				1.2 Elasticity Big Questions: 1 Why is elasticity important for firms and government? 2 How does elasticity affect markets in terms of resource allocation and market size? 3 Evaluate the impact of 2 elasticities for 2 stakeholders. See submariner webnotes for 1.2 to help you answer these 'Big' questions.	Blink c 4	Example	U-tube		
Price elasticity of demand (PED)									
18			Price elasticity of demand and its determinants	• Explain the concept of price elasticity of demand, understanding that it involves responsiveness of quantity demanded to a change in price, along a given demand curve. • Calculate PED using the following equation. *PED=* *percentage change in quantity demanded divided by percentage change in price* • State that the PED value is treated as if it were positive although its mathematical value is usually negative. • Explain, using diagrams and PED values, the concepts of price elastic demand, price inelastic demand, unit elastic demand, perfectly elastic demand and perfectly inelastic demand. • Explain the determinants of PED, including the number and closeness of substitutes, the degree of necessity, time and the proportion of income spent on the good. • Calculate PED between two designated points on a demand curve using the PED equation above. • Explain why PED varies along a straight line demand curve and is not represented by the slope of the demand curve.	Blink c 4	Example	U-tube PAJ PAJ PP PAJ PAJ	**3**	201 202 201 202

19			Applications of price elasticity of demand	• Examine the role of PED for firms in making decisions regarding price changes and their effect on total revenue. • Explain why the PED for many primary commodities is relatively low and the PED for manufactured products is relatively high. • Examine the significance of PED for government in relation to indirect taxes.	Blink c 4	Example	U-tube	4	708 241

Cross price elasticity of demand and its determinants

20				• Outline the concept of cross price elasticity of demand, understanding that it involves responsiveness of demand for one good (and hence a shifting demand curve) to a change in the price of another good. • Calculate XED using the following equation. ***XED percentage change in quantity demanded of good x divided by percentage change in price of good y*** • Show that substitute goods have a positive value of XED and complementary goods have a negative value of XED. • Explain that the (absolute) value of XED depends on the closeness of the relationship between two goods.	Blink c 4	Example	U-tube PAJ	3	204
21			Applications of cross price elasticity of demand	• Examine the implications of XED for businesses if prices of substitutes or complements change.	Blink c 4	Example	U-tube	3	204

Income elasticity of demand and its determinants

22				• Outline the concept of income elasticity of demand, understanding that it involves responsiveness of demand (and hence a shifting demand curve) to a change in income. • Calculate YED using the following equation. *YED =* *percentage change in quantity demanded divided by percentage change in income* • Show that normal goods have a positive value of YED and inferior goods have a negative value of YED. • Distinguish, with reference to YED, between necessity (income inelastic) goods and luxury (income elastic) goods.	Blink c 4	<u>**Example**</u>	<u>**U-tube**</u> PAJ	**3**	204
23			Applications of income elasticity of demand	• Examine the implications for producers and for the economy of a relatively low YED for primary products, a relatively higher YED for manufactured products and an even higher YED for services.	Blink c 4	<u>**Example**</u>	<u>**U-tube**</u>	**3**	204

For Revision use:

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Price elasticity of supply and its determinants

24				• Explain the concept of price elasticity of supply, understanding that it involves responsiveness of quantity supplied to a change in price along a given supply curve. • Calculate PES using the following equation. *PES=* *percentage change in quantity supplied divided by percentage change in price* • Explain, using diagrams and	Blink c 4	<u>**Example**</u>	<u>**U-tube**</u> PAJ	**3**	204

			PES values, the concepts of elastic supply, inelastic supply, unit elastic supply, perfectly elastic supply and perfectly inelastic supply. • Explain the determinants of PES, including time, mobility of factors of production, unused capacity and ability to store stocks.						
25			Applications of price elasticity of supply	• Explain why the PES for primary commodities is relatively low and the PES for manufactured products is relatively high.	Blink c 4	**Example**	**U-tube**	**3**	