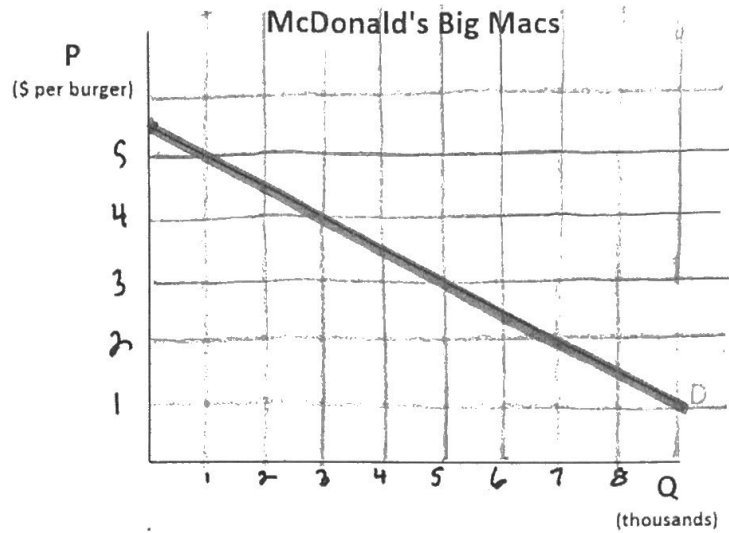


9.47 Practice- Elasticity of Big Macs



1) Just by eyeballing the graph above how would you describe the elasticity of Big Macs? Why?

Relatively Elastic

2) Choose a price point on the graph where the PED for Big Macs is elastic. Use the PED formula to prove that the Price Elasticity of Demand is elastic at this point.

$$\frac{\frac{1-3}{3}}{\frac{5-4}{4}} = \frac{-\frac{2}{3}}{\frac{1}{4}} = 2.67$$

Price is Elastic @ \$4

3) Choose a price point on the graph where the PED for Big Macs is inelastic. Use the PED formula to prove that the Price Elasticity of Demand is inelastic at this point.

$$\frac{\frac{7-9}{9}}{\frac{2-1}{1}} = \frac{-\frac{2}{9}}{1} = 1.22$$

Price is inelastic @ \$7

4) What is the total revenue at each price point?

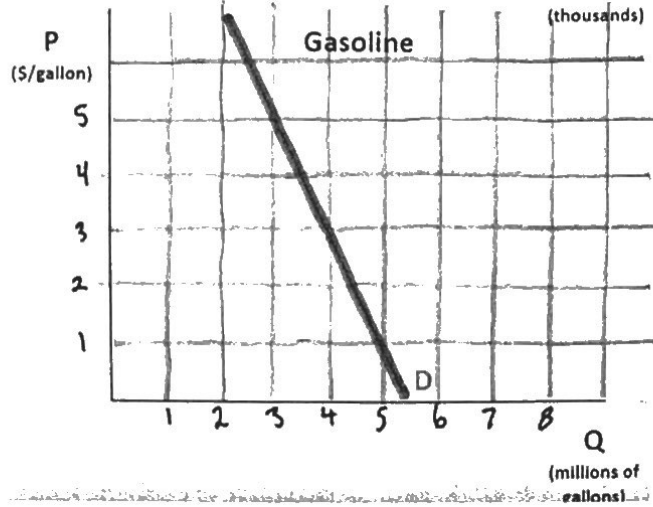
	Total Revenue:	Elastic, Inelastic, or Unit Elastic:
TR @ \$1 per Big Mac	\$9	Inelastic
TR @ \$2 per Big Mac	\$14	Inelastic
TR @ \$3 per Big Mac	\$15	Elastic
TR @ \$4 per Big Mac	\$12	Elastic
TR @ \$5 per Big Mac	\$5	Elastic

5) All other things equal, at what price point should McDonalds choose to sell Big Macs? Justify your answer by discussing elasticity as well as the Total Revenues Test.

Just under \$3.00

9.47 Practice- Elasticity of Gasoline

Answer sheet



1) Just by eyeballing the graph above, how would you describe the elasticity of Gasoline? Why?

Relatively Inelastic

2) At a cost of \$2 per gallon, what is the Price Elasticity of Demand for Gasoline? Show your work.

$$\frac{\frac{4-4.5}{4.5}}{\frac{3-2}{2}} = \frac{\frac{-0.5}{4.5}}{0.5} = \frac{0.11}{0.5} = \boxed{-0.22}$$

3) At a cost of \$4 per gallon, what is the Price Elasticity of Demand for Gasoline? Show your work.

$$\frac{\frac{3-3.5}{3.5}}{\frac{5-4}{4}} = \frac{\frac{-0.5}{3.5}}{0.25} = \frac{0.14}{0.25} = \boxed{-0.57}$$

4) What is the total revenue for gasoline at each price point given?

	Total Revenue:	Elastic, Inelastic, or Unit Elastic:
TR @ \$1 per gallon:	\$5	I
TR @ \$2 per gallon:	\$9	I
TR @ \$3 per gallon:	\$12	I
TR @ \$4 per gallon:	\$14	I
TR @ \$5 per gallon:	\$15	I
TR @ \$6 per gallon:	\$15	E
TR @ \$7 per gallon:	\$14	E

5) At what price should this gas station sell its gasoline? Why?

\$5-6