

11

Price elasticity of demand (PED)

1 What is the price elasticity of demand (PED) for a product for which a 10% price rise reduces sales volume by 5%?

- A** -2.0 **B** -0.5 **C** +0.5 **D** +2.0

2 What is the price elasticity of demand for rice based on the information below?

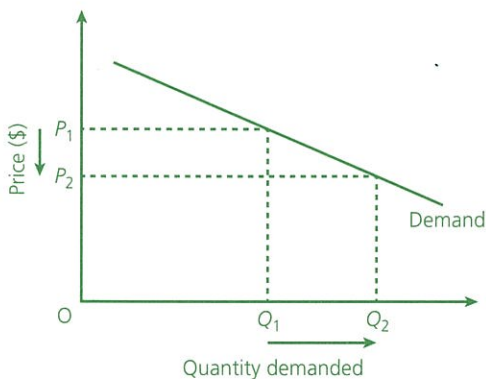
Change in price	Change in demand
+8%	-2%

- A** -4.0 **B** -2.5 **C** -1.6 **D** -0.25

3 Which is a use of price elasticity of demand?

- A** to calculate changes in the general price level
B to calculate consumer spending based on their disposable income
C to estimate the changes in a firm's costs of production
D to identify changes in the spending patterns of consumers

4 With reference to the diagram below, if the price is lowered from P_1 to P_2 what will happen to total revenue?



- A** It will decrease.
B It will increase.
C It will increase to Q_2 .
D It will stay the same.

5 A price cut from \$2 to \$1.50 causes the demand for peas to rise from 10 000 units to 11 500 units. What is the price elasticity of demand for peas?

- A** -3.0 **B** -1.67 **C** -0.6 **D** +0.6

11 PRICE ELASTICITY OF DEMAND (PED)

6 Suppose HTC sells 8000 smartphones in Taiwan per week at a price of \$250. Due to competition, HTC reduces the price to \$225 and subsequently notices that demand for its smartphones increases to 8640 units in the following week.

a Calculate the price elasticity of demand for HTC smartphones. [2 marks]

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b Explain whether it was a good decision for HTC to reduce its price. [4 marks]

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7 The price elasticity of demand (PED) for cigarettes in a particular country is known to be -0.55 .

a Describe what would happen to the demand for cigarettes if the price of cigarettes increases by 10%. [2 marks]

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b Explain one factor which affects the PED for cigarettes. [2 marks]

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8 Analyse how an airline company can use the concept of price elasticity of demand to decide whether or not to reduce its air fares. [6 marks]

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9 Sanchez Sunglasses sells 240 pairs of its best-selling sunglasses at \$250 each per month. Following an increase in price to \$280, Sanchez Sunglasses discovers that the quantity demanded falls to 215 units per month.

a Calculate the price elasticity of demand for Sanchez Sunglasses' best-selling sunglasses. [2 marks]

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b Using your answer from Question 9a above, explain how knowledge of price elasticity of demand (PED) can be of use to Sanchez Sunglasses. [4 marks]

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10 With the use of appropriate examples, analyse the factors that determine the value of price elasticity of demand (PED). [6 marks]

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