

SECTION 5.4 PRICE ELASTICITY OF SUPPLY

21.
 - a. The elasticity of supply would equal 1.
 - b. The elasticity of supply would equal 0.5.
 - c. The elasticity of supply would equal 2.

22. The government-imposed price ceiling causes a 20 percent reduction in price (from \$1000 to \$800). If elasticity of demand equals 2.0, quantity demanded is likely to increase by 40 percent to approximately 14 000 apartments. If elasticity of supply equals 0.5, a 20 percent decrease in price will lead to a 10 percent decrease in the quantity of apartments supplied. The new quantity supplied will equal approximately 9000 rental units. A shortage of $14\ 000 - 9000 = 5000$ units is the predicted result.