**Price Elasticity of Supply**

On the axes below, draw a supply curve and label the impact of a price change upon quantity.
Explain why this relationship between price and supply occurs.

What does **price elasticity of supply** (PES) measure?

How do we **calculate price** elasticity of supply (PES)?

Elastic PES coefficient = Inelastic PES coefficient =

Explain why the PES coefficient **will always be a positive** number.

**Elastic and inelastic supply curves**

Draw and annotate an **elastic** supply curve Draw and annotate an **inelastic** supply curve

In terms of the relationship between price and quantity supplied - goods with an **elastic** supply curve mean….

In terms of the relationship between price and quantity supplied - goods with an **inelastic** supply curve mean…

**Mr Wilson’s Thinking Further Challenge**How might PED and PES impact the success of the price mechanism and ultimately the argument for/against a market free from government intervention?

**Use the formula and your own intuition to calculate the following questions:**

1. A firm’s market price increases from £1 to £1.10, and its supply increases from 10m to 12.5m. PES is:
2. PES is 2.0 for CDs and the firm supplied 4,000 when the price was £30.
If the price increased from £30 to £36, what will be the new quantity supplied?

1. Consider a product that has a supply which is **fixed** in the short-term, what do you think the supply curve would look like? Give an example of such a product.

1. Consider a product which can immediately respond to any given price change, what do you think the supply curve would look like? Give a possible example of such a product.



**1.**



**2.**



**3.**

There are two main types of factor immobility: **occupational**and **geographical** immobility.

**Occupational immobility:** occurs when there are **barriers to the mobility with regards to any of the factors of production between different sectors of the economy. For example, workers may not have the skills to switch from the mining sector to the banking sector (structural unemployment). Or capital may be so specialised in one sector, such as a nuclear reactor, that it cannot be used/adapted in a different sector like a book publisher.**

**Geographical immobility:** refers to barriers people moving from one area to another to find work. This could due to simple large distances, or it could be due to family ties, differences in house prices or lack of transportation.



**4.**



**5.**



**6.**

**Factors impacting price elasticity of supply**

|  |  |  |
| --- | --- | --- |
| **PES Factors** | **Question** | **Answer** |
| **Scarcity of raw materials or land (factor or production).** | Explain how scarcity impacts upon PES. Can you give an example of a good that requires a scarce raw material in its production and is therefore inelastic? |  |
| **The length of time it takes to produce a product.**  | Explain why agricultural goods are inelastic during some periods of the year and elastic during others. |  |
| **Stocks of finished products and components:** Some goods are easier and more practical to store.  | Why might a product be difficult to store? How could this problem be combatted by a firm? What are the problems with your solution to this problem? |  |
| **How easily resources can be used transferred to making other products.** | Outline two goods in which it would be difficult to switch resources from producing one to the other. Explain this problem in terms of opportunity cost. |  |
| **Factor immobility – when the factors of production *are available,* but cannot get to where they are required.** | If a firm located itself in the mountains, why might land, labour and capital be difficult to acquire? How might high house prices create immobility in terms of labour? |  |
| **Spare production capacity left within a firm.** | How could a firm solve the problem of having a low-production capacity? Suggest one reason the firm would want to do this and one reason why they wouldn’t. |  |
| **In the long-run, supply for goods tends to be more elastic.** | In relation to oil, explain why oil might be more PES elastic in the long-run, as opposed to PES inelastic in the short-run. What might happen? Why might wheat also be inelastic in the SR? |  |