

DISCUSSION QUESTION

Name:

Instructor:

Course:

Finally! Martin has realized his dream of owning his own business, Mega Pizza. For the first few months, business was good. But now, sales have dropped off. The price elasticity of demand for pizza is currently 1.8. Assuming it is not a product quality issue, should he raise his prices? Lower his prices? What would you recommend?

PEER GROUP PROBLEM SOLVING

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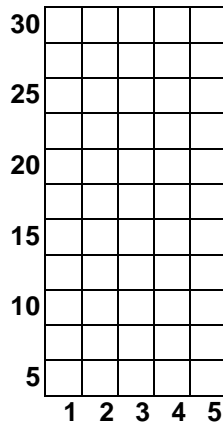
Calculate the price elasticity of demand for the following:

Gary operates a salsa dancing studio. A three month package of lessons costs \$600 and Gary, on average, sells 12 packages per week. Sales are going slow for Gary so he lowers the price of the salsa package to \$500 and as a result, sells 14 packages per week. What is the price elasticity of demand: Is it elastic or inelastic? Based on elasticity, did Gary make the right decision in regards to total revenue?

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

The following is a demand schedule for branded college t-shirts. Plot the demand curve. Identify which portions are elastic, inelastic, and unit elastic.

<u>Price</u>	<u>Quantity Demanded</u>
\$30	0
\$25	1
\$20	2
\$15	3
\$10	4
\$5	5



SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

Finally! Martin has realized his dream of owning his own business, Mega Pizza. For the first few months, business was good. But now, sales have dropped off. The price elasticity of demand for pizza is currently 1.8. Assuming it is not a product quality issue, should he raise his prices? Lower his prices? What would you recommend?

With a price elasticity of 1.8, the market for pizza is elastic. In order to increase revenues, Martin should lower his prices.

Peer Group Problem Solving

Calculate the price elasticity of demand for the following:

Gary operates a salsa dancing studio. A three month package of lessons costs \$600 and Gary, on average, sells 12 packages per week. Sales are going slow for Gary so he lowers the price of the salsa package to \$500 and as a result, sells 14 packages per week. What is the price elasticity of demand: Is it elastic or inelastic? Based on elasticity, did Gary make the right decision in regards to total revenue?

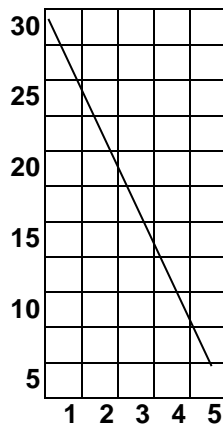
The price elasticity of demand for salsa lessons is 1; it is unit elastic. Gary's pricing decision will not affect total revenue.

In-Class Experiment / Active Exercise

The following is a demand schedule for branded college t-shirts. Plot the demand curve. Identify which portions are elastic, inelastic, and unit elastic.

<u>Price</u>	<u>Quantity Demanded</u>
\$30	0
\$25	1
\$20	2
\$15	3
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\$5	5

Unitary elasticity is at the midpoint (2.5, 17.5). The top half of the curve is elastic (revenue rises as price falls). The bottom half is inelastic (as revenue falls as price falls).



For more in-class experiment and active learning ideas, visit www.econedactive.com.