# 2.7 Price Elasticity of Demand (PED)

## Question Paper

| | |
|---|---|
| Course | CIE IGCSE Economics |
| Section | 2. The Allocation of Resources |
| Topic | 2.7 Price Elasticity of Demand (PED) |
| Difficulty | Medium |

**Time allowed:** 10

**Score:** /8

**Percentage:** /100

## Question 1

How might the concept of price elasticity of demand (PED) be useful for a government?

A. to determine the effect on employment of a change in income tax

B. to determine the effect on government revenue of a rise in the rate of interest

C. to determine the effect of providing a public good

D. to determine the result of imposing a tariff on imports

**[1 mark]**

## Question 2

A mobile (cell) phone operator increases the price of making calls on its network. After the price increase, the revenue of the mobile phone operator falls by 10%.
What is the price elasticity of demand (PED) for the mobile operator's service?

A. elastic

B. inelastic

C. perfectly elastic

D. unit elastic

**[1 mark]**

## Question 3

A railway company increases ticket prices by 10% for travel between 06:00 and 09:00, causing a reduction in demand by 2%. After 09:00 it reduces ticket prices by 5%, resulting in a 7% increase in demand.

What is the price elasticity of demand in response to these price changes?

| | between 06:00 and 09:00 | after 09:00 |
|---|---|---|
| **A** | elastic | elastic |
| **B** | elastic | inelastic |
| **C** | inelastic | elastic |
| **D** | inelastic | inelastic |

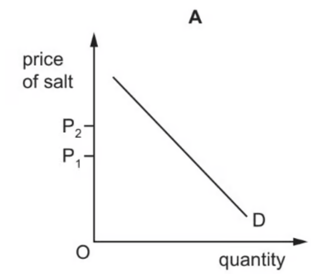
**[1 mark]**

## Question 4

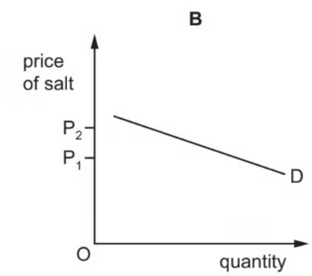
In an African country with large areas of tropical desert the price elasticity of demand for salt is highly inelastic. This will result in greater consumer expenditure on salt when price changes from $P_1$ to $P_2$.

Which diagram illustrates this situation?

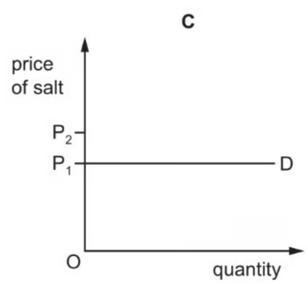
A.



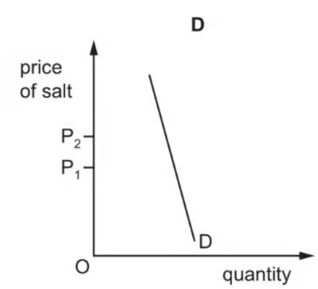

B.




C.




D.




**[1 mark]**

## Question 5

Price elasticity of demand (PED) measures the responsiveness of demand to a change in price. It can differ for different goods.

For which good is the PED **most** elastic according to the table?

| | good | percentage change in quantity demanded | percentage change in price |
|---|---|---|---|
| **A** | butter | 6.0 | 5.0 |
| **B** | cars | 5.5 | 5.0 |
| **C** | furniture | 5.0 | 5.0 |
| **D** | petrol | 3.0 | 5.0 |

**[1 mark]**

## Question 6

A product has a price elasticity of demand of – 0.5.

What happens to the demand for a product if its price falls from $1 to $0.80?

A. It decreases by 10%.

B. It decreases by 20%.

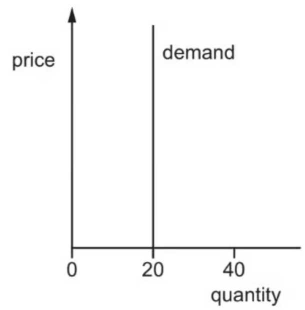
C. It increases by 10%.

D. It increases by 20%.

**[1 mark]**

## Question 7

What can be concluded from the demand curve for the product shown in the diagram?




A. Price increases will raise the producers' revenue.

B. Producers are unable to respond to a price rise.

C. The product is one with many substitutes.

D. There are 20 people able to buy the product.

**[1 mark]**

## Question 8

The table shows the demand and supply for spices in a market in Africa.

| price per kg (US$) | quantity demanded (kg) | quantity supplied (kg) |
|---|---|---|
| 10 | 50 | 10 |
| 20 | 40 | 20 |
| 30 | 30 | 30 |
| 40 | 20 | 40 |

When the price rises from US$20 to US$30 per kg, what is the price elasticity of demand (PED) for spices?

A. 0.25

B. 0.5

C. 1.0

D. 2.0

**[1 mark]**