

SA422: HOUSING ECONOMICS AND FINANCE 2008/2009
Prerequisite Class Problem Set 3: Elasticity
Week 5, Thursday 6 November, 9-10 in E304

1. If a demand curve is vertical what does it say about the quantity demanded and responsiveness? What determines price?
2. If a demand curve is horizontal at market price what does it say about responsiveness? What determines price?
3. Define price elasticity of demand. Why do we measure it in relative terms?
4. Why would you expect intuitively that price elasticity of demand would be different at different prices? How do you show this on a diagram?
5. Show why, if demand is inelastic with respect to price, total expenditure on the good increases if price increases.
6. Define income elasticity of demand. What would you expect the income elasticity of demand for housing to be for (i) poor people and (ii) rich people?
7. Define price elasticity of supply. Why does it differ between the short and long run?
8. Give an example of a good where you would expect your own demand to be (a) price inelastic; (b) income inelastic. What implications does this have for the proportion of your income you spend on the good if price increases?