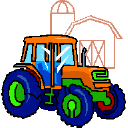
**Price Elasticity of Supply**

* Understand what is meant by the term ‘Price Elasticity of Supply’
* Be able to calculate ‘Price Elasticity of Supply’
* Understand the factors that influence ‘Price Elasticity of Supply’

1. If the market **price of a good** increases how would firms like to react?

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1. Will all firms be able to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in response to a change in price?

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1. So give a definition for price elasticity of supply?

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1. Write down the formula for **price elasticity of supply.**



1. Draw two supply curves. One should be a product whose **supply is price elastic** and one should be for a product whose supply is **price inelastic**.

**Price**

**Quantity Supplied**

1. Calculate the **price elasticity of supply** for footballs using the following example.

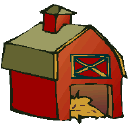
* Demand for footballs increases as result of the world cup. There is an increase in the market price of footballs as a result.

**$6 $8**

* Quantity supplied increases from **5000 units to 8500** units as a result.
* Calculate the **price elasticity of supply**.

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1. Think about the example below.



* **Farmer Bloggs** has four fields. In one he grows corn, in the other he grows potatoes and in the other he grows turnips.
* During the year the price of potatoes in the market increases due to a health campaign by the government.
* Can Farmer Bloggs suddenly increase the amount of potatoes he supplies to the market?

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* Explain the answer you have just given to the previous question.

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8. Happy Days Ice-cream company produce and sell ice-cream to the market. They have their **own herd** of cows and are currently producing **below capacity**.

* There is a hot summer and demand for ice-cream increases.
* Can Happy Days Ice-cream suddenly increase the amount of ice-cream it supplies to the market?

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7. Draw two supply curves to illustrate the situations in the two examples above.

**Price**

**Price**

**Quantity supplied**

**Quantity supplied**

8. Now perform these calculations. You need to work out the price elasticity of supply:-

|  |  |
| --- | --- |
| **Price per bunch of daffodils** | **Quantity supplied per month** |
| * **$1** | * 10,000 |
| * **$2** | * 12,000 |



* What is the price elasticity of supply for daffodils?

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9. What factors influence whether or not supply of a good is **price elastic or price inelastic?**

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10) How might the price elasticity of supply differ between primary commodities and manufactured goods and why?

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