2 Price determination – Part 2 — Answers

2.1 PED $= \dfrac{-10}{20} = -0.5$; ignoring the sign, $0.5 < 1$, so demand is **inelastic**.

2.2 Total revenue **rises** (with inelastic demand, quantity falls less than the price rises).

2.3 (a) normal good; (b) inferior good.

2.4 (a) positive; (b) negative.

2.5 The gain to buyers — the difference between the most a consumer was willing to pay and the price they actually paid.

2.6 XED $= \dfrac{+15\%}{+10\%} = +1.5$. The sign is *positive*, so tea and coffee are *substitutes* — a rise in the price of one raises demand for the other.