IB Economics – Elasticity

Exam Practice Questions: 1.5: Price Elasticity of Demand

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1.5 PRICE ELASTICITY OF DEMAND: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

a. Explain **four** factors that determine how elastic or inelastic the demand for a good will be. **[10 marks]**

b. Evaluate the decision of taxi drivers to increase the price of taxi fares to increase revenues as a response to increases in the price of petrol. **[15 marks]**

c. Using diagrams, explain why the price elasticity of demand for primary commodities is often relatively low, compared to that of manufactured goods. **[10 marks]**

d. Examine the validity of the following statement: "A firm can expect to increase its total revenues and maximise profits by increasing the price of the good or service sold." **[10 marks]**

e. Use the concept of price elasticity of demand to evaluate a government's decision to impose an indirect tax on new yachts rather than packets of cigarettes. **[15 marks]**

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2. IB ECONOMICS HL PAPER 3 EXAMINATION QUESTIONS

Question One **[25 marks]**

Table 1: Demand schedule for good A

Unit price ($)	30	25	20	15	10	5
Qd (per month)	5	10	15	20	25	30
Total revenue						

Table 1 above is the demand schedule for good A.

a. Plot the demand curve for good A. **[1 mark]**

b. Calculate the price elasticity of demand (PED) for a price increase from $5 to $10. **[2 marks]**

c. Calculate the price elasticity of demand (PED) for a price increase from $20 to $25. **[2 marks]**

d. Use data from calculations in (b) **and** (c) to explain what happens to the PED for a good on a linear demand curve. **[2 marks]**

e. Calculate the total revenue associated with each price of good A. **[2 marks]**

f. Using concepts of price inelastic **and** price elastic demand **and** data from (c) to explain the effect on total revenue of a price increase from $20 to $25. **[3 marks]**

g. Using concepts of price inelastic **and** price elastic demand **and** data from (c) to explain the effect on total revenue of a price increase from $5 to $10. **[3 marks]**

h. Calculate the percentage change in the quantity demanded if PED = 2 and a 10% increase in the price of the good. **[2 marks]**

i. Calculate the percentage change in the price if PED = 2 and there is 10% increase in the quantity demanded of the good. **[2 marks]**

j. State the values of perfectly inelastic and perfectly elastic demand, and sketch diagrams to illustrate their differences. **[4 marks]**

k. Explain the effect of a price increase of 10% when PED = 0. **[2 marks]**

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