

ELASTICITIES OF DEMAND AND SUPPLY PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

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THE FULL VERSION STUDY GUIDE**

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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

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- 1. The price elasticity of demand for a straight-line demand curve is:**
 - A. lower at higher prices.
 - B. higher at higher prices.
 - C. 1 at all prices.
 - D. the same at all prices but not 1.
- 2. If the price elasticity of demand equals 1, as its price rises, total revenue will**
 - A. total revenue increases.
 - B. quantity demanded does not change.
 - C. total revenue does not change.
 - D. quantity demanded increases.
- 3. If an increase in the price of Good B leads to an increase in the demand for Good A, A and B are**
 - A. Substitutes
 - B. Complements
 - C. Normal
 - D. Inferior
- 4. A perfectly elastic supply curve has elasticity of supply equal to**
 - A. Perfectly inelastic
 - B. Unit elastic
 - C. Perfectly elastic
 - D. Relatively elastic
- 5. If the price falls from \$8 to \$6 on a linear demand curve, total revenue will**
 - A. Remain constant
 - B. Decrease
 - C. Increase
 - D. Fluctuate

6. If a 10 percent decrease in price raises quantity demanded by 20 percent, the price elasticity of demand is:
- A. 10.0
 - B. 2.0
 - C. 0.5
 - D. 20.0
7. The cross elasticity of demand between apples and oranges is defined as:
- A. the price elasticity of demand for apples divided by the price elasticity of demand for oranges.
 - B. the change in the quantity of apples demanded divided by the change in the quantity of oranges demanded.
 - C. the percentage change in the quantity of apples demanded divided by the percentage change in the price of oranges.
 - D. the percentage change in the price of oranges divided by the percentage change in the quantity of apples demanded.
8. If the price increases and total revenue falls, the demand for the good is
- A. elastic.
 - B. unit elastic.
 - C. perfectly elastic.
 - D. inelastic.
9. If average incomes rise and the quantity demanded for widgets increases, widgets are
- A. Giffen good
 - B. Normal good
 - C. Luxury good
 - D. Inferior
10. The elasticity of demand for Gateway computers is probably:
- A. elastic and smaller than the elasticity of demand for computers overall.
 - B. inelastic and smaller than the elasticity of demand for computers overall.
 - C. inelastic but larger than the elasticity of demand for computers overall.
 - D. elastic and larger than the elasticity of demand for computers overall.

Answers

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

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Explanations

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1. The price elasticity of demand for a straight-line demand curve is:

- A. lower at higher prices.
- B. higher at higher prices.**
- C. 1 at all prices.
- D. the same at all prices but not 1.

On a straight-line demand curve, the price elasticity of demand is not the same everywhere along the curve. It changes with price and quantity because elasticity depends on the ratio P to Q . For a linear demand like $Q = a - bP$, the elasticity in magnitude is $|E| = |dQ/dP| \times (P/Q) = b \times P/(a - bP)$. As price rises, quantity falls, so the denominator $(a - bP)$ shrinks while the numerator P grows. This makes the fraction $P/(a - bP)$ increase, and thus $|E|$ increases. Near the price where quantity nears zero, elasticity becomes very large; at the midpoint of the line, elasticity equals 1; at lower prices, elasticity is less than 1. So elasticity is higher at higher prices.

2. If the price elasticity of demand equals 1, as its price rises, total revenue will

- A. total revenue increases.
- B. quantity demanded does not change.
- C. total revenue does not change.**
- D. quantity demanded increases.

Unit elastic demand means the percentage change in quantity demanded exactly offsets the percentage change in price. With elasticities around -1, raising the price tends to cut the quantity sold by a similar percentage, so the product $P \times Q$ (total revenue) stays basically the same. Mathematically, if $E_d = (\% \Delta Q)/(\% \Delta P) = -1$, then $\% \Delta Q = -\% \Delta P$. Since total revenue is $TR = P \times Q$, the approximate change in TR for a small price move is $\% \Delta TR \approx \% \Delta P + \% \Delta Q = \% \Delta P + (-\% \Delta P) = 0$. So total revenue does not change for small price changes. That's why the best answer is that total revenue does not change. Quantity demanded does change when price changes, but the revenue impact cancels out under unit elasticity.

3. If an increase in the price of Good B leads to an increase in the demand for Good A, A and B are

- A. Substitutes**
- B. Complements
- C. Normal
- D. Inferior

This question tests the idea of substitutes in demand: two goods that can replace each other in consumption. When the price of one good rises, people switch to the other good, so demand for it increases. That positive response means the two goods are substitutes. For example, if coffee becomes more expensive, many buyers switch to tea, increasing tea's demand. If the goods were complements, a higher price for one would reduce the demand for the other because they're often used together, which would show a negative cross-price elasticity. The normal versus inferior distinction involves how demand changes with income, not with the price of a different good.

4. A perfectly elastic supply curve has elasticity of supply equal to

- A. Perfectly inelastic
- B. Unit elastic
- C. Perfectly elastic**
- D. Relatively elastic

Elasticity of supply measures how responsive quantity supplied is to price changes. A perfectly elastic supply means producers are willing to supply any amount at the prevailing price, and even a tiny change in price would lead to a huge (theoretically infinite) change in quantity. Graphically, that corresponds to a horizontal supply curve, and the elasticity value is infinite. That's why the appropriate label is perfectly elastic. The other terms describe different, finite responses: perfectly inelastic means no response (elasticity near 0), unit elastic means the percentage change in quantity equals the percentage change in price (elasticity = 1), and relatively elastic means a finite elasticity greater than 1.

5. If the price falls from \$8 to \$6 on a linear demand curve, total revenue will

- A. Remain constant
- B. Decrease
- C. Increase**
- D. Fluctuate

Total revenue depends on how price and quantity move together when you slide along a linear demand curve, since $TR = P \times Q(P)$. For a linear downward-sloping demand, $Q = a - bP$, so $TR = aP - bP^2$, a concave parabola in price with a maximum at $P = a/(2b)$. If you start at a price above that revenue-maximizing level and lower the price (from 8 to 6 in this case), you move toward the peak, and total revenue tends to rise because the increase in quantity sold more than offsets the lower price. For a concrete example, with $Q = 20 - 2P$, TR at $P = 8$ is 32, while at $P = 6$ it is 48, so revenue increases. However, if you started below the revenue-maximizing price, further price cuts could reduce TR. The scenario given aligns with TR increasing.

6. If a 10 percent decrease in price raises quantity demanded by 20 percent, the price elasticity of demand is:

- A. 10.0
- B. 2.0**
- C. 0.5
- D. 20.0

Price elasticity of demand measures how much quantity demanded responds to a price change. It is the percent change in quantity demanded divided by the percent change in price. In this case, price falls by 10% and quantity demanded rises by 20%. So the elasticity magnitude is $20\% / 10\% = 2$. Because the quantity moves in the opposite direction to the price, the elasticity would be negative if you include the sign; the option given uses the magnitude, which is 2.0. This also shows the demand is elastic ($|PED| > 1$): a 1% decrease in price would be expected to raise quantity demanded by about 2%.

7. The cross elasticity of demand between apples and oranges is defined as:

- A. the price elasticity of demand for apples divided by the price elasticity of demand for oranges.
- B. the change in the quantity of apples demanded divided by the change in the quantity of oranges demanded.
- C. the percentage change in the quantity of apples demanded divided by the percentage change in the price of oranges.**
- D. the percentage change in the price of oranges divided by the percentage change in the quantity of apples demanded.

Cross elasticity of demand shows how much the quantity demanded of one good responds to a price change in another good. It is defined as the percent change in the quantity demanded of the first good divided by the percent change in the price of the second good. For apples and oranges, you measure how much apples demanded changes when the price of oranges changes. If the result is positive, the goods are substitutes; if negative, they are complements; if zero, they are independent. The correct form uses the percent change in the quantity of apples demanded in the numerator and the percent change in the price of oranges in the denominator. The other forms mix up the variables or use changes in quantities rather than prices, which doesn't capture the reaction to a price move in the other good. For example, if apples demand rises 6% when the price of oranges rises 3%, the cross elasticity is 2, indicating a relatively strong substitution effect.

8. If the price increases and total revenue falls, the demand for the good is

- A. elastic.
- B. unit elastic.
- C. perfectly elastic.
- D. inelastic.**

When total revenue falls after a price increase, it means the quantity demanded drops by a larger percentage than the price rises. That is the hallmark of elastic demand (elasticity magnitude greater than 1). Because consumers are quite responsive to price changes, the bigger fall in quantity more than offsets the higher price, so revenue declines. If demand were inelastic, the quantity would not fall enough and revenue would rise with a price increase; if it were unit elastic, revenue would stay about the same. So the correct description is elastic demand.

9. If average incomes rise and the quantity demanded for widgets increases, widgets are

- A. Giffen good
- B. Normal good**
- C. Luxury good
- D. Inferior

This question tests how demand responds to changes in income through income elasticity of demand. A positive income elasticity means that when incomes rise, quantity demanded increases, which is the case for normal goods. Since average incomes rise and more widgets are demanded, widgets are a normal good. Giffen goods would require a special price-change scenario and typically involve an inferior effect driven by the income effect, not a direct income increase. An inferior good would see demand fall as income rises, which contradicts the observed increase. A luxury good is simply a normal good with income elasticity greater than one; the information given doesn't specify the magnitude of the response, only that demand increases, so the appropriate classification is normal.

10. The elasticity of demand for Gateway computers is probably:

- A. elastic and smaller than the elasticity of demand for computers overall.
- B. inelastic and smaller than the elasticity of demand for computers overall.
- C. inelastic but larger than the elasticity of demand for computers overall.
- D. elastic and larger than the elasticity of demand for computers overall.**

The idea being tested is how the price sensitivity of demand differs between a specific brand and the overall market. A brand like Gateway sits among many close substitutes from other computer brands. When price rises, many buyers can switch to Dell, HP, Apple, or others, so Gateway's quantity demanded responds strongly to price changes. That strong response means the brand's demand is elastic (absolute value of elasticity greater than 1). Because the broader computer market encompasses a wider set of substitutions and options, its price sensitivity tends to be less dramatic than that of a single brand, so Gateway's elasticity is likely larger than the market's. Therefore, Gateway computers' demand is elastic and larger than the elasticity of demand for computers overall.

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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!

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