**ELASTICITY of Demand Problem Sets**

Complete the following on graph paper:

A. Suppose at price $10 the Qd is 100 units. When the price falls to $8, the Qd increases to 130 units. Calculate the price elasticity of demand.

B. Your purchase of shoes decreases from 11 pair per year to 9 pair per year when your income increases from $19,000 to $21,000 per year.

1. What is the income elasticity of demand?

2. Is the good elastic or inelastic?

3. What type of good are shoes for you?

C. Your purchase of shoes increases from 9 to 11 pairs per year when the price of shirts increases from $8 to $12.

1. Shirts and shoes therefore are considered what type of goods?

2. What is the cross elasticity of demand for you?

D. Graph the following demand schedule data for BURGERS and add the letter on the point on the graph.

|  |  |  |
| --- | --- | --- |
| Point | Price | Qd |
| A | $9.00 | 2 |
| B | $8.00 | 4 |
| C | $5.50 | 9 |
| D | $4.50 | 11 |
| E | $2.00 | 16 |
| F | $1.00 | 18 |

1. Calculate the PED between all the points and add values onto table below.
2. What is the formula for TOTAL REVENUE (TR)?
3. Calculate the total revenue brought in from burgers sold at each price and add to the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Point | Price | Qd | PED | TR |
| A | $9.00 | 2 |  |  |
| B | $8.00 | 4 |  |  |
| C | $5.50 | 9 |  |  |
| D | $4.50 | 11 |  |  |
| E | $2.00 | 16 |  |  |
| F | $1.00 | 18 |  |  |

4. What happens to the elasticity as the Qd increases and P decreases?

5. At how many burgers sold is total revenue maximizes?

\*\*\*What relationship do you now notice between the elasticity of a product and the total revenue generated?