

ECO 610  
Problem Set #2  
Fall 2019

Instructions: This is a team assignment, so turn in one paper per team. Due 9/24/19.

1. (10 pts.) The Lexington Legends, a minor-league baseball team, approach you for advice. They are wondering about their pricing strategy. Currently they charge \$10 per ticket for admission, and allow patrons to sit anywhere they want. They have observed that some fans come several hours before game time, and grab the best seats behind home plate and close to the field. Other fans arrive later and have to sit in the less desirable bleacher seats in the outfield. All of the 500 seats behind home plate fill up every night, but usually most of the 2000 outfield seats go unsold. On an average night, total attendance is 800.
  - a. You propose an experiment to determine own-price elasticity of demand for the good seats behind home plate. When you raise the price of those prime tickets to \$20 but keep general admission tickets constant at \$10, only 400 patrons buy the good seats and the other 100 still buy tickets but sit in the bleachers with the 300 people who sat there under the old pricing scheme. Calculate own-price elasticity of demand for prime seating behind home plate. (Assume that quantity demanded for these seats was 800 when  $P = \$10$ .)
  - b. After several weeks under the new pricing policy, you decide to try another experiment. You suggest lowering the price of bleacher seats from \$10 to \$5. When you do that, you find that ticket sales for the cheap seats increase from 400 to 1200. Calculate own-price elasticity of demand for bleacher seats.
  - c. Briefly discuss the implications of these price changes and your calculated own-price elasticities for the club's total revenues.
2. (5pts.) In Somerset, KY and in Elkhart, IN, the local economies suffer when the economy stagnates and household incomes fall. The major manufacturing sector in Somerset is houseboats, and in Elkhart is recreational vehicles. Some local retailers like Dollar Store and Dollar General, do quite well during these economic downturns. Using elasticity concepts, explain why this might be the case.
3. (5 pts.) You have been promoted to be brand manager for Pepsico-Frito/Lay's Rold Gold Pretzels. You know that prices of other products affect sales of Rold Gold Pretzels. What types of numbers would you expect to observe when you calculate cross-price elasticities between Rold Gold Pretzel sales and the prices of Frito-Lay potato chips, Snyder's pretzels, Diet Pepsi, and Pepsico's instant Quaker Oatmeal?

Teams:

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