1.3 Supply and price elasticity of supply

Name: _____ Class: _____ Date: _____ **Total: 23 marks**

KEY WORDS price elasticity of supply

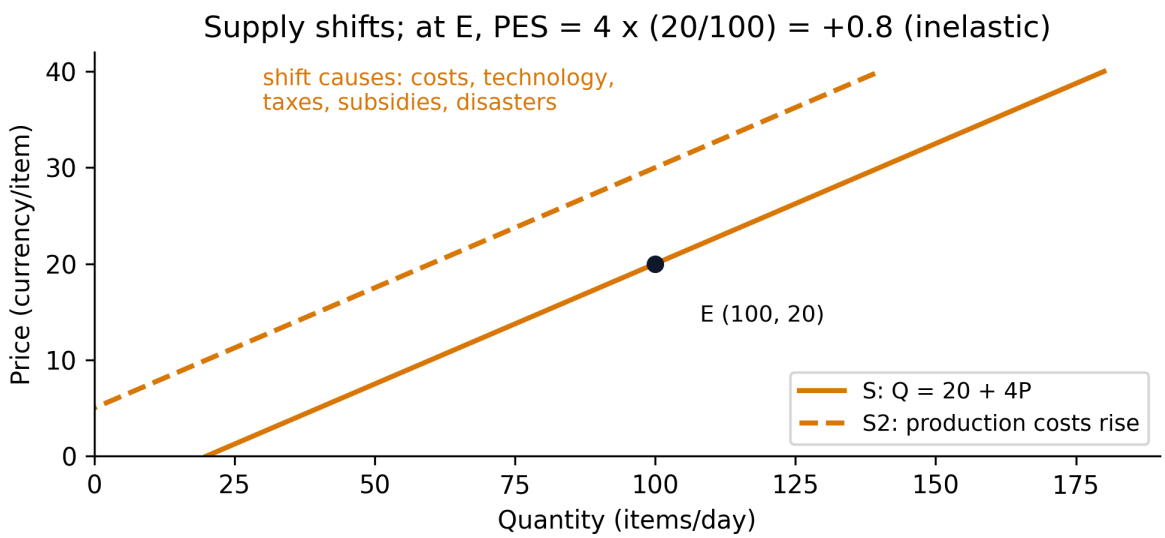
Supply and price elasticity of supply

Objective

Apply movements versus shifts of supply with their five causes, distinguish specific from ad valorem taxes, and calculate and interpret PES with the short-run/long-run distinction (spec 1.3.3, rows 1–2). Calculations use the shared model $Q_s = 20 + 4P$.

1 Key knowledge and worked examples

Supply and PES. Own-price changes move ALONG the supply curve; shifts come from production costs, technology, indirect taxes (specific per unit, ad valorem as a percentage), subsidies and natural disasters. PES = %ΔQs ÷ %ΔP; it depends on time period, stock and perishability, factor mobility, legal constraints and spare capacity. All factors are variable only in the long run, so supply is more elastic then.



Original model on the shared supply curve; the shift causes are listed in the text.

2 Practice

2.1 For each event, state movement along or shift (and direction) of the supply curve: (a) the market price of wheat rises; (b) fertiliser costs rise. [2]

2.2 Name any three of the five shift causes of the supply curve. [3]

2.3 Distinguish a specific tax from an ad valorem tax with one example of each. [2]

2.4 On $Q_s = 20 + 4P$, price rises from 20 to 24. Calculate PES and interpret it. [3]

2.5 State the short-run and long-run factor conditions, and link them to PES. [2]

2.6 A firm holds large stocks of a durable good. What does this imply for its price elasticity of supply, and why? [2]

3 Exam-style questions

3.1 *(Original.)* A technology improvement means sellers offer 24 more items per day at every price, so supply becomes $Q_s = 4P + 44$. With demand $Q_d = 140 - 2P$, find the new equilibrium price and quantity, and explain the adjustment from the old equilibrium (20, 100). [5]

3.2 *(Original.)* Explain why the price elasticity of supply of fresh strawberries differs between the picking day and two years later, naming two PES factors. [4]