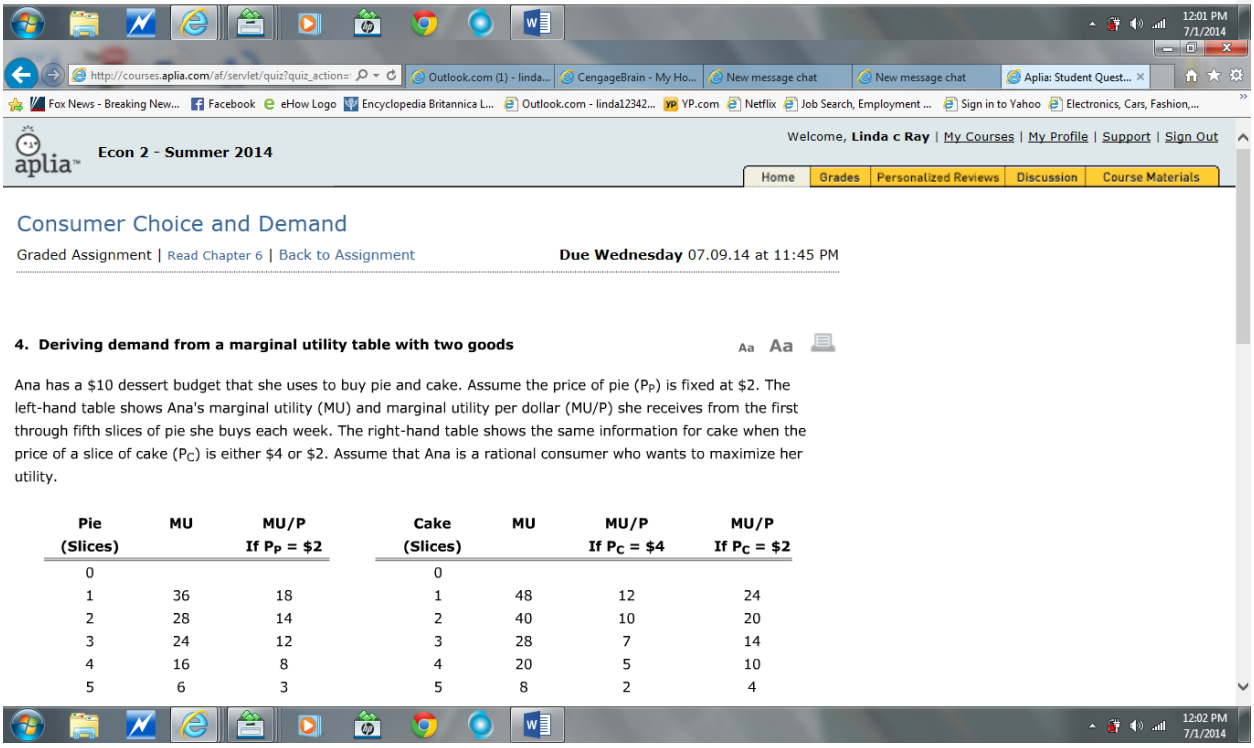
3. Balancing utility and price

Think about a consumer's choice between purchasing jewelry and milk.

What is the utility-maximizing rule consumers should follow when choosing the optimal quantities of these two goods? (**Note**: In the answer options that follow, MU stands for "marginal utility.")

[ ] = [ ]

Since milk costs little, while jewelry is expensive, it must follow that when people choose their optimal quantities of milk and jewelry to purchase, the marginal utility they receive from the last gallon of milk they buy is _____ than the marginal utility they receive from the last piece of jewelry they buy.



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Home | Grades | Personalized Reviews | Discussion | Course Materials

Consumer Choice and Demand

Graded Assignment | Read Chapter 6 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

4. Deriving demand from a marginal utility table with two goods

Ana has a $10 dessert budget that she uses to buy pie and cake. Assume the price of pie (P_P) is fixed at $2. The left-hand table shows Ana's marginal utility (MU) and marginal utility per dollar (MU/P) she receives from the first through fifth slices of pie she buys each week. The right-hand table shows the same information for cake when the price of a slice of cake (P_C) is either $4 or $2. Assume that Ana is a rational consumer who wants to maximize her utility.

Pie (Slices)	MU	MU/P If P_P = $2	Cake (Slices)	MU	MU/P If P_C = $4	MU/P If P_C = $2
0			0			
1	36	18	1	48	12	24
2	28	14	2	40	10	20
3	24	12	3	28	7	14
4	16	8	4	20	5	10
5	6	3	5	8	2	4

Consumer Choice and Demand

Graded Assignment | Read Chapter 6 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

5. Individual and market demand

Suppose that Felix and Karen are the only consumers of ice cream cones in a particular market. The following table shows their demand schedules:

Price ($ per cone)	Karen's Quantity Demanded (Cones per month)	Felix's Quantity Demanded (Cones per month)
1	10	14
2	8	10
3	6	8
4	2	6
5	0	4

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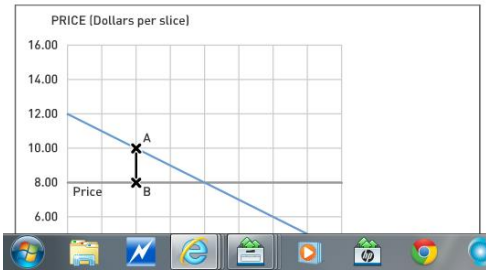
Home | Grades | Personalized Reviews | Discussion | Course Materials

Consumer Choice and Demand

Graded Assignment | Read Chapter 6 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

6. Consumer surplus for an individual and a market

The blue line on the following graph shows Jim's demand for cheesecake. The price of cheesecake is $8.00 per slice, as shown by the horizontal grey line.



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Consumer Choice and Demand

Graded Assignment | Read Chapter 6 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

7. Determining opportunity cost

Susan is deciding whether to buy a dress that she wants, as well as where to buy it. Three shops carry the same dress. She can go to her local department store, located 15 minutes away from where she works, and pay $120 for the dress. She can travel to a shop across town, located 30 minutes away from where she works, and pay $90 for the dress. Finally, she can take a one-hour drive out of town to a neighboring city and pay $85 for the dress.

Susan makes $10 an hour at work. She has to take time off work to purchase her dress, so each hour away from work costs her $10 in lost income. Assume that returning to work takes Susan the same amount of time as getting to a shop and that it takes her 30 minutes to shop. Answer the following questions, ignoring the cost of gasoline and depreciation of her car when traveling.

The opportunity cost of Susan's time if she chooses to purchase the dress in the neighboring city is _____ .

Assume that Susan takes the opportunity costs of her times and the price of the dress into consideration and that she

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Home | Grades | Personalized Reviews | Discussion | Course Materials

Elasticity of Demand and Supply

Graded Assignment | Read Chapter 5 | Back to Assignment **Due Wednesday** 07.09.14 at 11:45 PM

7. The variety of supply curves

Consider the four supply curves shown on the following diagram: HH, II, JJ, and KK. These four lines intersect at point A.