

More pricing exercises

Elasticity of demand

1. Suppose that a 2% increase in price results in a 6% decrease in quantity demanded. Compute the price elasticity.
2. If the price elasticity of demand equals -0.3, then what percentage change in price will result in a 6% decrease in quantity demanded?
3. If a product's sales have fallen by 21% since a price rise from \$2.00 to \$2.07, calculate its price elasticity? Is it elastic or inelastic?

Break-even point

PNG electric company manufactures a number of electric products. Rechargeable light is one of the PNG's products that sells for \$180/unit. Total fixed expenses related to rechargeable electric light are \$270,000 per month and variable expenses involved in manufacturing this product are \$126 per unit.

1. Compute the contribution per unit
2. Compute break-even point of the company in dollars and units.
3. Compute the number of rechargeable lights to be sold to earn a net operating income of \$189,000 per month.
4. Suppose the price of the product decrease by 10%, what would be the new break-even number of units and dollars?