Answer Key

Chapter 4

Section 3

Reading Study Guide

1. Elasticity of demand is a measure of how responsive consumers are to price changes
2. Demand is elastic when a price change leads to a relatively larger change in quantity demanded. Examples of products with elastic demand include PDAs.
3. An elastic demand curve has a gradual slope.
4. Demand is inelastic when a price change leads to a relatively smaller change in quantity demanded. Examples of products with elastic demand include insulin.
5. The slope of an inelastic demand curve is steep.
6. Demand is unit elastic when a price change leads to a similar change in demand. The slope of a unit elastic demand curve is a 45-degree angle, neither steep nor gradual.

Mark It Up!

7. Student notes should include highlighting or underlining of the steps for calculating elasticity of demand. The header in the second column should be labeled "Percentage change in quantity demanded"; the header in the third column should be labeled "Percentage change in price".
8. The demand curve for table salt would have a steeper slope than the demand curve for men's suits because the demand for table salt is inelastic.
9. These should be filled in on the chart: Last column for deli sandwiches—elastic; last column for child carseat—inelastic; elasticity for camera—60% / 20% = 3; last column for camera—elastic. Deli sandwiches and cameras have elastic demand because both are luxuries; there are many possible substitutes for deli sandwiches; in addition, the camera takes a large proportion of income for most people.
10. Table salt has an inelastic demand because it is almost a necessity and there are few substitutes, and because for most people, its cost is a small proportion of income. Child carseats have an inelastic demand because they are necessities for which there are few substitutes, and because for people who can afford to drive their cost is affordable.

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