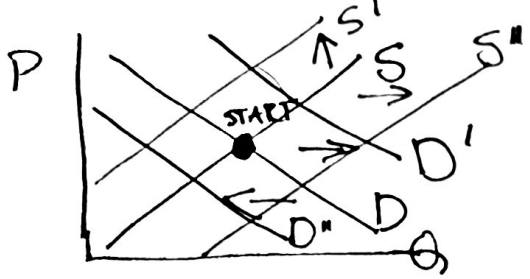
SEPT 28

NAME SOLUTION SET

ECONOMICS 101 IN-CLASS ACTIVITY FALL 2017 – 10 MINUTES
PLEASE COMPLETE THIS ACTIVITY ON YOUR OWN.

1. Complete the Comparative Statics Summary. What happened if? Complete the table. A graph might be of assistance!



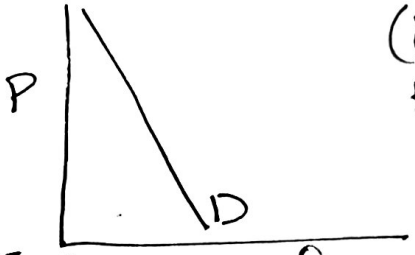
	P*	Q*
↑D D'	↑	↑
↓D D''	↓	↓
↑S S''	↓	↑
↓S S'	↑	↓
↑D ↑S	depends on magnitude.	

2. Contrast the terms, Elastic demand versus Inelastic Demand. Please provide a definition, one example each term and illustrate using a well labelled graph.

ELASTIC ↑P 1% ⇒ > 1% ΔQD (STEEP VS FLAT CURVE) BIG RESPONSE

EX. BLUE PENS

INELASTIC ↑P 1% ⇒ < 1% Δ QD (LITTLE RESPONSE)



EX GASOLINE

3. The price elasticity of brussels sprouts is estimated to be 0.5. Government authorities want to increase brussels sprouts consumption by 15 percent. Explain what the term and value of price elasticity of demand of 0.5 means and compute the percentage the price must fall to achieve this objective.

Δ 1% P ↓ ⇒ Δ .5% QD ↑

WANT A 15% Δ in QD ↑

Δ 30% P ↓ ⇒ Δ 15% Δ in QD

YOU ARE NOT PREDICTING A Δ Q P of 15% BUT A GOAL OF QD ↑ of 15%

4. The price of a package of Reese's Peanut Butter Cups rises from $1.00 to $1.25. As a result, the weekly quantity of Reese's demanded falls from 10,000 to 9,000 packages. Calculate the price elasticity of demand using the average of the initial and new prices and quantities as the basis for figuring the percentage changes. Use arc formula.

$$\%\Delta Q = \frac{10{,}000 - 9000}{9500} = .1053$$

$$\%\Delta P = \frac{1 - 1.25}{1.125} = -.2222$$

$$\varepsilon = \frac{\%\Delta Q_D}{\%\Delta P} = \frac{.1053}{.2222} = .4739$$

INELASTIC < 1 ∴ 1% ΔP ⇒ .4739 Δ QD