**School Uniform Price wars**

Price wars in school uniforms led to Tesco selling a complete set for £3.75 this year. In a bid to win the ‘school uniform price war’ with other supermarkets, Tesco has dropped the price from £5 last year.

Experts have questioned the ability of Tesco to make profit on each uniform sold, as although the cost of each uniform has not been published by Britain’s largest retailer, retail experts have suggested that profit margins have been significantly reduced. Some have suggested that they are even making a loss on each uniform sold.

As a result of the price change, Tesco have seen the number of uniforms sold increase from 200,000 last year to 300,000 this year.

Others though do not think that the actual profit made from each uniform concerns Tesco, as other benefits arise from parents choosing Tesco to dress their children for the new school year.

1. Explain what is meant by Price Elasticity of Demand (PED). State the **formula** below.

2. Using the information provided, **calculate** the price elasticity of demand for Tesco’s school uniform.

3. Calculate and compare the **revenue** made by Tesco over the two years.

4. Why might Tesco not be so interested in the profit and revenue generated by the school uniforms directly? What other benefits may arise from this pricing strategy?

Using your knowledge of the **law of demand** explain why the PED coefficient is negative.

If the calculated **PED coefficient is -1**, what does this mean and how might the demand curve look?

Answer **the past paper exam** question below:

