



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject: Business economics (micro)

Chapter: Unit 2

Category: Practice questions

MCQs**1. CT7 April 2010 Question 16**

Which of the following events would shift the demand curve for Good X, which is a normal good, to the right?

- A. A decrease in the price of Good X.
- B. An increase in the price of a substitute good.
- C. An increase in the price of a complementary good.
- D. A decrease in consumer income.

Answer – B

2. CT7 April 2010 Question 17

According to the law of diminishing marginal utility, the total satisfaction that a consumer gets from consuming Good X will:

- A. rise at an increasing rate as consumption of Good X increases.
- B. rise at a decreasing rate as consumption of Good X increases.
- C. fall at an increasing rate as consumption of Good X increases.
- D. fall at a decreasing rate as consumption of Good X increases.

Answer – B

3. CT7 April 2010 Question 19

A consumer's demand curve for Good X is represented by the equation

$$Q_{dx} = 50 - 0.2P_x$$

where Q_{dx} is the quantity of Good X demanded and P_x is the price of Good X. A producer's supply curve for Good X is represented by the equation $Q_{sx} = 10 + 0.6P_x$

Where Q_{sx} is the quantity of Good X supplied and P_x is the price of Good X. Demand and supply are in equilibrium when:

- A. quantity is 20 and price is 150.
- B. quantity is 30 and price is 100.
- C. quantity is 35 and price is 75.
- D. quantity is 40 and price is 50.

Answer – D

4. CT7 April 2010 Question 20

If Goods X and Y are substitutes, a fall in the price of Good X causes the:

- A. quantity demanded of Good X to increase and the demand curve for Good Y to shift toward the right.
- B. quantity demanded of Good X to increase and the demand curve for Good Y to shift toward the left.
- C. demand curve for Good X to shift to the right and the demand curve for Good Y to shift toward the left.
- D. demand curve for Good X to shift to the right and the demand curve for Good Y to shift toward the right.

Answer – B

5. CT7 April 2010 Question 22

A consumer always spends one quarter of his income on travel. What are his price elasticity of demand for travel and his income elasticity of demand for travel respectively:

- A. 1 and 0.25.
- B. 0 and 0.25.
- C. 1 and 0.
- D. 0 and 1.

Answer – D

6. CT7 September 2010 Question 3

If Goods X and Y are substitutes, an increase in the price of Good X causes the:

- A. quantity demanded of Good X to fall and the demand curve for Good Y to shift to the left.
- B. quantity demanded of Good X to fall and the demand curve for Good Y to shift to the right.
- C. quantity demand of Good X to remain constant, but the demand for Good Y to fall.
- D. demand curves for both Good X and Good Y to shift to the right.

Answer – B

7. CT7 September 2010 Question 4

Which of the following is not a characteristic of an inferior good?

- A. The income elasticity of demand is negative.
- B. The income elasticity of demand is between zero and one.
- C. The demand for the good increases as income falls.
- D. The demand will rise if its price falls.

Answer – B

8. CT7 September 2010 Question 5

The price elasticity of demand for beer is -2 . If beer increases in price by 15 per cent the quantity demanded falls by:

- A. 7.5 per cent.
- B. 15 per cent.
- C. 17 per cent.
- D. 30 per cent

Answer – D

9. CT7 April 2011 Question 2

Despite an increase in the minimum price of admission from £15.00 to £18.00, a football club finds that attendance at home matches increased by 20%. Which of the following could most effectively explain this situation?

- A. Demand to watch football has a high price elasticity.
- B. Consumer preference has changed in favour of watching football.
- C. Demand to watch football has a very low price elasticity.

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D. The prices of alternative attractions have fallen.

Answer – B

10. CT7 April 2011 Question 3

If the demand and supply for a commodity both increase at each price, the market price will tend to:

- A. rise.
- B. be indeterminate.
- C. fall.
- D. remain unchanged.

Answer – B

11. CT7 April 2011 Question 6

If a firm increases its output and this results in an equal proportionate increase in its revenue, which of the following can be deduced about the price elasticity of demand for the firm's product?

- A. It is 1.
- B. It is infinite elasticity.
- C. It is +1.
- D. It is zero elasticity.

Answer – B

12. CT7 April 2011 Question 7

Which of the following would NOT explain why, when the price of a good rises, the quantity supplied will also rise?

- A. Firms expect future prices to rise.
- B. At higher levels of output firms will incur higher costs.
- C. The higher the price the more profitable it becomes to produce
- D. The price of a good remains high over a given time period.

Answer – A

13. CT7 April 2011 Question 8

Diminishing marginal utility of income implies:

- A. people are risk lovers.
- B. people are risk averse.
- C. people are risk diversifiers.
- D. people are risk neutral

Answer – B

14. CT7 April 2011 Question 9

A firm's decision to reduce its expenditure on advertising is most likely to have the following impact on its demand curve:

- A. The curve will shift to the left and become more inelastic.
- B. The curve will shift to the right and become less elastic.

- C. The curve will shift to the left and become more elastic.
- D. The curve will shift to the right and become less inelastic.

Answer – C

15. CT7 September 2011 Question 10

The demand for Good X has a price elasticity of minus unity while the supply curve has a positive slope. If the government decided to impose a tax of £10 per unit on Good X this would:

- A. shift the supply curve for Good X up by less than £10 and increase the price by less than £10.
- B. shift the supply curve for Good X up by less than £10 and increase the price by more than £10.
- C. shift the supply curve for Good X up by £10 and increase the price by £10.
- D. shift the supply curve for Good X up by £10 and increase the price by less than £10.

Answer – D

16. CT7 April 2012 Question 3

Good Y has a cross elasticity of demand with respect to Good X of 0.5 and 100 units of Good Y are demanded when Good X costs 50 pence. A rise in the price of Good X to 75 pence will lead to a change in the demand for Good Y to:

- A. 150 units.
- B. 125 units.
- C. 75 units.
- D. 50 units.

Answer – B

17. CT7 April 2012 Question 4

The demand equation for Good X is $Q_d = 15 - 0.5P$ and the supply equation for Good X is $Q_s = 3 + 2P$, where P is the price. When the price is £6 there will be:

- A. a surplus of Good X and price will rise.
- B. a shortage of Good X and price will fall.
- C. a surplus of Good X and price will fall.
- D. a shortage of Good X and price will rise.

Answer – C

18. CT7 April 2012 Question 5

A demand curve which has price elasticity of minus one throughout its length will be:

- A. vertical.
- B. horizontal.
- C. upward sloping.
- D. downward sloping.

Answer – D

19. CT7 April 2012 Question 6

According to the law of diminishing marginal utility, the total satisfaction that a consumer gets from consuming Good X will:

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- A. rise at an increasing rate as consumption of Good X increases.
- B. rise at a decreasing rate as consumption of Good X increases.
- C. fall at an increasing rate as consumption of Good X increases.
- D. fall at a decreasing rate as consumption of Good X increases.

Answer – B

20. CT7 April 2012 Question 13

If the demand for Good X is price elastic then the burden of a sales tax on Good X will be borne:

- A. equally by buyers and sellers.
- B. more heavily by buyers.
- C. more heavily by sellers.
- D. by neither buyers nor sellers.

Answer – C

21. CT7 September 2012 Question 1

Which of the following will result from the imposition of a 9 per cent sales tax on household fuel, the demand for which has an absolute price elasticity of demand equal to 1.5?

- A. A rise in the price of fuel by 10.5 per cent.
- B. A rise in the price of fuel by 9 per cent.
- C. A rise in the price of fuel by 12 per cent.
- D. A rise in the price of fuel by less than 9 per cent.

Answer – D

22. CT7 September 2012 Question 2

A minimum price is set for Good X at £10 which happens to coincide with the free market price. An increase in the demand for Good X keeping the minimum price fixed at £10 will lead to:

- A. no change in price and a shortage.
- B. a rise in price and quantity sold.
- C. a rise in price and a shortage.
- D. a rise in price and a surplus.

Answer – B

23. CT7 April 2013 Question 1

Which of the following statements explains how price, demand and supply respond to a shortage?

- A. Price rises, quantity demanded falls and quantity supplied rises.
- B. Price rises, quantity demanded falls and quantity supplied falls.
- C. Price rises, quantity demanded rises and quantity supplied falls.
- D. Price rises, quantity demanded rises and quantity supplied rises.

Answer – A

24. CT7 April 2013 Question 2

If the price of a product rises from £3 to £4 and demand falls from 100 to 80 units, then using the

average price elasticity of demand method the price elasticity of demand is

- A. -0.60
- B. -0.78
- C. -1
- D. -0.05

Answer – B

25. CT7 April 2013 Question 3

If Goods X and Y are substitutes, an increase in the price of Good X causes the

- A. demand curve for Good X to shift to the left, and the demand curve for Good Y to shift to the left.
- B. demand curve for Good X to shift to the left, and the demand curve for Good Y to shift to the right.
- C. quantity demanded of Good X to fall, and the demand curve for Good Y to shift to the right.
- D. quantity demanded of Good X to fall, and the demand curve for Good Y to shift to the left.

Answer – C

26. CT7 April 2013 Question 5

Which of the following is a measure of total consumer surplus?

- A. Marginal utility minus the price of the good.
- B. The total utility consumers get from the consumption of the good.
- C. The total utility consumers get from consumption of the good less the total expenditure on the good.
- D. Marginal utility times the price of the good.

Answer – C

27. CT7 April 2013 Question 7

Which of the following is NOT implied by the principle of diminishing marginal utility of income:

- A. Total utility increases at a decreasing rate as income increases.
- B. Marginal utility increases at a decreasing rate as income increases.
- C. Marginal utility decreases at an increasing rate as income falls.
- D. Total utility decreases at an increasing rate as income increases.

Answer – D

28. CT7 April 2013 Question 10

Which of the following is NOT a motive for advertising by an existing firm in an industry?

- A. To make the demand for the product more price elastic.
- B. To shift the demand for the firm's product to the right.
- C. To increase barriers to entry.
- D. To increase sales and so help the firm exploit economies of scale.

Answer – A

29. CT7 April 2014 Question 4

Which of the following best describes an annual supply curve?

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- A. The quantity that producers would like to sell annually.
- B. The quantity that producers are willing and able to sell at each income over the next year.
- C. The quantity that producers are willing and able to produce over the next year.
- D. The quantity that producers are willing and able to sell at each price annually.

Answer – D

30. CT7 April 2014 Question 5

If a maximum price for Good X is fixed above the market equilibrium price there will be:

- A. an excess supply of Good X.
- B. an excess demand for Good X.
- C. no tendency for the market price of Good X to change.
- D. an upward pressure on the price of Good X.

Answer – C

31. CT7 April 2014 Question 7

A maximum price is set for Good X at £30 which happens to coincide with the free market price. A downward shift in the supply of Good X keeping the maximum price fixed at £30 will lead to:

- A. no change in price and a surplus.
- B. no change in price and a shortage.
- C. a fall in price and a fall in the quantity sold.
- D. a fall in price and a rise in the quantity sold.

Answer – B or D

32. Subject CT7 April 2014 Question 13

If the own price elasticity of demand for Good X is -0.8 and the income elasticity of Good X is -0.3 , which of the following is correct?

- A. Demand for Good X is price elastic.
- B. A cut in the price of Good X will increase revenue for a firm producing Good X.
- C. Good X is a luxury good.
- D. Good X is an inferior good.

Answer – D

33. CT7 September 2014 Question 3

Which of the following will NOT cause a shift in the demand curve for Good X?

- A. A change in the price of Good X.
- B. A change in the price of other goods.
- C. A change in consumer incomes.
- D. A change in consumer tastes.

Answer – A

34. CT7 September 2014 Question 4

What is the combined effect of an increase in the cost of production and a rise in consumer income on the

equilibrium price and quantity of an inferior good?

- A. The effect on price is indeterminate but quantity will fall.
- B. The effect on price is indeterminate but quantity will rise.
- C. The effect on quantity is indeterminate but price will rise.
- D. The effect on quantity is indeterminate but price will fall.

Answer – A

35. CT7 September 2014 Question 5

Consumer X has a higher income than Consumer Y but they have identical preferences and pay the same prices for the goods which they consume. If they both maximise utility then:

- A. The marginal utility from each good consumed will be higher for X than for Y and X will have a higher total utility.
- B. The marginal utility from each good consumed will be higher for X than for Y and X will have a lower total utility.
- C. The marginal utility from each good consumed will be lower for X than for Y and X will have a higher total utility.
- D. The marginal utility from each good consumed will be lower for X than for Y and X will have a lower total utility.

Answer – C

36. CT7 April 2015 Question 2

Good X is an inferior good. A rise in consumer income when the supply curve for Good X is positively sloped will cause which one of the following?

- A. The demand for Good X to fall and the price of Good X to fall.
- B. The demand for Good X to fall and the price of Good X to rise.
- C. The demand for Good X to rise and the price of Good X to fall.
- D. The demand for Good X to rise and the price of Good X to rise.

Answer – A

37. CT7 April 2015 Question 3

What is the combined effect of a decrease in the cost of production and a rise in consumer income on the equilibrium price and quantity of a normal good?

- A. The effect on price is indeterminate but quantity will fall.
- B. The effect on price is indeterminate but quantity will rise.
- C. The effect on quantity is indeterminate but price will rise.
- D. The effect on quantity is indeterminate but price will fall.

Answer – B

38. CT7 April 2015 Question 5

If the income elasticity of demand for Good X is 2, a rise in all consumers' disposable incomes from £50 million to £52 million will increase the quantity demanded of Good X by:

- A. 2%.
- B. 4%.

C. 6%.

D. 8%.

Answer – D

39. CT7 April 2015 Question 12

A necessary condition for a firm being able to engage in price discrimination is that:

- A. it faces a perfectly elastic demand curve.
- B. consumers of its product are willing and able to resell their purchase.
- C. it faces a downward sloping demand curve.
- D. it is a price taker.

Answer – C

40. CT7 October 2015 Question 4

If public transport is an inferior good, which of the following will cause its demand curve to shift to the left?

- A. a rise in the price of cars
- B. an increase in the price of petrol
- C. an increase in consumers' incomes
- D. an increase in the price charged to use public transport

Answer – C

41. CT7 October 2015 Question 5

Consumer A has a higher income than Consumer B but they have identical preferences and pay the same prices for the goods which they consume. If they both maximise utility then the marginal utility from each good consumed will be:

- A. higher for A than for B and A will have a higher total utility.
- B. higher for A than for B and A will have a lower total utility.
- C. lower for A than for B and A will have a higher total utility
- D. lower for A than for B and A will have a lower total utility.

Answer – C

42. CT7 October 2015 Question 23

Which of the following would cause the demand for money curve to shift inwards to the left?

- A. an increase in prices
- B. a decrease in the rate of interest
- C. an increase in real Gross Domestic Product
- D. an increase in the frequency of payments to individuals

Answer – D

43. CT7 April 2016 Q1

Which of the following statements explains how price, demand and supply for a good respond to an increase in the price of a substitute good?

- A. Price rises, quantity demanded falls and quantity supplied rises.

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- B. Price rises, quantity demanded falls and quantity supplied falls.
- C. Price falls, quantity demanded rises and quantity supplied falls.
- D. Price rises, quantity demanded rises and quantity supplied rises.

Answer – D

44. CT7 April 2016 Question 2

If the demand for Good X increases (due to a rise in income of consumers) and the supply of Good X increases (due to increased worker productivity) then the equilibrium price of Good X:

- A. will fall and the equilibrium quantity may rise or fall.
- B. will fall and the equilibrium quantity will rise.
- C. may rise or fall or remain the same and the equilibrium quantity will fall.
- D. may rise or fall or remain the same and the equilibrium quantity will rise.

Answer – D

45. CT7 April 2016 Question 3

If an 8% rise in the price of Good X results in a 4% fall in the quantity of Good X demanded then the approximate price elasticity of demand for Good X is:

- A. -12
- B. -0.5
- C. -2
- D. -4

Answer – B

46. CT7 April 2016 Question 5

Which one of the following statements concerning advertising is FALSE?

- A. Advertising is intended to shift the demand curve for a firm's product upwards to the right.
- B. Advertising is intended to make the demand for a firm's product more price elastic.
- C. A potential feature of a successful advertising campaign is that it increases a firm's total revenue by more than it increases the firm's total costs.
- D. Advertising can enable a firm to gain economies of scale.

Answer – B

47. CT7 April 2017 Question 5

A firm's decision to reduce its expenditure on advertising is most likely to have the following impact on its demand curve:

- A. The curve will shift to the left and become less elastic.
- B. The curve will shift to the right and become less elastic.
- C. The curve will shift to the left and become more elastic.
- D. The curve will shift to the right and become more elastic.

Answer – C

48. CT7 October 2017 Question 4

Good X has a cross elasticity of demand with respect to Good Y which is equal to minus unity (i.e. -1). Good X

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is which of the following with respect to Good Y?

- A. a perfect substitute
- B. an imperfect substitute
- C. a perfect complement
- D. an imperfect complement

Answer – D

49. CT7 October 2017 Question 5

Which of the following is NOT a characteristic of an inferior good?

- A. The income elasticity of demand is negative.
- B. The income elasticity of demand is between zero and one.
- C. The demand for the good increases as income falls.
- D. The demand will rise if its price falls.

Answer – B

50. CT7 October 2017 Question 7

Which of the following is NOT a motive for advertising by an existing firm in an industry?

- A. to make the demand for the product more price elastic
- B. to shift the demand for the firm's product to the right
- C. to increase barriers to entry
- D. to increase sales and so help the firm exploit economies of scale

Answer – A

Longer questions:

1. CT7 April 2010 Question 27

- (a) Describe THREE factors which could cause an upward shift in the supply curve for a product.
- (b) Provide an example in each case.

2. CT7 April 2010 Question 28

The demand for Good X is 300 units when its price is £4. Assume that as a result of a price fall, the demand for the good increases to 400 units and the sales revenue falls by £400.

- (i) (a) Calculate the price of Good X after the fall.
- (b) Calculate the price elasticity of demand with respect to the fall in its price.
- (ii) State whether elasticity will change with a downward movement along a linear demand curve.

Assume that the cross-price elasticity of demand for Good Y which is a complement to Good X is -1.5. Calculate the proportionate change in the demand for Good Y as a result of the fall in price of Good X.

3. CT7 April 2011 Question 29

Explain each of the following:

- i. The law of diminishing marginal returns.
- ii. Diseconomies of scale.

4. CT7 September 2011 Question 28

Draw the following curves on four separate diagrams, with price on the vertical axis and quantity on the horizontal axis.

- (i) A demand curve with price elasticity of -1 throughout its entire length.
- (ii) A demand curve with price elasticity of zero throughout its entire length.
- (iii) A demand curve for a good with no substitutes.
- (iv) A demand curve with infinite price elasticity throughout its entire length.

5. CT7 April 2012 Question 27

- (i) Explain with the use of an appropriate formula the term cross price elasticity of Good X and Good Y
- (ii) The demand for Good X is 260 units per year when price is £2.50 per unit.
 - (a) If the price of Good X falls to £2.00 per unit and demand for Good X increases to 300 units per year, calculate the own price elasticity of demand for Good X.
 - (b) If consumer income increases from £23,000 to £26,000 per year and demand for Good X rises to 320 units per year, calculate the income elasticity of demand for Good X.

6. CT7 September 2012 Question 30

Outline with the use of a diagram why essentials, such as water, have such low prices, whilst luxuries, such as diamonds, have relatively high prices.

7. CT7 September 2012 Question 31

The market demand curve (Q_d) and supply curve (Q_s) of Good X are given by the following equations:

$$Q_d = 120 - 2P, \quad Q_s = 2P$$

where P is the price in pounds.

- (i) Calculate the market equilibrium price and quantity.
- (ii) Calculate the market equilibrium price and quantity if a sales tax of £10 per unit is imposed on Good X.

8. CT7 September 2013 Question 32

- (i) Discuss, with the use of examples, two factors that influence the price elasticity of demand for a good.
- (ii) Demonstrate, with the use of two separate diagrams, the effect of an increase in labour productivity on the price and quantity traded when demand is:
 - (a) elastic.
 - (b) inelastic.

9. CT7 September 2014 Q28

Explain how changes in income and consumer expectations of future laptop prices affect the demand for laptops and the price and quantity of laptops traded

10. CT7 September 2014 Question 35

The table below shows the marginal utility a person derives from consuming different quantities of Good X in terms of £s. Assume that Good X sells for £10.

<i>Quantity Consumed</i>	0	1	2	3
<i>Marginal Utility (£s)</i>	25	20	16	12

- State the person's total utility from consuming 3 units.
- State the person's total expenditure from consuming 5 units.
- State the person's marginal consumer surplus from consuming a 4th unit.
- State the person's total consumer surplus from consuming 2 units.
- State the level of consumption at which total consumer surplus is maximised.
- State the general rule for maximising total consumer surplus.

11. CT7 April 2015 Question 27

Outline the factors that affect the demand for shares.

12. CT7 April 2015 Question 28

Explain three factors that would cause the market demand curve for sports cars to shift to the right.

13. CT7 April 2015 Question 29

Outline the factors that affect the supply of oil.

14. CT7 October 2015 Question 28

Explain why firms would prefer consumer demand to be inelastic, rather than elastic, following an increase in price.

15. CT7 October 2017 Question 28

Explain the factors that are likely to influence house prices.

16. CT7 October 2017 Question 30

Explain the reasons why the utility you gain from a refrigerator is uncertain.

17. CT7 April 2018 Question 27

Draw a diagram for each of (i) to (iv), to illustrate the impact of the change on the quantity of a Good X demanded and supplied. Good X is a normal good. Each change should be considered in isolation.

- a fall in the price of a complementary good
- a government tax on the production of Good X
- a fall in consumers' incomes
- a rise in labour productivity in the industry that produces Good X

You should label the demand curve as D_1 , the supply curve as S_1 and price and quantity as P_1 and Q_1 respectively, when illustrating the position before the introduction of the change. You should label any new supply and demand curves as S_2 and D_2 respectively and the new price and quantity as P_2 and Q_2 .

18. CT7 April 2018 Question 29

The table below shows two points on the demand curve for Good X.

	Point 1	Point 2
Quantity demanded of Good X	250	300
Price of Good X	50	45

- (i) Calculate the own price elasticity of demand to two decimal places using the average formula.

The table below shows two points on the supply curve for Good X.

	Point 3	Point 4
Quantity supplied of Good X	100	110
Price of Good X	60	65

- (ii) Calculate the own price elasticity of supply to two decimal places using the average formula.

The table below shows how demand for Good X changes in response to a rise in consumers' income.

	Point 5	Point 6
Quantity demanded of Good X	250	280
Consumers' income	50	70

- (iii) (a) Calculate the income elasticity of demand to two decimal places using the average formula.

- (b) State if the good is a normal or inferior good.

The table below shows how demand for Good X changes in response to a change in the price of Good Y.

	Point 7	Point 8
Quantity demanded of Good X	250	220
Price of Good Y	60	65

- (iv) (a) Calculate the cross price elasticity of demand for Good X with respect to the price of Good Y to two decimal places using the average formula.

- (b) State if Good X and Good Y are substitutes or complements.

19. CT7 September 2018 Question 28

Explain the reasons why the demand curve is downward sloping using a food item as an example.

20. CT7 September 2018 Question 30

Describe how diminishing marginal returns may arise within a restaurant

21. CB2 April 2019 Q29

- (i) Explain the difference between the law of diminishing returns and the law of diminishing marginal utility.
- (ii) Draw a marginal product curve for Good X that you would expect from the laws of diminishing returns (assume initially there is some increasing returns). Clearly indicate on the curve a region of negative marginal product and label your axes carefully.
- (iii) Draw a marginal utility curve for Good X that you would expect from the law of diminishing marginal utility. Indicate on the curve a region of negative marginal utility and label your axes carefully.

22. CB2 September 2019 Q27

- (i) State, with the use of an example related to travelling to work, the difference between normal and inferior goods.

The cross-price elasticity of two goods is negative and very large.

- (ii) (a) Explain what the statement above implies.
- (b) Give two examples, associated with food products, which would fit this description.

23. CB2 September 2019 Q28

- (i) Explain why a rational consumer may choose to hire a private taxi rather than travel by bus, given that hiring a private taxi is likely to cost more than taking a bus.
- (ii) Draw a marginal utility curve and show the total utility, consumer surplus and total expenditure derived from travelling by private taxi.

24. CB2 April 2020 Q29

- (i) Calculate the price elasticity of supply when the price of a product increases from £5 to £8 and the quantity supplied increases from 200 units to 400 units.
- (ii) Describe three factors that would alter the elasticity of supply in an industry

25. CB2 September 2020 Q28

Describe using examples the impact of government intervention in the market by imposing price ceilings and price floors.

26. CB2 April 2021 Q27

- (i) Explain how advertising can prove to be a useful mechanism for a firm producing laptop computers to increase its profits both in the short run and the long run.
- (ii) State how much advertising expenditure would be optimal for a profit maximising laptop computer producing firm to spend.

27. CB2 April 2021 Q28

Hotel A and Hotel B are profit maximisers with the same weekly fixed costs. During the peak summer season they are both open. However, in the off-peak winter season, Hotel A remains open while Hotel B decides to close even though they both make a loss during the winter season.

- (i) Explain the most likely reason why Hotel A remains open and Hotel B closes during the winter season by referring to their possible cost structures.

(ii) Explain whether Hotels A and B will set their room prices in the region where their demand curves are price elastic or price inelastic making clear your reasoning.

28. CB2 April 2021 Q29

You are given the following data for Good X:

<i>Price of Good X (\$)</i>	<i>Demand for Good X</i>
18	1
16	2
14	3
12	4
10	5
8	6
6	7

- (i) Calculate the point price elasticity of demand at the price of \$16.
- (ii) State the price range over which the price elasticity of demand is equal to or less than one (in absolute value).
- (iii) Calculate the arc price elasticity of demand for a price rise from \$8 to \$12.

A 4% price rise for Good Y leads to a fall in demand for Good X of 2%.

- (iv) State whether Good X and Good Y are complementary or substitute goods.
- (v) Calculate the cross elasticity of demand for Good X with respect to Good Y.

29. CB2 September 2021 Q29

Describe how consumers may exhibit speculative behaviour with their purchasing patterns in the event of a shortage in the food market and the impact this has on suppliers and society, with reference to an example.

30. CB2 April 2022 Q27

Assess the importance of price elasticity of demand when a government is considering whether to add a unit tax to chocolate bars to generate government revenue.

31. CB2 September 2022 Q28

The marginal utility for an individual is measured as the maximum amount (in US dollars) that they are willing to pay for consuming a unit of Good A.

The table below shows the marginal utility for consuming various units of Good A priced at \$8 per unit.

Quantity consumed	0	1	2	3	4	5	6
Marginal utility (\$)		25	20	14	10	6	4

- (i) Calculate the individual's total utility from consuming four units of Good A.
- (ii) Calculate the individual's total expenditure from consuming five units of Good A.
- (iii) Calculate the individual's marginal consumer surplus from consuming a third unit of Good A.
- (iv) Calculate the individual's total consumer surplus from consuming two units of Good A.
- (v) Calculate the level of consumption at which total consumer surplus is maximised.



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