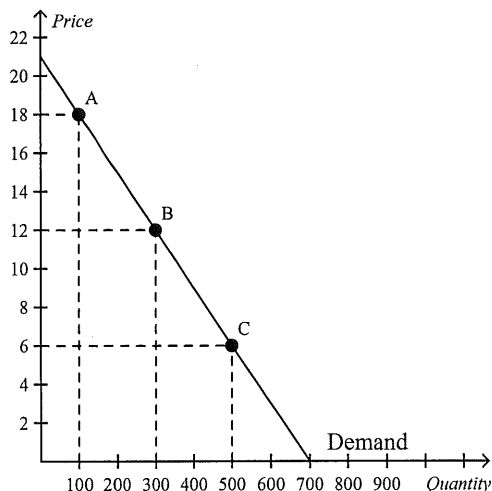


Econ 101 Tutorial 2

- Using the midpoint method, compute the elasticity of demand between points A and B. Is demand along this portion of the curve elastic or inelastic? Interpret your answer with regard to price and quantity demanded. Now compute the elasticity of demand between points B and C. Is demand along this portion of the curve elastic or inelastic?



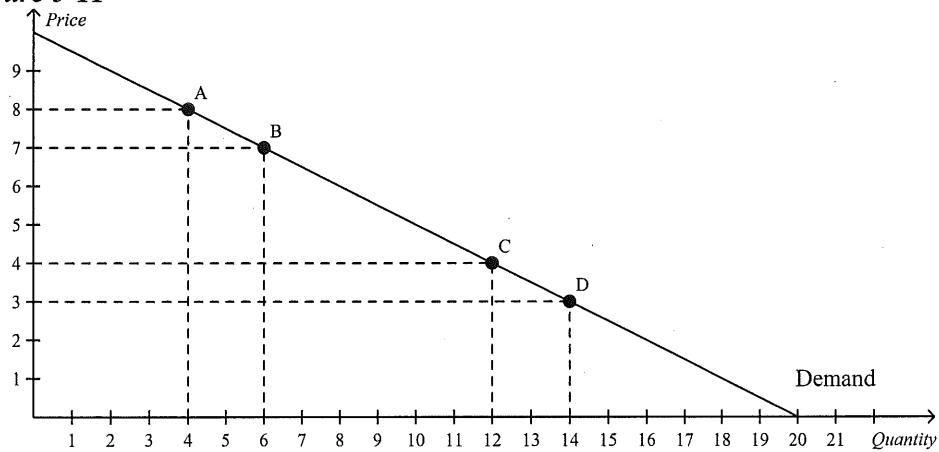
- When the Shaffers had a monthly income of \$4,000, they usually ate out 8 times a month. Now that the couple makes \$4,500 a month, they eat out 10 times a month. Compute the couple's income elasticity of demand using the midpoint method. Explain your answer. Is a restaurant meal a normal or inferior good to the couple?
- Recently, in Smalltown, the price of Twinkies fell from \$0.80 to \$0.70. As a result, the quantity demanded of Ho-Ho's decreased from 120 to 100. What would be the appropriate elasticity to compute? Using the midpoint method, compute this elasticity. What does your answer tell you?

Scenario 5-3

Milk has an inelastic demand, and beef has an elastic demand. Suppose that a mysterious increase in bovine infertility decreases both the population of dairy cows and the population of beef cattle by 50 percent.

- Refer to Scenario 5-3. The change in equilibrium price will be
 - greater in the milk market than in the beef market.
 - greater in the beef market than in the milk market.
 - the same in the milk and beef markets.
 - Any of the above could be correct.
- Refer to Scenario 5-3. The change in equilibrium quantity will be
 - greater in the milk market than in the beef market.
 - greater in the beef market than in the milk market.
 - the same in the milk and beef markets.
 - Any of the above could be correct.

Figure 5-11



6. Refer to Figure 5-11. If the price falls from point A to point B, total revenue
- increases, and demand is price elastic.
 - decreases, and demand is price elastic.
 - increases, and demand is price inelastic.
 - decreases, and demand is price inelastic.
7. Refer to Figure 5-11. If the price rises from point D to point C, total revenue
- increases, and demand is price elastic.
 - decreases, and demand is price elastic.
 - increases, and demand is price inelastic.
 - decreases, and demand is price inelastic.