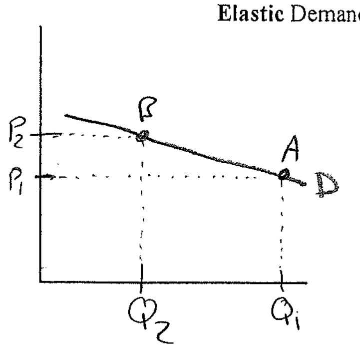
Elastic versus Inelastic Goods

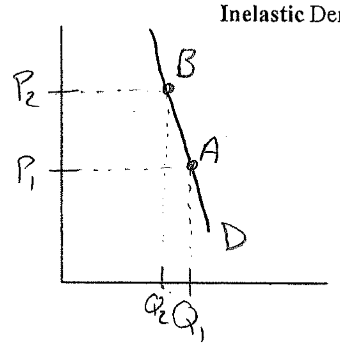
1) On the 2 separate graphs below draw one **elastic** and one **inelastic** demand curve.

a) Draw an initial point P_1 and Q_1 on each graph. b) Next add a higher price of P_2 and Q_2 on each graph

Elastic Demand Curve



Inelastic Demand Curve



2) What is the definition of an **elastic** good?

a good that's demand is sensitive to price changes

Provide a few real real world examples

fast food
candy

3) What is the definition of an **inelastic** good?

a good that's demand is not sensitive to price changes

Provide one or two real world examples

life-saving drugs
gasoline

4) List 3 factors which cause a good to have **inelastic demand**

how many close substitutes
time frame/level of urgency
is it a necessity or a luxury

5) Write out the formula for **total revenue:** TOTAL REVENUE = price X Quantity

6) Write out the formula for Profit: PROFIT = Total Revenue − Total costs

7) If a producer raises prices on a product with **elastic demand**: Then percentage (%) price increase will be less (GREATER/LESS) than the percentage (%) quantity demanded decrease. **Total Revenue** will fall.

8) If a producer raises prices on a product with **inelastic demand**: Then percentage (%) price increase will be greater (GREATER/LESS) than the percentage (%) quantity demanded decrease. **Total Revenue** will increase.

9) Which are true of elastic goods
  a) They have many substitutes
  b) They have few substitutes
  c) The are needed urgently
  d) Both B & C are true

10) If a producer increase prices on elastic goods you would expect
  a) Quantity sold to decline more on a percentage basis than the increase in price
  b) Quantity sold to decline less on a percentage basis than the increase in price
  c) Total Revenue to rise
  d) All listed are true
  e) Only B & C are true

11) If a producer increases prices on his product which exhibits inelastic demand, you would expect:
  a) Quantity sold to decline
  b) Price to increase a larger percentage than Quantity Demanded falls
  c) Total Revenue to rise
  d) All listed are true
  e) Only B & C are true

12) Sample Problem:

- Draw a Demand Curve for a good that is a necessity and has few *substitutes* *(draw the right slope of the Demand curve)]*
- Draw a normal supply curve
- Now assume the number of sellers declines in the industry (shift either the demand curve or supply curve)
- What is the effect on price change versus quantity demanded?