

2 Elasticity and government intervention – Part 2 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 how strongly the quantity demanded responds to a change in price.

2.2 $E_d = \frac{10\%}{20\%} = 0.5$ –inelastic (less than 1).

2.3 any of: more substitutes, the good is a luxury, it takes a large share of income, more time to adjust.

2.4 a shortage –at the low legal price, quantity demanded exceeds quantity supplied.

2.5 a surplus –at the high legal price, quantity supplied exceeds quantity demanded (e.g. unemployment for a minimum wage).