Past-paper walk-through

Price elasticity of supply ▪ 2.3

eXercise

Questions in this set

- 9708/12 N25 Q10 ▪ 1 mark
- 9708/13 N25 Q10 ▪ 1 mark
- 9708/14 N25 Q6 ▪ 1 mark
- 9708/24 N25 Q3 ▪ 20 marks
- 9708/11 J25 Q8 ▪ 1 mark
- 9708/12 J25 Q8 ▪ 1 mark
- 9708/1 23 Q8 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 10

9708/12 N25 ▪ Q10 ▪ 1 mark

10 Which type of good is most suitable for a successful buffer stock scheme?

	easy to produce	cheap to store	perishable
A	yes	yes	yes
B	yes	no	no
C	no	yes	no
D	no	no	yes

Solution 10

Answer: **C**

Why

- A buffer stock scheme works by storing surplus output in good years and releasing it in bad ones.
- So the good must be *non-perishable* and cheap to store.
- A perishable good cannot be held, which is why buffer stocks fail for fresh produce.

Question 10

9708/13 N25 ▪ Q10 ▪ 1 mark

10 Four firms produce furniture. The table shows the price elasticity of supply (PES) for each firm.

If the price of furniture rises by 5% which firm would experience an increase in quantity supplied of 2.5%?

firm	PES for furniture
A	2.5
B	2.0
C	0.6
D	0.5

Solution 10

Answer: **D**

Why

- Price elasticity of supply measures the responsiveness of quantity supplied to price.
- A 5% price rise brings the biggest output increase where PES is largest.
- So multiply 5% by each firm's PES and pick the greatest.

Question 6

9708/14 N25 ▪ Q6 ▪ 1 mark

6 Which factor affects the price elasticity of supply of a product?

A availability of stocks

B percentage of income spent on the product

C price of substitutes

D wage rate

Solution 6

Answer: **A**

Why

- Price elasticity of supply depends on how easily output can be changed.
- Holding stocks lets a firm respond to a price rise at once, so supply is more elastic.
- The share of income spent, or the price of substitutes, affect *demand* elasticity instead.

Question 3

9708/24 N25 ▪ Q3 ▪ 20 marks

3 (a) Explain what determines elastic and inelastic price elasticity of supply (PES) and consider the extent to which the value of PES may differ between an agricultural good and a manufactured good. [8]

(b) Firms will often try to estimate elasticity values to judge the possible success of decisions to change prices or to introduce new products.

Assess the extent to which an understanding of income elasticity of demand (YED) may be more useful than cross elasticity of demand (XED) in increasing the income from sales for a firm. [12] Section C Answer one question. EITHER

(a) (a) Explain what determines elastic and inelastic price elasticity of supply (PES) and consider the extent to which the value of PES may differ between an agricultural good and a manufactured good. [8] **[8]**

Question 3

(b) (b) Firms will often try to estimate elasticity values to judge the possible success of decisions to change prices or to introduce new products. Assess the extent to which an understanding of income elasticity of demand (YED) may be more useful than cross elasticity of demand (XED) in increasing the income from sales for a firm. [12] **[12]**

Solution 3

(a) Mark scheme

- Explain what determines elastic and inelastic price elasticity of supply
- (PES) and consider the extent to which the value of PES may differ
- between an agricultural good and a manufactured good.
- Follow the point-based marking guidance at the top of this mark scheme and
- award:
- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2
- Analysis
- up to 2 marks for AO3 Evaluation.

Solution 3

- AO1 Knowledge and Understanding (max 3 marks)
- ▪
- For an accurate definition (with reference to the responsiveness of supply
- to a % change in price) or formula for PES 1
- ▪
- For an explanation of what is meant by both an elastic and an inelastic
- PES (with reference to the responsiveness of supply to a % change in
- price) 1
- ▪
- An explanation of at least one factor that determines whether a good has

Solution 3

- an elastic or inelastic PES, e.g., time, stock levels, perishability 1
- AO2 Analysis (max 3 marks)
- ▪
- An explanation of the factors that explain the PES for agricultural goods,
- e.g., an explanation that they are more likely to be inelastic due to, e.g.
- time taken to produce, the difficulty of holding stocks etc. (up to 2 marks)
- ▪
- An explanation of the factors that explain the PES for manufactured
- goods, e.g., an explanation that the value may be more elastic due to,
- e.g. spare capacity, ability to store unfinished and finished goods, time

Solution 3

- taken to produce. (Up to 2 marks).
- AO3 Evaluation (max 2 marks)
- For an evaluation as to the extent that the value may differ, e.g., due to their
- perishable nature, agricultural goods may be more PES inelastic unless better
- ways can be found to store them. Note: the second mark is reserved for a
- justified conclusion.
- 8
- AO1 Knowledge and understanding
- 3
- AO2 Analysis

Solution 3

- 3
- AO3 Evaluation
- 2
- 9708/24
- October/November
- 2025

Solution 3

(b) Mark scheme

- Firms will often try to estimate elasticity values to judge the possible
- success of decisions to change prices or to introduce new products.
- Assess the extent to which an understanding of income elasticity of
- demand (YED) may be more useful than cross elasticity of demand
- (XED) in increasing the income from sales for a firm.
- Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table
- B: AO3 Evaluation to mark candidate responses to this question.
- AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Solution 3

- Indicative content
- Responses may include:
- AO1 Knowledge and understanding and AO2 Analysis
- ▪
- An understanding of the concepts of YED and XED.
- ▪
- YED can be used to predict the demand for different categories of goods
- depending on changes in income.
- ▪
- It can therefore be used to predict changes in possible sales revenue.

Solution 3

- ▪
- XED can be used to predict changes in revenue depending on whether it
- is a complement or a substitute and the closeness of the relationship.
- ▪
- It can then be used to predict sales revenue depending upon the actions
- of other businesses in setting their prices.
- ▪
- An assessment of the limitations of both measures, e.g., they are
- estimates and will change over time.
- Level 1 responses will be assertive and lacking in explanations / mainly

Solution 3

- descriptive and/or or mainly lacking in relevance to the question.
- Level 2 responses may contain some inaccuracies and may be one sided.
- Analysis will be explained at least in part and will be largely relevant to the
- question.
- Level 3 responses will consider alternative policies / concepts etc. and will
- be balanced. Explanations of points raised will be offered and will be accurate
- and relevant to the question.
- Unless the answer is directly related to increasing the income from
- sales for a firm, then award a maximum of mid-Level 2 marks.
- AO3 Evaluation

Solution 3

- Of the extent to which the knowledge of YED is more useful than XED in
- increasing sales revenue and arrives at a reasoned and justified conclusion.
- A one-sided response cannot gain any marks for evaluation.
- Accept all valid responses.
- 12
- AO1 Knowledge and understanding and AO2 Analysis
- 8
- 9708/24
- October/November
- 2025

Solution 3

- AO3 Evaluation
- 4
- 9708/24
- October/November
- 2025
- Section C
- EITHER

Question 8

9708/11 J25 ▪ Q8 ▪ 1 mark

8 What would best explain why the price elasticity of supply (PES) is likely to be lower for fresh vegetables grown within a country compared to the PES of goods manufactured in that country?

A Alternative supplies can be flown in from foreign producers.

B A positive price change encourages a positive output change along the supply curve.

C Fresh vegetables has a horizontal supply curve.

D There is a seasonal time lag involved in planting and harvesting more fresh vegetables.

Solution 8

Answer: **D**

Why

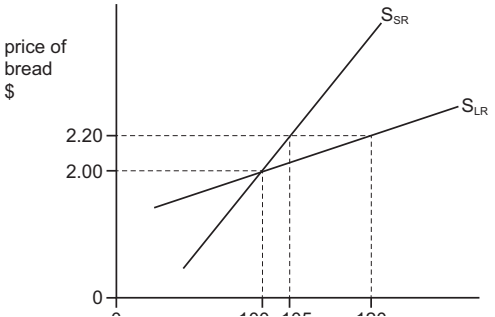
- Price elasticity of supply depends on how quickly output can be adjusted.
- A crop takes a whole growing season, so output cannot respond to a price change in the short run.
- Manufactured goods can be produced faster and stockpiled, so their supply is more elastic.

Question 8

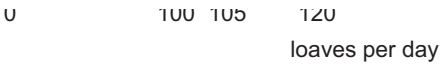
9708/12 J25 ▪ Q8 ▪ 1 mark

8 The diagram shows the short-run supply curve (S_{SR}) and long-run supply curve (S_{LR}) for a bakery.

The price of a loaf of bread increases from $2.00 to $2.20.



Question 8



What is the bakery's price elasticity of supply (PES) in the short run and in the long run when the price of a loaf of bread increases?

	short run	long run
A	0.5	2.0
B	0.5	1.4
C	2.0	0.7
D	2.0	0.5

Solution 8

Answer: **A**

Why

- In the short run some factors are fixed, so output cannot change much – supply is inelastic and the curve is steep.
- In the long run all factors can be varied, so supply is more elastic and the curve is flatter.
- So the same price rise brings a bigger output response in the long run.

Question 8

9708/1 23 ▪ Q8 ▪ 1 mark

8 A firm establishes that the price elasticity of supply of its product has a value of 0.3.

What is likely to be true about the firm?

A It has unused productive capacity.

B It has a lot of stock of its product.

C It uses a high proportion of perishable raw materials.

D It uses factors of production that are easily substituted.

Solution 8

Answer: **C**