PRICING 2: CONSTANT ELASTICITY

DESCRIPTION:

This module covers the relationships between price and quantity, elastic demand, inelastic demand, and optimal price under conditions of constant elasticity.

Sample question from problem set:

Course: Faculty Access (All Modules in Alphabetical Order) **Module:** Pricing 2: Constant Elasticity / Problem Set ID: 1078

XYZ, inc. makes and sells bicycle parts. Last year XYZ sold **8,950** rolls of handle-bar tape at an average price of **\$11** per roll. Variable costs are **\$7** per roll, but raw materials are rumored to increasing and management decides to test a price increase to **\$17** per roll. Sales drop to an annual rate of **3,380** and management assigns the newest MBA to make a recommendation. He asks what fixed cost are and is told they are **\$10,800** per year. His boss fixes him with a curious stare, but then says, "Be sure you don't assume anything silly, like, say "linear demand functions."

Based on the test results, what is price elasticity of demand?



SUBMIT ANSWER EXIT

Tutorial:11 slidesProblem Sets:4 problem sets; 24 questionsAverage Time:137 minutes

Problem Sets

Total Questions

24