2 Elasticity and government intervention – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
Price elasticity of demand			
elastic			
inelastic			
price ceiling			
price floor			

Recall

In Part A you met supply and demand. Now two more ideas:

- Some goods barely change in demand when the price changes; others swing a lot.
- Governments sometimes set maximum or minimum prices.

Each idea has a worked example before the Practice.

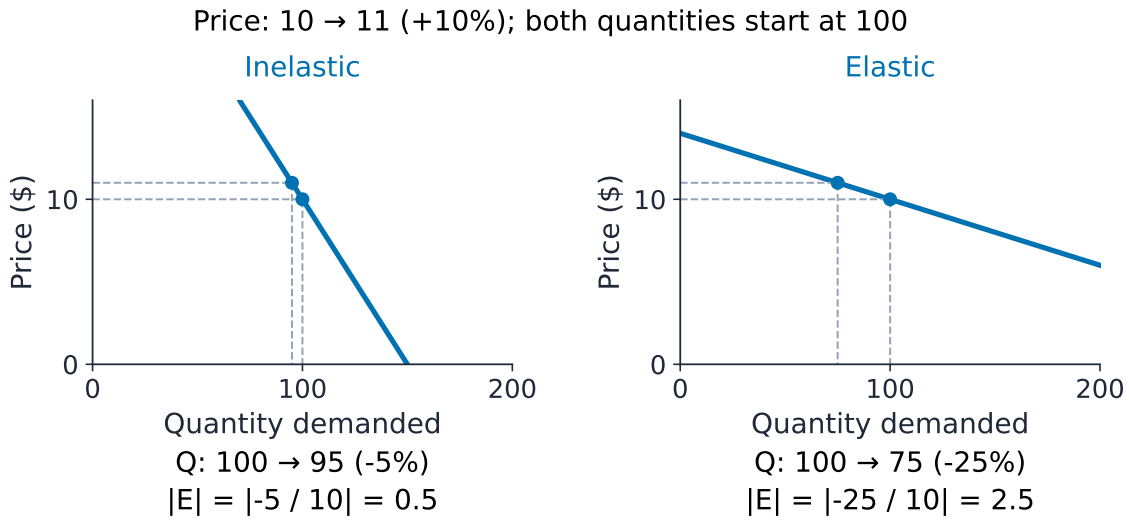
New ideas

■ 1 Price elasticity of demand

Price elasticity of demand measures how strongly quantity responds to a price change:

$$E_d = \left| \frac{\%\ \Delta \text{ quantity}}{\%\ \Delta \text{ price}} \right|.$$

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- $E_d > 1$ is **elastic** (quantity responds strongly),
- $E_d < 1$ is **inelastic** (quantity barely responds).

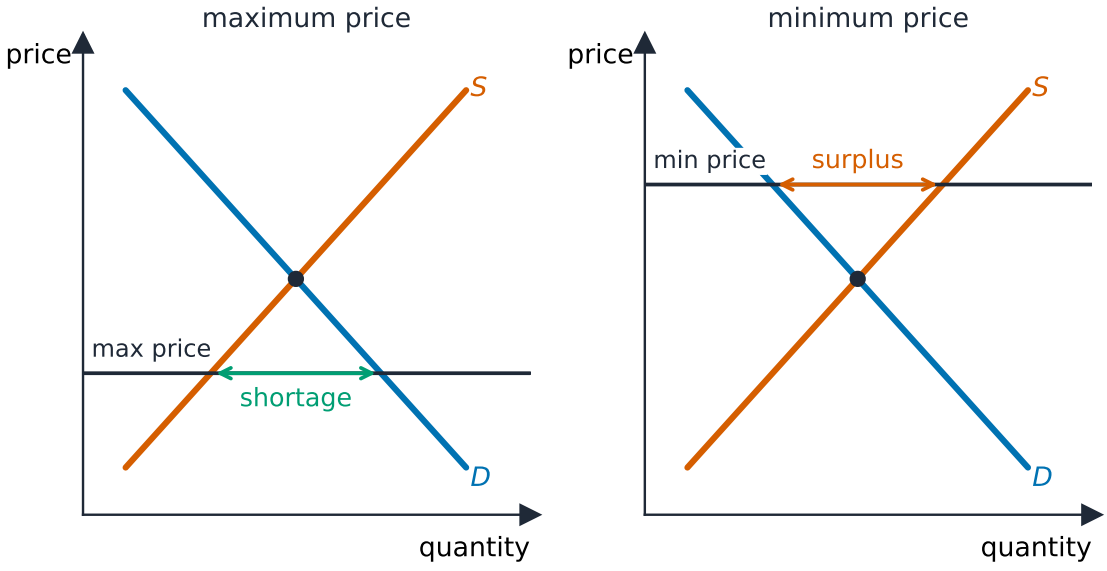
Worked example. If a 10% price rise cuts quantity by 5%, then $E_d = \dfrac{5\%}{10\%} = 0.5$ – inelastic.

2 What makes demand elastic

Demand is more elastic when there are more substitutes, the good is a luxury, or buyers have more time to adjust.

3 Price controls

- A **price ceiling** (a legal maximum, below equilibrium) causes a **shortage**.
- A **price floor** (a legal minimum, above equilibrium) causes a **surplus**.



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> **Watch out:** an elasticity below 1 still means demand **does** respond – just weakly. "Inelastic" does not mean "no response", only a small one.

Practice

Try these in order. The methods are all above.

2.1 State what price elasticity of demand measures. [1]

2.2 A 20% price rise cuts quantity demanded by 10%. Find the elasticity and state whether it is elastic or inelastic. [3]

2.3 State one thing that makes a good's demand more elastic. [1]

2.4 State what a price ceiling below equilibrium causes, and why. [2]

2.5 State what a price floor above equilibrium (like a minimum wage) causes. [2]

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