Price Elasticity of Supply Graphic Organizer

(based on pages 92 to 96 of the Course Companion)

1.What is Price Elasticity of Supply (PES)? Give a clear definition.

Responsiveness of quantity supplied to change in price.

2.How is PES calculated? Give a numerical example of the calculation.

$$PES = \frac{\%\Delta Qs}{\%\Delta P}$$

$$\%\Delta = \frac{value_2 - value_1}{value_1} \cdot 100\%$$

3.Does the positive sign matter when you calculate the PES coefficient? Why?

Always is positive because price and quantity supplied move in same together. (Law of supply)

4,.Range of Values

What does it mean when…..

A. PES is greater than 0 but less than 1… price inelastic.

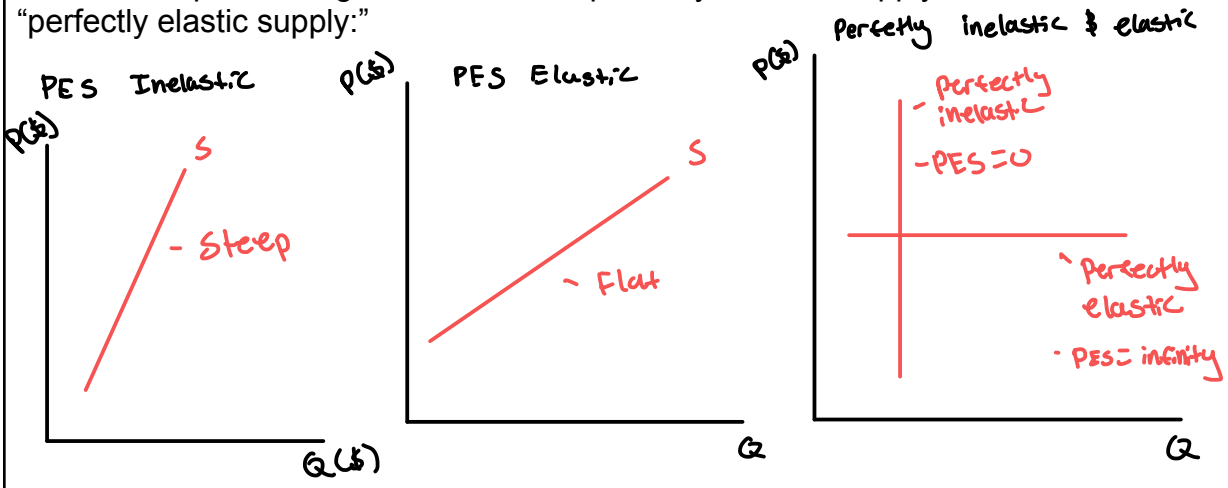
B. PES is greater than 1 but less than infinity… Price elastic

Give a real-life example of each:

PES inelastic: agricultural goods

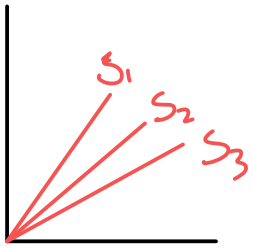
PES elastic: manufactured goods

Draw two separate diagrams to show a “perfectly inelastic supply curve” and a “perfectly elastic supply:”



Draw ONE diagram with at least TWO supply curves that have a PES value of '1' at every price:

any line from origin has PES of 1



5. Determinants of PES

What are the 4 "determinants" of PES and what is an example of each?

Determinant	Example
1.a. Unused Capacity 	- If more capacity, unused resource, more elastic. - Can make moc product easier
1.b. Mobility of FoP 	- Easier to start producing by changing task of FoP.
2. Time Period 	- More time to increase FoP increases elasticity.
3. Ability to Store 	- If able to store stock, can react to price changes better - more elastic.