Elasticities of Demand and Supply Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

Table of Contents

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here’s how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don’t just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There’s no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. On a straight-line downward-sloping demand curve, moving toward the vertical intercept causes elasticity to

A. Decrease

B. Stay the same

C. Become zero

D. Increase

2. A horizontal supply curve indicates an elasticity of supply that equals

A. infinity

B. 0

C. 1

D. -1

3. An increase in subway fares in New York City will boost your expenditures on subway rides if

A. The supply of subway rides is elastic.

B. The supply of subway rides is inelastic.

C. Your demand for subway rides is inelastic.

D. Your demand for subway rides is elastic.

4. A negative cross elasticity of demand between two goods indicates they are

A. complements.

B. substitutes.

C. unrelated.

D. identical.

5. When the price elasticity of demand is less than 1 in absolute value, demand is considered:

A. Perfectly elastic

B. Inelastic

C. Unit elastic

D. Elastic

6. Producers' total revenue will decrease if price rises and demand is elastic.

A. The price rises and demand is inelastic.

B. Income increases and the good is a normal good.

C. The price rises and demand is elastic.

D. Income falls and the good is an inferior good.

7. In a given schedule, the price elasticity of demand is larger at point D than at point A.

A. The price elasticity of demand is larger at point A than at point B.

B. The price elasticity of demand is constant because the slope is constant.

C. The price elasticity of demand increases moving from point A to point B to point C to point D to point E.

D. The price elasticity of demand is larger at point D than at point A.

8. A product is likely to have a price elasticity of demand greater than 1 when which condition holds?

A. Its price falls.

B. It is a necessity.

C. It has close substitutes.

D. The percentage of income spent on it decreases.

9. If the quantity axis for coal is changed from pounds to kilograms, the price elasticity of demand for coal becomes

A. More elastic

B. Neither more nor less elastic

C. Less elastic

D. Undefined

10. A product with infinite elasticity has a horizontal demand curve.

A. Vertical

B. Horizontal

C. Upward-sloping

D. Downward-sloping

Answers

1. D
2. A
3. C
4. A
5. B
6. C
7. D
8. C
9. B
10. B

Explanations

1. On a straight-line downward-sloping demand curve, moving toward the vertical intercept causes elasticity to

A. Decrease

B. Stay the same

C. Become zero

D. Increase

Elasticity of demand measures how much quantity demanded responds to a price change. On a straight-line downward-sloping demand curve, the slope is constant, but elasticity varies along the curve because elasticity depends on the ratio of price to quantity (ε = (P/Q) · dQ/dP). For a linear demand, as you move toward the vertical intercept, price rises while quantity falls toward zero, so the ratio P/Q grows. That makes the elasticity magnitude larger, so demand becomes more elastic. Near the intercept, a small price change causes a large percentage change in quantity; near the origin, price is low and quantity is high, giving a small elasticity. Therefore, elasticity increases as you move toward the vertical intercept.

2. A horizontal supply curve indicates an elasticity of supply that equals

A. infinity

B. 0

C. 1

D. -1

Elasticity of supply measures how much quantity supplied responds to price changes. A horizontal supply curve shows perfectly elastic supply: at the given price, producers are willing to supply any amount. Because even a tiny change in price would induce a very large (theoretically unlimited) change in quantity, the elasticity of supply is infinite. The other values correspond to different, incompatible cases—zero elasticity would come from a vertical curve where quantity doesn't respond to price, unit elasticity from a specific proportional response, and a negative value isn't typical for the usual upward-sloping supply relation.

3. An increase in subway fares in New York City will boost your expenditures on subway rides if

A. The supply of subway rides is elastic.

B. The supply of subway rides is inelastic.

C. Your demand for subway rides is inelastic.

D. Your demand for subway rides is elastic.

Total spending on a good in response to a price increase depends on your demand elasticity. If subway fares rise and your demand is inelastic, you don't reduce your rides by much, so the higher price times almost the same quantity leads to higher total spending. If your demand were elastic, you'd cut back a lot on rides, and total spending could fall or barely rise. The elasticity of supply isn't the deciding factor for a single consumer's expenditures here; it describes how easily suppliers can adjust quantity, not how a consumer's purchases respond to a price change. So inelastic demand best explains why expenditures would rise with a fare increase.

4. A negative cross elasticity of demand between two goods indicates they are

A. complements.

B. substitutes.

C. unrelated.

D. identical.

A negative cross elasticity of demand means the two goods are complements. This sign shows that when the price of one good rises, the quantity demanded of the other falls as well, because they are typically used together. For example, when the price of printers rises, fewer people buy printers and, consequently, fewer ink cartridges are demanded, illustrating the complementary relationship. If the cross elasticity were positive, the goods would be substitutes—an increase in the price of one would raise the demand for the other as consumers switch to the cheaper alternative. If the cross elasticity were zero, the goods would be unrelated, showing little or no reaction in the quantity demanded of one when the price of the other changes. Identical or perfectly substitutable goods aren't described with a negative cross elasticity in practice; the relationship would be either very strong and positive or not meaningful in terms of cross price effects.

5. When the price elasticity of demand is less than 1 in absolute value, demand is considered:

A. Perfectly elastic

B. Inelastic

C. Unit elastic

D. Elastic

Elasticity of demand measures how sensitive the quantity demanded is to a change in price. When the absolute value of that elasticity is less than 1, demand is inelastic: the percentage change in quantity demanded is smaller than the percentage change in price. In practical terms, buyers respond only a little to price moves. This means total revenue tends to move in the same direction as the price: if the price goes up, revenue usually rises because the drop in quantity isn't large enough to offset the higher price. For example, a 10% price rise might cause only a 5% drop in quantity demanded, giving an elasticity of -0.5. Since |PED| < 1, demand is inelastic. This is different from a unit elastic case, where the percentage change in quantity equals the percentage change in price (PED = 1), and from an elastic case, where quantity responds strongly (|PED| > 1). It's not the case of perfectly elastic demand, which would imply an infinite response to price changes.

6. Producers' total revenue will decrease if price rises and demand is elastic.

A. The price rises and demand is inelastic.

B. Income increases and the good is a normal good.

C. The price rises and demand is elastic.

D. Income falls and the good is an inferior good.

Total revenue depends on both price and the quantity sold, and elasticity tells how responsive quantity is to price changes. When demand is elastic (the percentage drop in quantity demanded is larger than the percentage rise in price), a price increase leads to a proportionally larger fall in quantity than the rise in price, so total revenue falls. For example, if price rises by 10% and demand is elastic with elasticity around 2, quantity falls about 20%, making revenue drop (10% price increase vs 20% drop in quantity). In contrast, if demand were inelastic, the quantity would fall less than the price rises, boosting revenue. The other options involve income effects or normal/inferior goods, which don't directly explain why revenue would fall when price goes up and demand is elastic. This is why the best fit is the price rises and demand is elastic.

7. In a given schedule, the price elasticity of demand is larger at point D than at point A.

A. The price elasticity of demand is larger at point A than at point B.

B. The price elasticity of demand is constant because the slope is constant.

C. The price elasticity of demand increases moving from point A to point B to point C to point D to point E.

D. The price elasticity of demand is larger at point D than at point A.

Price elasticity of demand measures how responsive quantity demanded is to a price change, and it can vary along a downward-sloping demand curve even if the slope is constant. The formula e = (dQ/dP) × (P/Q shows why: the slope dQ/dP is constant for a straight-line demand, but elasticity depends on the ratio of price to quantity. As you move to a point with a higher price and lower quantity, P/Q grows in magnitude, making elasticity larger. If point D sits at a higher price and lower quantity than point A, the ratio P/Q is larger at D, so the magnitude of elasticity is greater there. That's why the statement that elasticity is larger at point D than at point A is the correct description. The other options either assume elasticity is constant (which isn't true for a downward-sloping demand, even with a constant slope) or make a broad claim about elasticity increasing along the entire path without knowing the relative positions, which isn't guaranteed.

8. A product is likely to have a price elasticity of demand greater than 1 when which condition holds?

A. Its price falls.

B. It is a necessity.

C. It has close substitutes.

D. The percentage of income spent on it decreases.

Price elasticity of demand measures how much quantity demanded responds to a price change. An elasticity greater than one means the quantity demanded changes by a larger percentage than the price does. Having close substitutes makes a product highly responsive: if the price rises, consumers can switch to an alternative easily, leading to a fairly large drop in quantity demanded. That larger response is what pushes the elasticity above one. When a product is a necessity, there are fewer good substitutes, so people still need to buy it even if the price rises, which keeps the response smaller and elasticity below one. If a product takes up only a small share of income, price changes feel less significant to consumers, also reducing responsiveness and elasticity. And while a price drop can increase quantity demanded, the size of that increase depends on substitution options; the crucial factor for a high elasticity is the presence of close substitutes that enable easy switching. Therefore, the presence of close substitutes is the best indicator of a price elasticity of demand greater than one.

9. If the quantity axis for coal is changed from pounds to kilograms, the price elasticity of demand for coal becomes

A. More elastic

B. Neither more nor less elastic

C. Less elastic

D. Undefined

Price elasticity of demand is the ratio of the percentage change in quantity demanded to the percentage change in price. This measure depends on relative, not absolute, changes, so changing the units used for quantity doesn't alter it. If you switch from pounds to kilograms, every quantity value is scaled by a constant factor, so ΔQ and Q both get scaled by the same factor. That makes (ΔQ/Q) unchanged. The price change term remains the same in percentage terms as long as price is measured consistently with the quantity unit. Because the two percent changes stay the same, the elasticity itself does not change. So the elasticity is neither more nor less elastic.

10. A product with infinite elasticity has a horizontal demand curve.

A. Vertical

B. Horizontal

C. Upward-sloping

D. Downward-sloping

Perfectly elastic demand means consumers are infinitely responsive to price changes. At the given price, buyers will purchase as much as they want, but they will not pay even a tiny bit more. Graphically, that infinite responsiveness shows up as a horizontal demand curve: the price is fixed across all quantities demanded at that level. If the price rises even slightly, demand collapses; if it falls, quantity demanded can increase dramatically while the price remains the same. This is why a product with infinite elasticity is represented by a horizontal curve. The vertical curve would imply zero elasticity (quantity doesn't change with price), and a typical downward-sloping curve indicates finite elasticity. An upward-sloping curve would imply unusual, nonstandard behavior.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://elasticitiesofdemandsupply.examzify.com

We wish you the very best on your exam journey. You've got this!