Past-paper walk-through

Price elasticity of supply (PES) ▪ 2.7

eXercise

Questions in this set

- 0455/12 N25 Q7 ▪ 1 mark
- 0455/11 J25 Q8 ▪ 1 mark
- 0455/12 J25 Q8 ▪ 1 mark
- 0455/11 N24 Q7 ▪ 1 mark

Question 7

0455/12 N25 ▪ Q7 ▪ 1 mark

7 When the price of butter increased by 10%, the quantity supplied of butter increased by 20%.

What is the price elasticity of supply (PES) of butter?

A –2.0 **B** –0.5 **C** +0.5 **D** +2.0

Solution 7

Answer: **D**

Why

- PES $=$ percentage change in quantity supplied $\div$ percentage change in price.
- $+20\%$ divided by $+10\%$.
- $= 2$, so supply is price elastic.

Question 8

0455/11 J25 ▪ Q8 ▪ 1 mark

8 The price elasticity of supply (PES) of coffee is calculated as +0.2 for the current year and +2.0 in the long run.

Why is the PES of coffee higher in the long run?

A Coffee plants take several years to grow.

B Consumers will not buy coffee at higher prices.

C There are many substitutes for coffee.

D There are no stocks of coffee.

Solution 8

Answer: **A**

Why

- Price elasticity of supply depends on how quickly output can be adjusted.
- Coffee bushes take years to mature, so output can barely change within one year.
- Given long enough, more can be planted, so supply becomes far more elastic in the long run.

Question 8

0455/12 J25 ▪ Q8 ▪ 1 mark

8 The supply of which good is likely to be most price elastic?

	the good is easily stored	time taken to produce the good
A	no	one day
B	no	one year
C	yes	one day

Question 8

D	yes	one year

Solution 8

Answer: **C**

Why

- Supply is most elastic when output can be adjusted quickly and stock can be held.
- A good produced in a day, and easily stored, can respond almost at once.
- A good taking a year to produce and impossible to store has very inelastic supply.

Question 7

0455/11 N24 ▪ Q7 ▪ 1 mark

7 A firm has the following supply schedule.

price ($)	quantity supplied
5	10
10	20

What is the price elasticity of supply of the good as the price increases from $5 to $10?

A –0.5 **B** +0.5 **C** +1.0 **D** +2.0

Solution 7

Answer: **C**

Why

- PES $=$ percentage change in quantity supplied $\div$ percentage change in price.
- Quantity goes $10 \to 20$, a rise of 100%; price goes \$5 $\to$ \$10, also 100%.
- $100/100 = 1$, so supply is unit elastic.