

2.3 Price elasticity of supply

Key Words	
Price elasticity of supply	The responsiveness of quantity supplied to a change in the price of the product
Elastic supply	When the percentage change in quantity supplied is greater than the percentage change in price
Inelastic supply	When the percentage change in quantity supplied is less than the percentage change in price

Evaluate the importance of PES

Effects on consumers



1, If PES is inelastic then it may prove more difficult for a consumer to get more of the product without paying a much higher price, such as seats in a sports stadium or at a concert, even an ability to pay more may not provide a seat, as the numbers are restricted

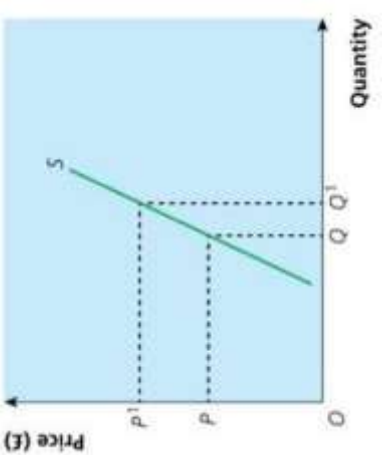
2, If PES is elastic, it is relatively easy to obtain more of the product, but less flexibility in negotiating the price the consumer wants

Effects on producers

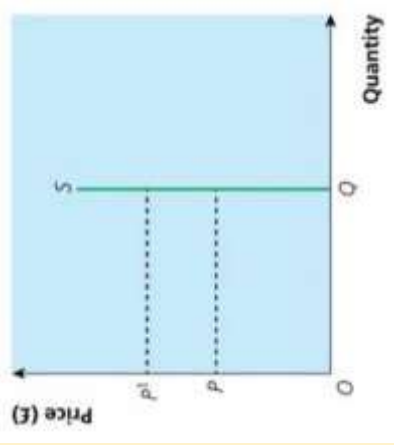
An elastic PES is better for firms as they can more easily respond to price changes. Firms can increase their elasticity by:

- *adopting, or upgrading to, the latest technology
- *creating spare capacity
- *improving storage methods to prolong the life of a product
- *keeping large amounts of stock
- *training employees so that they can perform a range of jobs ad required

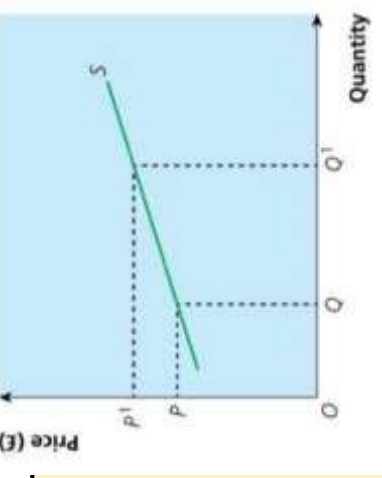
How to draw supply curves of different elasticity



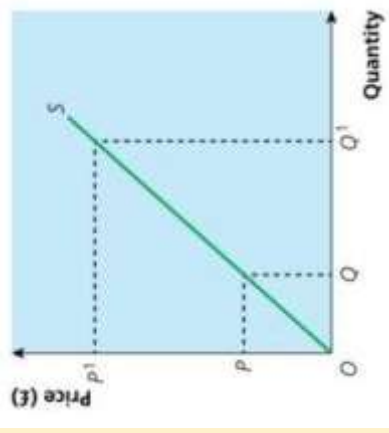
Price inelastic supply



Perfectly price inelastic supply



Price elastic supply



Unitary price elastic supply



Perfectly price elastic supply

What do the PED values mean?

*PES is always positive because the supply curve slopes upwards.

1, $PES < 1$, quantity supplied is relatively unresponsive to a price change, such as agricultural goods

2, $PES > 1$, quantity supplied is responsive to a change in price, such as manufactured goods

3, $PES = 0$, quantity supplied would not change at all along the change in price

4, $PES = 1$, all supply curves starting from origin has $PES = 1$

5, $PES = \infty$, quantity supplied is perfectly responsive to change in price

Exam Questions



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Specification

