

DISCUSSION QUESTION

Name:

Instructor:

Course:

Discuss how the cross-price elasticity of demand can be used to determine whether two goods are substitutes or complements.

PEER GROUP PROBLEM SOLVING

Name:

Instructor:

Course:

A number of products are made in preparation for the annual flu season. These types of goods vary in their elasticity of supply. Rank the following goods from most elastic to least elastic:

- a) Over-the-counter flu remedies
- b) Flu shots
- c) Chicken soup
- d) Boxes of tissue

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

The U.S. Department of Agriculture has a database of demand elasticities for various products, compiled from independent literature sources. Divide students into several groups (depending on class size). Assign various products to the groups for the students to look up. They should be able to explain to the other groups what they found and what it means.

<http://www.ers.usda.gov/data-products/commodity-and-food-elasticities/demand-elasticities-from-literature.aspx>

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

Discuss how the cross-price elasticity of demand can be used to determine whether two goods are substitutes or complements.

Cross-price elasticity of demand measures the responsiveness of demand for one good to a change in the price of another good. Positive cross-price elasticity of demand indicates the two goods are substitutes. A negative cross-price elasticity of demand indicates the two goods are complements.

Peer Group Problem Solving

A number of products are made in preparation for the annual flu season. These types of goods vary in their elasticity of supply. Rank the following goods from most elastic to least elastic:

- a) Over-the-counter flu remedies
- b) Flu shots
- c) Chicken soup
- d) Boxes of tissue

The goods listed should be ranked from least capital intensive (those goods with high factor mobility and low production time) to most capital intensive (longer production time and/or low factor mobility). The question should encourage students to identify the factors that determine changes of supply in response to changes in price. The order should approximate chicken soup, tissues, over-the-counter remedies, flu shots.

In-Class Experiment / Active Exercise

The U.S. Department of Agriculture has a database of demand elasticities for various products, compiled from independent literature sources. Divide students into several groups (depending on class size). Assign various products to the groups for the students to look up. They should be able to explain to the other groups what they found and what it means.

<http://www.ers.usda.gov/data-products/commodity-and-food-elasticities/demand-elasticities-from-literature.aspx>

Answers will vary but some suggestions (taken from the database) for products include beer, ground beef, milk, spaghetti sauce, and soda. Students should be able to look elasticities and then explain the relationship between product and elasticity.

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