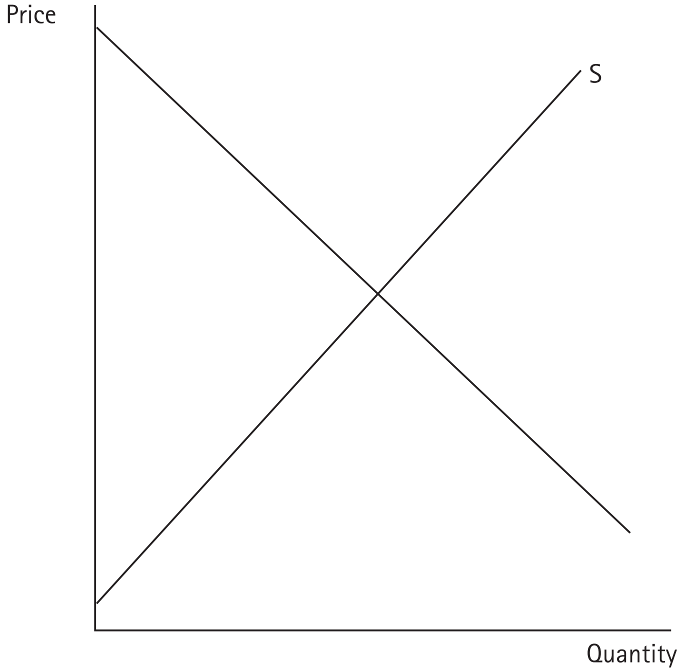
eLearneconomics: Price elasticity of supply (2)

Student response

Use the diagram to answer the questions that follow.

Graph 1: Market for grapes



(a) On Graph 1:

(i) Use appropriate labelling to show the effect of increased transport costs on the grape market equilibrium price and quantity.

(ii) Label and shade to indicate:

(1) The original (before increased costs) area of producer surplus.

(2) The new (after increased costs) area of consumer surplus.

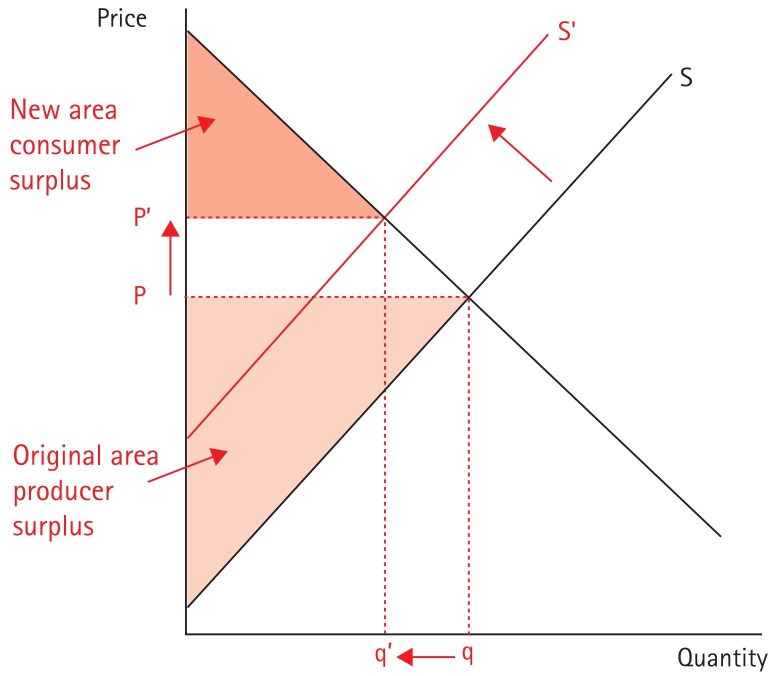
(b) Why will an increase in demand in the market for grapes have a larger impact on quantity supplied in the long run rather than in the short run?

eLearneconomics: Price elasticity of supply (2a)

Solution

Use the diagram to answer the questions that follow.

Graph 1: Market for grapes



(a) On Graph 1:

(i) Use appropriate labelling to show the effect of increased transport costs on the grape market equilibrium price and quantity.

(ii) Label and shade to indicate:

(1) The original (before increased costs) area of producer surplus.

(2) The new (after increased costs) area of consumer surplus.

(b) Why will an increase in demand in the market for grapes have a larger impact on quantity supplied in the long run rather than in the short run?

The supply for grapes is (relatively) steeper in the short run (less elastic) than long run because in the short run producers only have time to respond to the increase in demand by adjusting variable factors limiting the size of the quantity response. In the long run all factors are variable so the quantity response will be larger for a given increase in demand.