## Chap. 3: Problems and ApplicationsExercises 7. & 8.

1. Seafront properties along the south coast of France have a price inelastic supply, and cars have a price elastic supply. Suppose that a rise in population doubles the demand for both products (that is, the quantity demanded at each price is twice what it was).

a. What happens to the equilibrium price and quantity in each market?

1. Which product experiences a larger change in price?
2. Which product experiences a larger change in quantity?
3. What happens to total consumer spending on each product?
4. Suppose that business travellers and holidaymakers have the following demand for airline tickets from Munich to Naples:



a. As the price of tickets rises from €200 to €250, what is the price elasticity of demand for (i) business travellers and (ii) holidaymakers? (Use either the midpoint or point method in your calculations.)

b. Why might holidaymakers have a different price elasticity to business travellers?