

**Quiz #2**  
**(50 points)**

Read each question carefully. Answer each question completely and concisely. Use diagrams and graphs when they are asked for or when they help you in answering the question. Show all your calculations to receive full credit. Manage your time wisely.

- (10 points) 1. Downward sloping demand curves are an important analytical tool in managerial economics. What is the behavioral process that generates a demand curve? Use a graph to illustrate your explanation.

(10 points) 2. The pork industry faces an own-price elasticity of demand of  $-0.73$ . What does this number mean for managers in the industry? Why would some managers argue that the industry is better off with rising prices than falling prices?

(5 points) 3. Let's anticipate a burger war surrounding the UA campus. The manager of Carl's Jr. knows that if he lowers the price of his Western Bacon Cheeseburger from \$1.99 to \$1.50, this decision will reduce the number of Burger King Whoppers purchased in a day from 1,000 to 800. What is the cross-price elasticity of demand in this burger war?

(10 points) 4. Briefly discuss three forces or factors that shape market demand (other than price), making sure you cite a real world example of each force or factor.

(5 points) 5. Why is the knowledge of various types of elasticities important for the manager? Give a practical illustration that hasn't been used in class.

(5 points) 6. History has shown that societies consume more meat protein as per capita incomes increase in the country. Over the period of 1980 to 2000, the per capita income in Alpha (an imaginary country) increased from \$3,000 to \$8,000 and the per capita consumption of beef rose from 20 pounds to 60 pounds. What is the income elasticity of demand? What does this number mean?

(5 points) 7. Studies show that if broccoli acreage in the U.S. increases from 30,000 to 35,000 acres in any one year that the average annual price will fall from \$10 a carton to \$7 per carton. What is the price flexibility of broccoli? What does this number mean?