**Economics: Chapter 4 Assessment Answer Key**

page 106, questions 1, 2, & 4-7

1. Infer
	1. According to the law of demand, what happens when the price of a good drops?

*Quantity demanded increases.*

* 1. How is this change shown in a demand curve?

*This change is shown as a movement along the demand curve from upper left (higher price and lower demand) to lower right (lower price and higher demand).*

* 1. If a product gets bad publicity, how might that affect the demand curve?

*Bad publicity might cause the demand curve to shift to the left.*

1. Draw Conclusions
	1. What is a right shift of the demand curve called?

*An increase in demand.*

* 1. What is a left shift of the demand curve called?

*A decrease in demand.*

* 1. How would an increase in income affect the demand curve for a normal good?

*It would cause the demand curve to shift to the right.*

1. Apply
	1. Suppose the price of a certain medicine rises by 50%. In the month following the change, sales decrease by 5%. Is the demand elastic or inelastic?

*inelastic*

* 1. What factors might be responsible for the elasticity or inelasticity of this product?
* *Few substitutes are available*
* *The medicine is necessary for customers*
	1. After a year, sales of the medicine decrease by 50%. What might have happened?
* *A generic of the medicine was created.*

Suppose a popular musician is selling a new song online. It costs $1.00 to buy the song from the musician’s website. At that price, 200 people downloaded the song every day. After the musician raises the price of the song to $1.50, only 100 people per day download the song. The musician then lowers the price to $0.75. At that price 300 people per day downloaded the song. Use your math skills to determine and graph the elasticity of demand for the new song.

|  |  |
| --- | --- |
| Price(per song downloaded) | Quantity Demanded(songs downloaded/day) |
| $0.75 | 300 |
| $1.00 | 200 |
| $1.50 | 100 |

1. Based on the original price of $1.00, would you describe demand for the song as inelastic, elastic, or unitary elastic?

Step 1: **[ ( Q1 - Q2 ) / Q1 ] 100** = % change in quantity demanded

 **[ ( 200 - 300 ) / 200 ] 100 = 50%**

Step 2: **[ ( P1 - P2 ) / P1 ] 100** = % change in price

 **[ ( 1 - 0.75 ) / 1 ] 100 = 25%**

Step 3: **(% change in quantity demanded) / (% change in price)**

 **50% / 25% = 2 = elastic demand**

page 107, questions 1-3

1. According to Document A, certain advertisements aimed at children can lead to?
	1. aggressive marketing practices
	2. increased health and wellbeing
	3. new multimedia rules
	4. *childhood obesity and aggressive behavior*
2. Document B suggests that the best way to get companies to do a better job of marketing healthier products to children is
	1. government-mandated advertising restrictions.
	2. *a little government involvement and a lot of industry self-regulation.*
	3. a First Amendment challenge to offending companies.
	4. a laissez-faire approach.
3. In Document C, the father is teaching his young son
	1. which products are the best ones to buy.
	2. that television is an interactive medium.
	3. *the difference between advertising and reality.*
	4. how to activate the closed caption feature.