

Applying Elasticity to the Real World

Each of the following stories contains an assumption about elasticity of demand. In (A) for each story, decide whether the person's conclusion is right or wrong. In (B) explain your reasoning.

1. I.M. Politico, a candidate for the state legislature, is proposing a large increase in the tax on cigarettes and liquor. He says, "I'm not proposing these taxes to raise revenue but to discourage reckless drinking and the filthy smoking habit. If the prices of cigarettes and liquor go up, most people will quit using them. After all, no one needs to drink or smoke."
(A)
(B)
2. U.R. Kool, a candidate for Congress, proposes freezing the price of gasoline. "There is no substitute for gasoline," he says. "People have to get from one place to another. Economists who say higher prices will discourage people from buying as much gas as before don't live in the real world."
(A)
(B)
3. Councilman Vic Acqua opposed a price increase for water during a recent drought. He claimed that there is no substitute for water. He believes an increase in the price of water (water taxes) will result in the same quantity of water used as before the price went up.
(A)
(B)
4. Sky King, world traveler, says if the airlines want to increase total revenue, they should lower fares for business travelers as well as for vacationers. Both groups should respond equally to a price decrease.
(A)
(B)

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