



eLearneconomics: Price elasticity of supply (1)

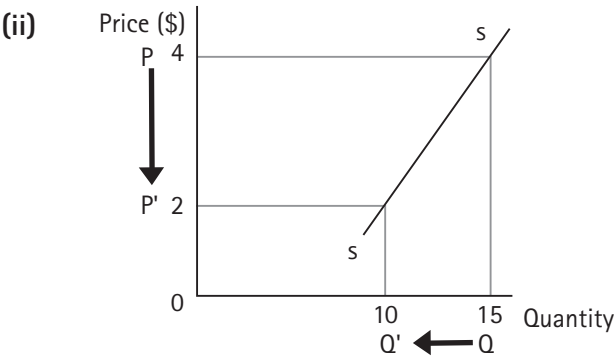
Student response _____

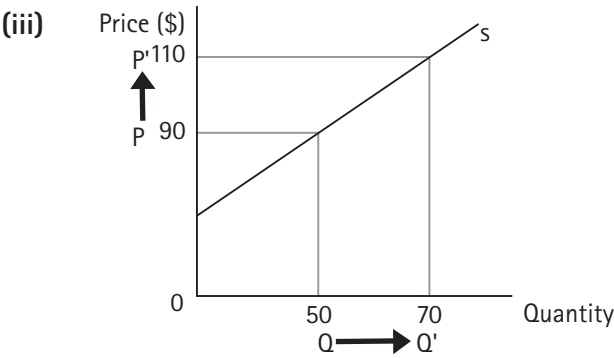
(a) Define 'price elasticity of supply'.

(b) Calculate the price elasticity of supply for each question below (show your working). Use the midpoint method.

(i)

Price (\$)	Quantity supplied
1.00	20
0.95	10





(c) Indicate the price elasticity of supply indicated by the situations outlined in the table below.

Situation	Elasticity
(i) The response to a given change in price is a more than proportionate change in quantity supplied.	
(ii) The response to a given change in price is a less than proportionate change in quantity supplied.	
(iii) A given price change causes no change in quantity supplied.	

eLearneconomics: Price elasticity of supply (1a)



Solutions

(a) Define 'price elasticity of supply'.

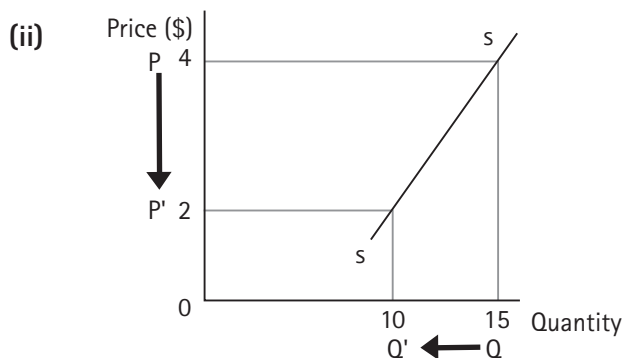
Measures the responsiveness of the quantity supplied of a good to a change in its price.

(b) Calculate the price elasticity of supply for each question below (show your working). Use the midpoint method.

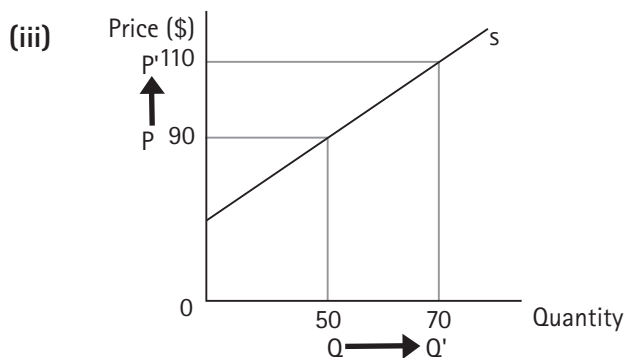
(i)

Price (\$)	Quantity supplied
1.00	20
0.95	10

$$E_s = \frac{\left(\frac{-10}{15}\right)}{\left(\frac{-0.05}{0.975}\right)} = 13.00 \text{ elastic}$$



$$E_s = \frac{\left(\frac{-5}{12.5}\right)}{\left(\frac{-2}{3}\right)} = 0.60 \text{ inelastic}$$



$$E_s = \frac{\left(\frac{20}{60}\right)}{\left(\frac{20}{100}\right)} = 1.67 \text{ elastic}$$

(c) Indicate the price elasticity of supply indicated by the situations outlined in the table below.

Situation	Elasticity
(i) The response to a given change in price is a more than proportionate change in quantity supplied.	Elastic supply
(ii) The response to a given change in price is a less than proportionate change in quantity supplied.	Inelastic supply
(iii) A given price change causes no change in quantity supplied.	Perfectly inelastic