

Price Elasticity Answer Key

Directions: Answer the following questions.

1. Which five products are the most inelastic?
Inelastic goods are salt, matches, toothpicks, short-run airline travel, gasoline
2. Which five products are the most elastic?
Elastic goods are fresh tomatoes, Chevrolet automobiles, foreign travel (long run), fresh green peas, and airline travel (long run)
3. What are three reasons why salt is more inelastic than fresh tomatoes?
Salt is inelastic because there are no good substitutes; it is a necessity to most people, and it represents a small proportion of most people's budget.
4. Why would the demand for toothpicks be inelastic? Are the reasons the same as the reasons for salt?
Toothpicks are inelastic because they cost very little and represent a small percentage of a typical grocery budget and have few substitutes. Toothpicks are not a necessity.
5. Although both short-run and long-run gasoline are both inelastic, why is short-run gasoline more inelastic than long-run gasoline?
Short-run gasoline is more inelastic than long-run because in the short run, we have to buy gas to keep our car going. In the long run, we can switch to more fuel-efficient cars (including hybrid), ride the bus or walk more. But in the short-run, those options are not available.
6. What does it mean that private education has a coefficient of 1.1?
If the price of tuition increases by 10%, we would expect a 10% decrease in the quantity demanded.
7. What are three factors that explain why demand for foreign travel is elastic?
Foreign travel is elastic because there are many substitutes, including domestic travel; it is a luxury rather than a necessity; and it represents a large proportion of most people's budget.
8. What factors would likely explain why Chevrolet cars are very elastic?
Chevrolet cars would be very elastic because we don't have to buy that brand of car – we have lots of substitutes.
9. What are three factors that determine whether demand for a good or service will be elastic or inelastic?
Availability of substitutes, necessity v. luxury, expense or proportion of income