Name: _____ Date: _____

CHAPTER 4, SECTION 2

The Demand Curve Shifts

Changes in Demand and Shifts in Demand Curves

When demand changes, the demand curve shifts. Fill in the blanks in questions 1 and 2 with the correct answers.

1. If demand increases, the demand curve shifts _____, meaning that buyers want to buy _____ of a good at each and every price.

2. If demand decreases, the demand curve shifts _____, meaning that buyers want to buy _____ of a good at each and every price.

Factors That Cause Shifts in Demand Curves

In questions 3–7, list five factors that cause demand curves to shift. For each factor, describe how the factor affects the demand for a good (whether the factor causes demand to rise or fall).

3. *Factor:*

_____

Description:

_____

_____

4. *Factor:*

_____

Description:

_____

_____

5. *Factor:*

_____

Description:

_____

_____

_____

6. *Factor:*

_____

Description:

_____

_____

7. *Factor:*

_____

Description:

_____

_____

Demand Versus Quantity Demanded

Demand is not the same as quantity demanded. Answer questions 8–11 on the lines provided.

8. What will cause a change in the demand for a good?

_____

_____

9. What will cause a change in the quantity demanded of a good?

_____

_____

10. How is a change in demand represented on a graph?

_____

_____

11. How is a change in quantity demanded represented on a graph?

_____

_____

Changes in Demand and in Quantity Demanded

In questions 12–17, fill in the blanks to describe how each event will affect the demand for large sport utility vehicles (SUVs).

12. The price of gasoline hits $3 per gallon.

Will the demand for large SUVs increase, decrease, or stay the same?

_____

In which direction will the demand curve shift?

_____

Which of the five factors causes the shift?

_____

13. Smaller, sportier "crossover vehicles" hit the market and become the latest craze.

Will the demand for large SUVs increase, decrease, or stay the same?

_____

In which direction will the demand curve shift?

_____

Which of the five factors causes the shift?

_____

14. Rising steel prices cause the prices of SUVs to rise.

Will the demand for large SUVs increase, decrease, or stay the same?

_____

In which direction will the demand curve shift?

_____

Which of the five factors causes the shift?

_____

15. Government data show that the incomes of Americans are expected to rise faster than ever over the next year.

Will the demand for large SUVs increase, decrease, or stay the same?

_____

In which direction will the demand curve shift?

_____

Which of the five factors causes the shift?

_____

16. Word leaks to consumers that General Motors and Ford plan to offer big rebates on SUVs next month.

Will the demand for large SUVs increase, decrease, or stay the same?

_____

In which direction will the demand curve shift?

_____

Which of the five factors causes the shift?

_____

17. The government loosens immigration laws, allowing millions of immigrants into the country. Will the demand for large SUVs increase, decrease, or stay the same?

_____

In which direction will the demand curve shift?

_____

Which of the five factors causes the shift?

_____

The Relationship Between Income and Demand

As a result of an increase in wages from his employer, Kramer increased his consumption of Junior Mints and Bosco chocolate-flavored syrup, decreased his consumption of fried chicken, and maintained the same consumption of yogurt.

In questions 18–21, identify each of the goods consumed by Kramer as a normal good, an inferior good, or a neutral good.

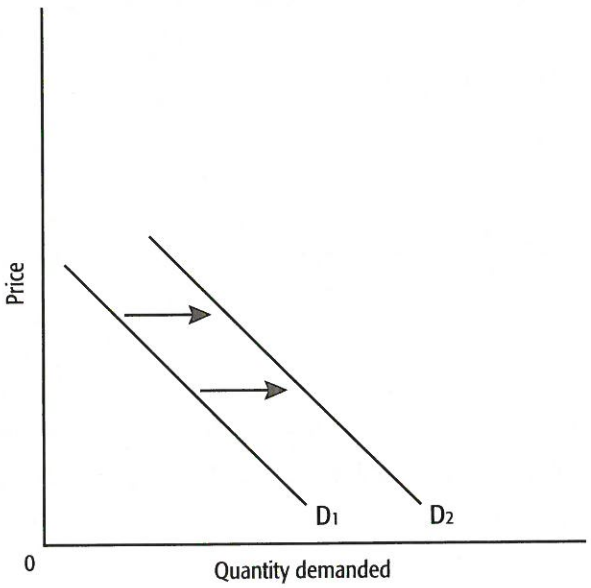
18. Junior Mints _____

19. Bosco chocolate-flavored syrup _____

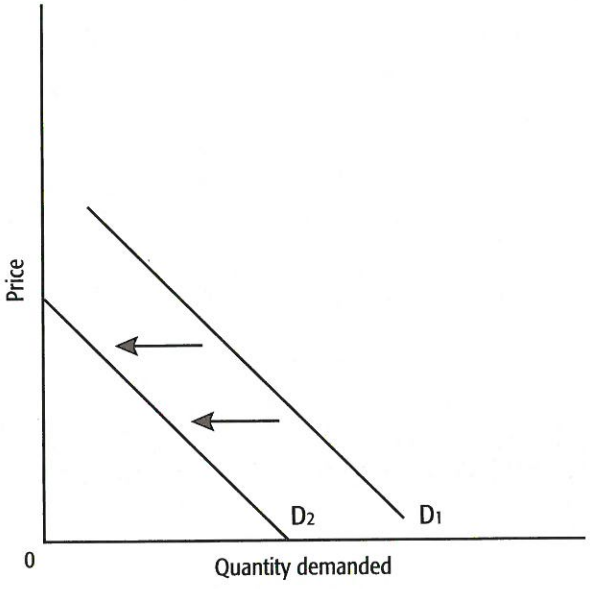
20. fried chicken _____

21. yogurt _____

In questions 22–25, identify which one of graphs (a), (b), and (c) illustrates the change to Kramer's demand curve for each of the goods.



(a)



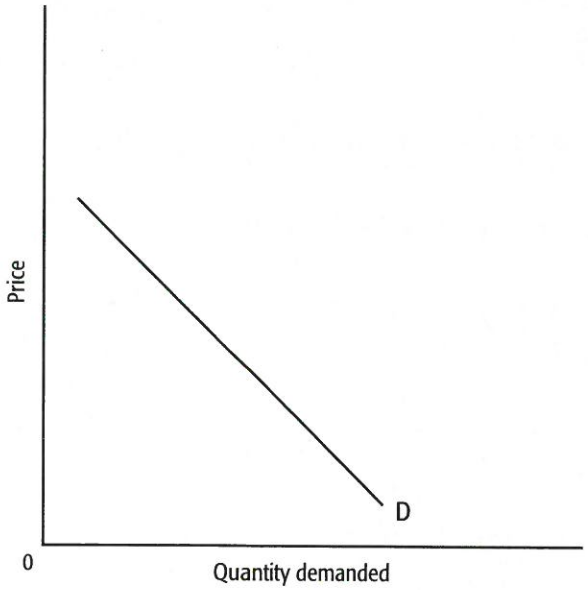
(b)

22. Junior Mints _____

23. Bosco chocolate-flavored syrup _____

24. fried chicken _____

25. yogurt _____



(c)

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CHAPTER 4, SECTION 3

Elasticity of Demand

Elasticity Versus Inelasticity

According to the law of demand, when price rises, quantity demanded falls and when price falls, quantity demanded rises. Elasticity of demand is a measure of *how much* the quantity demanded of a good rises or falls due to a change in the price of the good.

You can think of elastic demand as being like an elastic band—the quantity demanded of the good will stretch freely when pulled by a change in the good's price. Inelastic demand is more like a rope—the quantity demanded of the good will not stretch easily when pulled by a change in the good's price.

In questions 1 and 2, circle the letter of the correct answer.

1. If the price of a good with elastic demand increases, which of the following describes the effect on the quantity demanded of the good?
   - **a.** increases a little
   - **b.** increases a lot
   - **c.** decreases a little
   - **d.** decreases a lot

2. If the price of a good with inelastic demand increases, which of the following describes the effect on the quantity demanded of the good?
   - **a.** increases a little
   - **b.** increases a lot
   - **c.** decreases a little
   - **d.** decreases a lot

Factors That Determine Elasticity of Demand

In questions 3–6, list the four factors that determine the elasticity of demand. For each factor, describe how the factor affects the elasticity of demand for a good (that is, explain whether it causes demand to be more elastic or more inelastic).

3. *Factor:*

   _____

   Description:

   _____

   _____

4. *Factor:*

   _____

Description:

_____

_____

5. *Factor:*

_____

Description:

_____

_____

6. *Factor:*

_____

Description:

_____

_____

Considering the factors you listed in questions 3–6, identify the demand for the goods in questions 7–9 as elastic, inelastic, or unit-elastic. Explain the reason for each choice.

7. T-bone steak

_____

_____

8. new sport utility vehicle

_____

_____

9. insulin

_____

_____

In each of the cases described in questions 10–12, identify whether the demand for the good is elastic, inelastic, or unit-elastic. Write your answers on the lines provided.

10. _____ The price of corn rises 5 percent, and the quantity demanded falls 15 percent.

11. _____ The price of bagels rises 8 percent, and the quantity demanded falls 8 percent.

12. _____ The price of telephones rises 10 percent, and the quantity demanded falls 2 percent.

Elasticity and Total Revenue

Elasticity of demand matters to sellers of goods because it relates to their total revenue (Price × Quantity sold = Total revenue). Questions 13–19 relate to how the elasticity of demand for a good affects a seller's total revenue when the seller changes the price of the good. Fill in each blank with the correct answer.

13. If demand for a good is *elastic* and price increases, then total revenue will _____.

14. If demand for a good is *elastic* and price decreases, then total revenue will _____.

15. If demand for a good is *inelastic* and price increases, then total revenue will _____.

16. If demand for a good is *inelastic* and price decreases, then total revenue will _____.

17. If demand for a good is *unit-elastic* and price increases, then total revenue will _____.

18. If demand for a good is *unit-elastic* and price decreases, then total revenue will _____.

19. If a seller would like to increase revenue, the seller should (a) increase the price of the good if the demand for the good is _____ *or* (b) decrease the price of the good if the demand for the good is _____.

In each of questions 20–22, complete the table to calculate the total revenue for the good. Then fill in the blanks in the question following the table to summarize the results in each case.

20. When Edith increased the price of a good from $2 to $3, the quantity demanded rose from 100 to 110.

	Price	×	Quantity sold	=	Total revenue
Original	$_____		_____		$_____
New	$_____		_____		$_____

So, because revenue _____ when the price _____, demand for the good must be _____.

21. When Renaldo increased the price from $10 to $12, the quantity demanded fell from 80 to 40.

	Price	×	Quantity sold	=	Total revenue
Original	$_____		_____		$_____
New	$_____		_____		$_____

So, because revenue _____ when the price _____, demand for the good must be _____.

22. When Keiko decreased the price from $150 to $125, the quantity demanded rose from 60 to 120.

	Price	×	Quantity sold	=	Total revenue
Original	$_____		_____		$_____
New	$_____		_____		$_____

So, because revenue _____ when the price _____, demand for the good must be _____.

Elasticity of Demand and a Cigarette User Fee

To increase state revenue and decrease smoking rates, the governor of Minnesota proposed that the state impose a $0.75 per pack "cigarette user fee." His proposal was passed by the state legislature. Use this information and your knowledge about elasticity of demand to answer questions 23–26.

23. Did the governor of Minnesota assume that demand for cigarettes was elastic or inelastic when he made his proposal? Explain your answer.

_____

_____

_____

24. Given the large increase in price, in which income groups and age groups would you expect to see the greatest decrease in quantity demanded?

_____

_____

_____

25. Which of the four factors that determine elasticity of demand do you think plays the largest role in people's demand for cigarettes?

_____

_____

_____

26. How might time affect this scenario?

_____

_____

_____

Elasticity of Demand and Gas Prices

Many people once believed that an increase in the price of gasoline would change consumer attitudes and driving behavior. For instance, economists assumed that people would drive less often and buy smaller, more efficient cars as the price of gasoline increased. However, gas prices increased in 2005, and while the sales of sport utility vehicles suffered, people's driving habits and gas consumption levels changed very little. Use this information and your knowledge about elasticity of demand to answer questions 27–29.

27. Is the demand for gasoline more elastic or more inelastic than previously thought? Explain your answer.

_____

_____

_____

28. Which of the four factors that determine elasticity of demand do you think plays the largest role in people's buying habits for gasoline?

_____

_____

_____

29. How might time affect this scenario?

_____

_____

28. Will the negative externality be internalized by proposal 1? Explain.

29. Will the negative externality be reduced or eliminated by proposal 2? Explain.

30. Will the negative externality be internalized by proposal 2? Explain.

31. Will the negative externality be internalized by proposal 3? Explain.

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CHAPTER 4, SECTION 1

Demand!

Demand and the Law of Demand

To be sure you understand demand and the law of demand, fill in the blanks in questions 1–4.

1. The two conditions of demand are _____ and _____.

2. The law of demand says that as the price of a good increases, the quantity demanded of the good _____.

3. The law of demand says that as the price of a good decreases, the quantity demanded of the good _____.

4. According to the law of demand, price and quantity demanded move in _____ direction(s).

Demand Schedules and Demand Curves

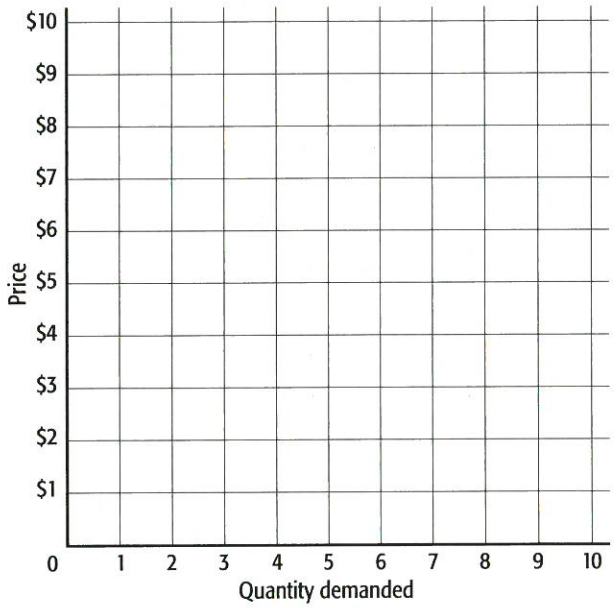
The law of demand can be represented in numbers using a **demand schedule** or it can be represented as a graph showing a **demand curve.**

Answer question 5 to illustrate the connection between a demand schedule and a demand curve.

5. Use the demand schedule below to create a demand curve for Simon's consumption of music downloads on the grid shown. Label the curve D_1.

DEMAND SCHEDULE FOR SIMON

Price (dollars)	Quantity demanded (units)
$7	1
$6	2
$5	3
$4	4
$3	5
$2	6
$1	7



Demand Curve Derived from Demand Schedule

Use the graph you created in question 5 to answer questions 6–10.

6. The demand curve shows that at a price of $7, Simon will buy _____ music download(s), and at a price of $1, he will buy _____ music download(s).

7. Simon's buying behavior demonstrates the law of _____.

8. Simon's change in buying behavior at different prices is a change in _____.

9. Simon is not willing to pay $7 for every download because his utility (satisfaction) decreases as he downloads more and more music. Economists call this concept the _____.

10. How does the concept in question 9 explain the slope of the demand curve?

_____

_____

_____

All people do not have the same demand for a good. Some people have a greater willingness and ability to purchase a good than other people do.

Use the information in question 11 to compare the demand curves of two different people for the same good.

11. Use the demand schedule below to create a demand curve for Carla's consumption of music downloads. Draw the graph on the grid in question 5. Label the curve D_2.

DEMAND SCHEDULE FOR CARLA

Price (dollars)	Quantity demanded (units)
$7	4
$6	5
$5	6
$4	7
$3	8
$2	9
$1	10

To answer questions 12–16, use the graph in question 5, which now shows both Simon's and Carla's demand curves.

12. Carla's demand curve (D_2) is to the _____ of Simon's demand curve (D_1).

13. For each of the listed prices, Carla is willing and able to buy _____ music downloads than Simon is willing and able to buy.

14. At each of the possible quantities, Carla is willing and able to pay a _____ price than Simon is willing and able to pay.

15. The demand curves you created on the grid in question 5 are _____ demand curves.

16. Suppose Simon and Carla are the only buyers of music downloads. How would you create a market demand curve from the demand curves you drew on the grid in question 5?

