

MBA603

HOMEWORK 2

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Spring 2003

1. Let $E_D = \% \Delta Q_x^D / \% \Delta P_x$ be the own price elasticity of demand for good x and let $E_I = \% \Delta Q_x^D / \% \Delta I$ be the income elasticity of demand for good x. Let $E_{x,y} = \% \Delta Q_x^D / \% \Delta P_y$ be the cross price elasticity of demand for good x with respect to the price of good y. Fill in the *relevant* cells of the table below.

Table 1

E_D	E_I	$E_{x,y}$	$\% \Delta P_x$	$\% \Delta P_y$	$\% \Delta I$	$\% \Delta Q_x$
-3			3%			
-2						-2%
-1			-4%			
-5			8%			
-2						-8%
-.1			9%			
	2				3%	
	1				-4%	
	.5				7%	
	-.2				-2%	
		.5		7%		
		-.2		-6%		

2. The price elasticity of demand for Coke is -1.71 . Explain what this means. Does this necessarily mean that if Coke lowers its price that Coke's total revenue will increase? What are you assuming about the price of Pepsi and other close substitutes? Explain.

Even if Coke's total revenue increased with a decrease in the price of Coke does this necessarily mean that Coke should reduce its price? Explain.

3. Would a monopolist ever want to operate in the price inelastic region of demand? Explain.