

Question 7 (Answer: **A**)

- A PED of exactly -1 is unit elastic: quantity changes in the same proportion as price.
- So raising the price reduces demand by the same percentage.
- The two effects cancel exactly, so total revenue is unchanged.

Question 7 (Answer: **D**)

- Elasticity compares the *percentage* change in quantity with the percentage change in price.
- So work out both percentages for each successive price fall.
- Demand is inelastic where the quantity percentage is the smaller of the two.

Question 7 (Answer: **A**)

- A PED of -2.0 is greater than one in size, so demand is price elastic.
- That means quantity responds more than proportionately to a price change.
- So cutting the price would raise total revenue – the cars have close substitutes.

Question 7 (Answer: **D**)

- A PED of -2.0 means demand is elastic: quantity responds more than proportionately.
- A 10% price cut therefore raises quantity demanded by 20%.
- Quantity rises by more than price falls, so total revenue increases.

Question 28 (Answer: **A**)

- A tariff raises the price of imports so buyers switch to domestic steel.
- It works best when demand responds strongly to that price rise.
- So the policy is most effective where the imported and domestic steel are close substitutes.

Question 8 (Answer: **A**)

- $\text{PED} = \text{percentage change in quantity} \div \text{percentage change in price}$.
- Price rises from \$8 to \$10, which is $+25\%$; quantity falls from 1000 to 500, which is -50% .
- $-50/25 = -2$, so demand is elastic.

Question 5 (Answer: **B**)

- At the stated price, compare the quantity demanded with the quantity supplied.
- If they are equal that price is the equilibrium.
- If demand exceeds supply there is a shortage and price will be pushed up.

Question 7 (Answer: **C**)

- Revenue rises when price is cut and demand is elastic, because quantity rises proportionately more.
- Revenue also rises when price is raised and demand is inelastic.
- So the two workable combinations are cut-and-elastic or raise-and-inelastic.