The price elasticity of Supply is 0.5

Use the elasticity to calculate the change in Quantity Supplied that would result from a 6% decrease in price.

$$e^s_p =$$

%ΔP

$\%\Delta Q^s$

%ΔP

$$\%\Delta Q^s =$$

$$x \, e^s_p$$

-6

x 0.5

= -3%

If the price decrease by 6% the Q^s will drop by 3%

$$\%\Delta Q^s =$$

The price elasticity of Supply is 0.5

Use the elasticity to calculate the change in Quantity Supplied that would result from a 6% decrease in price.

$$e^s_p = \frac{\%\Delta Q^s}{\%\Delta P}$$

$$\%\Delta Q^s = \%\Delta P \times e^s_p$$

$$\%\Delta Q^s = -6 \times 0.5 = -3\%$$

If the price decrease by 6% the Q^s will drop by 3%

The Effect of an Increase in Supply