THEORY PROGRAM **FORTNIGHTLY REVIEW [FNR]**	FNR: **04**	**Issued on:**
	2024 A/L	**Due on:**

ATTEMPT. PRACTICE. LEARN. IMPROVE. ACHIEVE.

Part – [A]

(01) Total revenue falls as the price of a good increases if price elasticity of demand is:

(1) Elastic.
(2) Inelastic.
(3) Unitary elastic.
(4) Perfectly elastic
(5) Perfectly inelastic.

(02) If the price of a certain brand of sneakers falls from $27.50 to $22.50, and the quantity demanded by consumers increases from 15 to 25 pairs per week, then using the midpoint formula, the price elasticity of demand is

(1) -0.25
(2) -1.00
(3) -2.75
(4) -1.50
(5) -2.50

(03) If the demand for shoes rises and the supply curve does not shift, then the price

(1) Will rise and quantity will fall
(2) And quantity will rise
(3) Will fall and quantity will rise
(4) And quantity will fall
(5) Will rise, but quantity may rise or fall

(04) If consumer think that there are very few substitutes for a good, then:

(1) Supply would tend to be price elastic.
(2) Demand would tend to be price inelastic.
(3) Demand would tend to be price elastic.
(4) Supply would tend to be price inelastic.
(5) None of these answers.

(05) If a small percentage (say 1%) decrease in the price of chocolate causes a larger percentage (say 3%) decrease in the quantity demanded, the

(1) Supply of chocolate is elastic.
(2) Demand for chocolate is inelastic.
(3) Demand for chocolate is elastic.
(4) Supply of chocolate is inelastic.
(5) Demand for chocolate is perfectly inelastic.

(06) Which of the following is likely to lead to a fall in the price of good (Q) which is a normal good?

(1) A rise in the price of good (P), a substitute for good (Q)
(2) A fall in the level of household incomes generally
(3) A fall in the price of good (T), a complement to good (Q)
(4) A belief that the price of good (Q) is likely to double in the next 3 months
(5) An increase in the popularity for good (Q).

(07) When the price of a product is increased 10 percent, the quantity demanded decreases 15 percent. In this range of prices, demand for this product is:

(1) Elastic.
(2) Inelastic.
(3) Perfectly inelastic
(4) Cross-elastic.
(5) Unitary elastic.

(08) What is the most likely effect of the development of television, video players, and rental movies on the movie theatre industry?

(1) Decreased costs of producing movies
(2) Increased demand for movie theatre tickets
(3) Movie theatre tickets become an inferior good
(4) Increased price elasticity of demand for movie theatre tickets
(5) Reduced advertising costs for theatres.

(09) The price elasticity of demand for a popular sporting event is 2. If the price of a ticket to this event increases by 10 percent, the quantity of tickets demanded will:

(1) No change in demand.
(2) Decrease by 10 percent.
(3) Increase by 20 percent.
(4) Increase by 10 percent.
(5) Decrease by 20 percent.

(10) A university conducts a survey of students, which shows that a 10 percent tuition hike would lead to a 7 percent decreases in the enrolment. If the university wants to increase its total revenue, it should ____ tuition because the demand for education at this university is ____ .

(1) Raise; elastic
(2) Reduce; elastic
(3) Raise; inelastic
(4) Reduce; inelastic
(5) Not change; elastic.

(11) Sony is considering a 10 percent price reduction on its LED televisions. If the demand for televisions in this price range is inelastic:

(1) Revenues from LED TVs will remain constant.
(2) Revenues derived from LED TVs will decrease.
(3) Revenues derived from LED TVs will increase.
(4) The number of TVs sold will decrease.
(5) The demand for basic colour TVs will increase.

(12) In a market economy, a low price is a signal for,

(1) Producers to supply more and consumers to buy less.
(2) Producers and consumers to buy more.
(3) Producers to offer less and consumers to buy more.
(4) Government to step in and protect producers.
(5) Producers and consumers to buy less.

(13) The price elasticity of demand for detergent is -3.0, then a

(1) 12 percent drop in price leads to a 36 percent rise in the quantity demanded
(2) 12 percent drop in price leads to a 4 percent rise in the quantity demanded
(3) Rs.100 drop in price leads to a 300-unit rise in the quantity demanded
(4) Rs.100 drop in price leads to a 33-unit rise in the quantity demanded
(5) 12 percent rise in price leads to a 36 percent rise in the quantity demanded

(14) The price elasticity of demand is the:

(1) Change in quantity demanded divided by the Rupee change in price.
(2) Percentage change in quantity demanded divided by the percentage change in quantity supplied.
(3) Percentage change in quantity demanded divided by the percentage change in price.
(4) Percentage change in price divided by the percentage change in quantity demanded.
(5) None of the above.

(15) If the price of a certain brand of flavored milk falls from Rs. 27.50 to Rs. 22.50, and the quantity demanded by consumer increases from 15 to 25 packs per week, then using the midpoint formula, the price elasticity of demand is:

(1) -0.25 (2) -3.67 (3) -2.75 (4) -1.50 (5) -2.50

<u>State</u> whether the following statements are True (T) or False (F) **(01 mark each)**

(I)	The time horizon is one of the principle factors affecting the elasticity of both supply and demand. Demand is likely to be more elastic the longer the timescale.	
(II)	When the seller increases the price charged for a good with an elastic demand, the seller's revenues will go up.	
(III)	Decrease in the price of a substitute. Goo will lead to a rise in demand for a good.	
(IV)	When the income elasticity of demand is positive but less than 1, demand is called "income elastic."	
(V)	Incentive is not a function of price mechanism.	
(VI)	Perfectly elastic demand refers to a situation in which any price change for the good in question, no matter how small, will produce an "infinite" change in quantity demanded.	
(VII)	An increase in the number of buyers in a market for a good will lead to a rise in Demand.	
(VIII)	Elasticity is the same as the slope of the demand curve.	
(IX)	PED will always be negative due to inverse relationship of price and quantity demanded.	
(X)	If a good is inferior and its price rises, the income effect will encourage greater expenditures, at the same time as the substitution effect pushes toward lower expenditures.	

Part – [B]

Question [01]

(01) Use the demand schedule below to create a demand curve for Mr. A's consumption of music downloads. Label the curve D1.

[04 Marks]

Demand Schedule for Mr. A							
Price	700	600	500	400	300	200	100
Qd (Units)	1	2	3	4	5	6	7

(I) Use the graph you created to answer the following questions. **[05 Marks]**

A. Mr. A's Maximum Demand Price (MDP) is Rs. ______________ and Maximum Demand Quantity (MDQ) is ____________ downloads.

B. Mr. A's buying behaviour demonstrates the law of _ _ _ _ _ _ _ _ _ _ ________________ _.

C. Mr. A's change in buying behaviour at different prices is a change in _ _ _ _ _ _ _ _ _ _ _ _ _ _.

D. Mr. A is not willing to pay Rs.700 for every download because his utility (satisfaction) decrease as he downloads more and more music. Economists call this concept the law of _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ ______________

E. Accordingly, the slope of this demand curve is always _ _ _ _ _ _ _ _ _ _ _ _ _ _ _and a _______________________ relationship between price and quantity demanded.

(II) All people do not have the same demand for goods. The willingness and ability to purchase a good can differ from person to person. Accordingly, the following is the demand schedule for Mr. B's consumption of music downloads.

Using the information from the table to create Mr. B's demand curve on the same diagram and label it D2.

[02 Marks]

Demand Schedule for Mr. B							
Price	700	600	500	400	300	200	100
Qd (Units)	5	7	9	11	13	15	17

(III) Use the graph with both Mr. A's and Mr. B's demand curve to answer the following questions.

[03 Marks]

A. Mr. B's demand curve is to the _ _ _ _ _ _ _ _ _ _ _ of Mr. A's demand curve.

B. For each of the listed prices, Mr. B is willing to and able to buy _ _ _ _ _ _ music downloads than Mr. A and at each possible quantities he is willing and able to pay a _ _ _ _ _ _ _ price than Mr. A.

C. The demand curves you created on the grid are _ _ _ _ _ _ _ _ _ _ demand curves.

(IV) If Mr. A and Mr. B are the only buyers of music downloads, complete the market demand schedule, and draw the market demand curve.

[06 Marks]

Market Demand Schedule for Music Downloads							
Price	700	600	500	400	300	200	100
Qd (Units)							

Question [02]

(A) Define Income Elasticity of Demand (YED) and outline the implications based on the YED coefficient

(B) Define Cross Price Elasticity of Demand (CPED) and outline the implications based on the CPED coefficient

[05 marks each]