Elasticity Quiz   February 1, 2018   Name _____

If the price of a magazine increases from $5 to $7 and the quantity demanded of the magazine decreases from 10 million per month to 8 million per month, using the midpoint method, what is the price elasticity of demand? Is it elastic, inelastic or unit elastic? What is total revenue before and after? How much does total revenue change (amount and direction)? Explain what a 1% change means in one sentence, please. (6 pts)

$$\frac{\frac{8-10}{9}}{\frac{7-5}{6}} = \frac{-\frac{2}{9}}{\frac{1}{3}} = \frac{0.22}{0.33} = \boxed{0.67}$$

INELASTIC

TR_A = 56 MILLION
TR_B = 50 MILLION
_____
+ 6 million Revenue change

A 1% INCREASE IN THE PRICE WILL CAUSE A DECREASE IN THE QUANTITY DEMANDED OF MAGAZINES BY 0.67% c.p.