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*