

2.1 Equilibrium, elasticity and intervention: supported rehearsal

Name: _____ Class: _____ Date: _____

Total: 6 marks

Objective

Supported preparation: Explain market equilibrium and elasticities; Analyse intervention and behavioural limits with labelled diagrams. This is original rehearsal, not completion of the assessed task.

1 Key knowledge and worked examples

Equilibrium joins quantity demanded and supplied at one price. An own-price change moves along a curve; a changed determinant shifts it. Elasticity uses proportional changes, not the slope alone. A tax creates a wedge between consumer and producer prices; incidence depends on relative responsiveness.

Tax burden in the worked case

Original price: 10

Consumer price after tax: 12

Producer receipt after tax: 9

Tax wedge = $12 - 9 = 3$



Compared with the original price, buyers bear more.

Task: price rises from 10 to 12 currency units and quantity demanded falls from 100 to 90 units. Use the original-value percentage convention to compute PED and interpret revenue.

Percentage price change = $(12 - 10) / 10 \times 100\% = 20\%$. Percentage quantity change = $(90 - 100) / 100 \times 100\% = -10\%$. PED = $\% \Delta Q_d / \% \Delta P = -10\% / 20\% = -0.5$,

dimensionless. Revenue initially= $10 \times 100 = 1,000$ units; finally= $12 \times 90 = 1,080$ units. Demand is inelastic over this change under this convention.

2 Practice

2.1 For the worked case, identify the evidence and a conclusion it can support. Explain one material limit. [3]

3 Exam-style questions

3.1 Advertising changes while price rises and sales fall. Can the observed ratio identify PED on one demand curve? Give a reasoned answer, evidence or method, and a relevant qualification. [3]
