

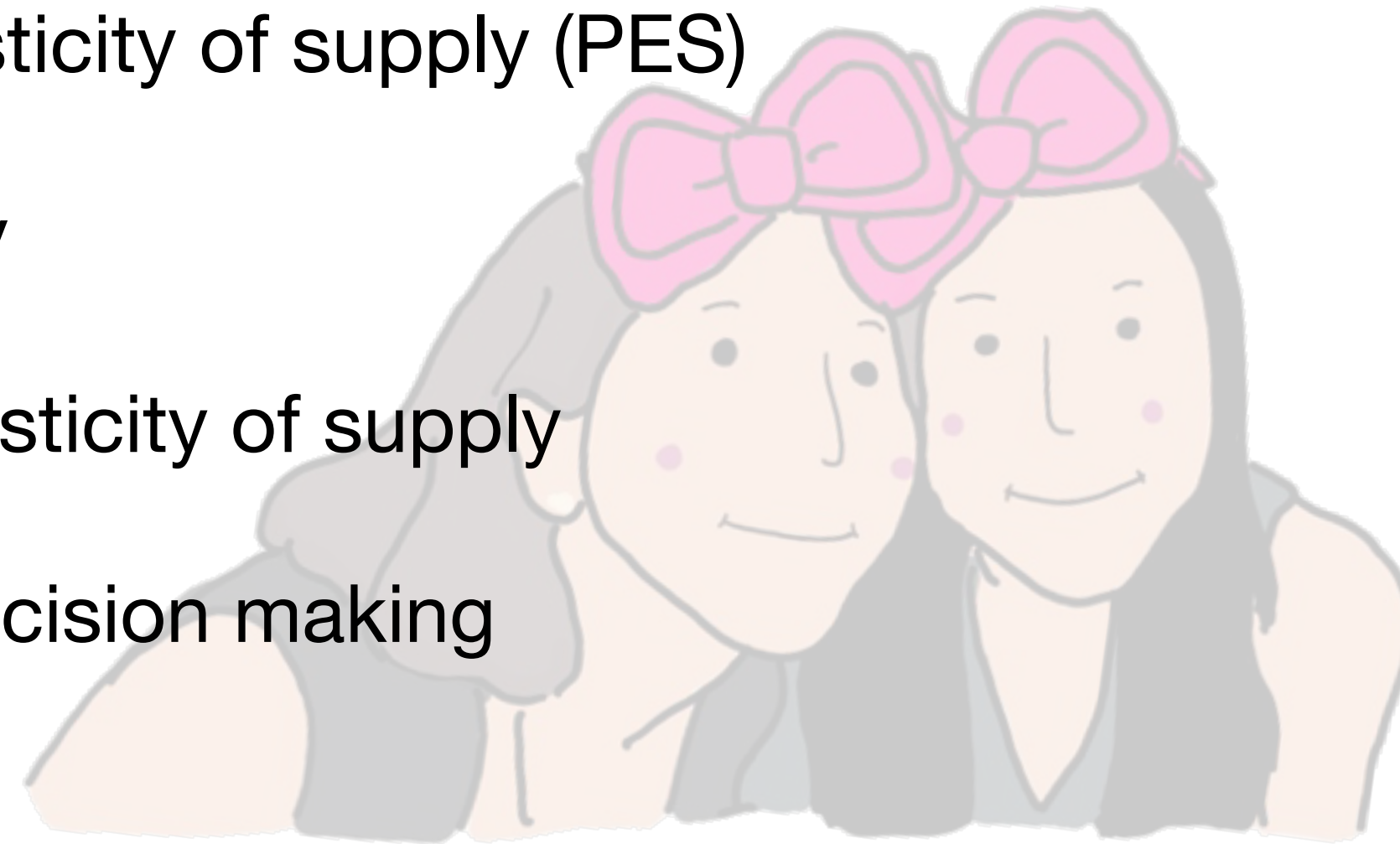


MICROECONOMICS - Price elasticity of supply

By Kru P'Eve and Kru P'Da Knockout.Economics

Overview

1. Definition and how to calculate price elasticity of supply (PES)
2. Interpretation of price elasticity of supply (PES)
3. Other degrees of elasticity
4. Factors affecting price elasticity of supply
5. Implications of PES for decision making



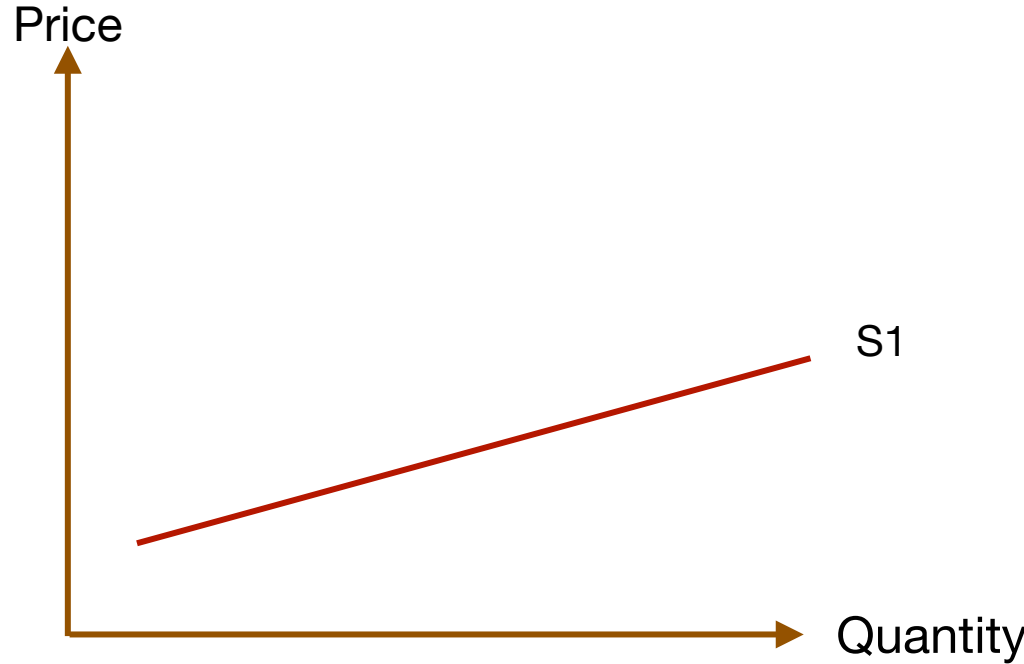
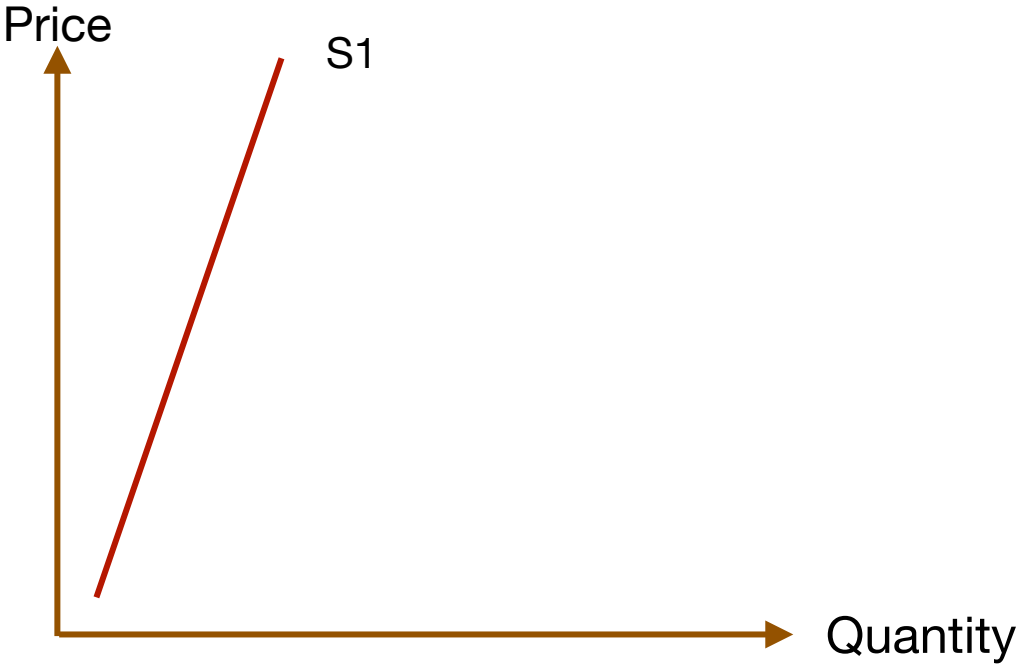
1. Definition and how to calculate price elasticity of supply (PES)

- **Price elasticity of supply (PES)** : measures the responsiveness of quantity supplied when a change in price.
- **Formula PES** : $\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}$

For example : The price of a products rises from £ 20 to £30 . This causes supply to extend from 1,000 units to 1,100 units. Calculate PES ?



2. Interpretation of price elasticity of supply (PES)

	Elastic	Inelastic
PES	$PES > 1$	$0 < PES < 1$
Meaning	When the quantity supplied changes by a larger percentage than the change in price	When the quantity supplied changes by a smaller percentage than the change in price
Calculation	Eg. P1 : 100 Baht P2 : 120 Baht Q1 : 10 unit Q2 : 25 units	Eg. P1 : 100 Baht P2 : 120 Baht Q1 : 10 unit Q2 : 11 units
Diagram	 <p>A graph with Price on the vertical axis and Quantity on the horizontal axis. A red line labeled S1 starts at a low price and low quantity and rises at a shallow angle, indicating a high elasticity of supply.</p>	 <p>A graph with Price on the vertical axis and Quantity on the horizontal axis. A red line labeled S1 starts at a low price and low quantity and rises at a steep angle, indicating a low elasticity of supply.</p>

3. Other degrees of elasticity

	Perfectly elastic supply	Perfectly inelastic supply	Unit PES
PES	PES = ∞	PES = 0	PES = 1
Meaning	When a change in price causes a complete change in the quantity supplied	When a change in price causes no change in the quantity supplied	When a change in price causes an equal change in the quantity supplied
Diagram			

4. Factors affecting price elasticity of supply

- The value of PES for a good depends on many factors

1. Factors of production

: If producers have **easy to access the factors of production** (Labour, Land, Capital etc.) Or have **spare capacity factors of production**, producers will be able to **increase production with their resources**. As a result, **PES will be elastic**.

: However, if producers **cannot access the factors of production** Or **running at full capacity**, producer will be **difficult / not be able to increase production at short notice**. As a result, **PES will be inelastic**.

4. Factors affecting price elasticity of supply

- The value of PED for a good depends on many factors

2. Availability of stocks

: If producers can **hold stocks of product (long shelf-life)**, producers can respond quickly to price change so **PES will be elastic.**

: If products are **perishable**, producers **cannot hold stocks of products (short shelf-life)** to respond quickly when there are a change in price such as vegetables or fruits. **Therefore PES will be inelastic.**

3. Time

: If producers **spend long time** to produce goods, **supply will be inelastic.**

: If producers **spend short time** to produce goods, **supply will be elastic.**

5. Implications of PES for decision making

- Producers want their supply to be as elastic as possible. If firms can adjust their supply in response to changes in demand and price, firm can increase their revenue and profit.



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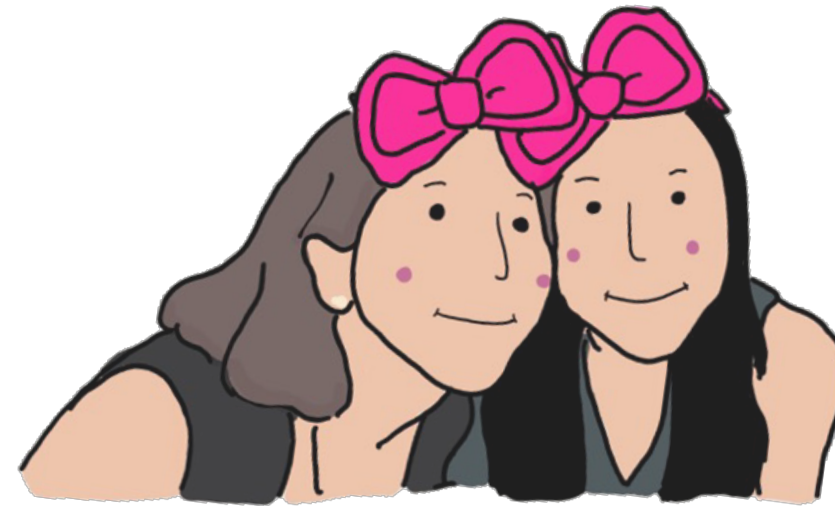
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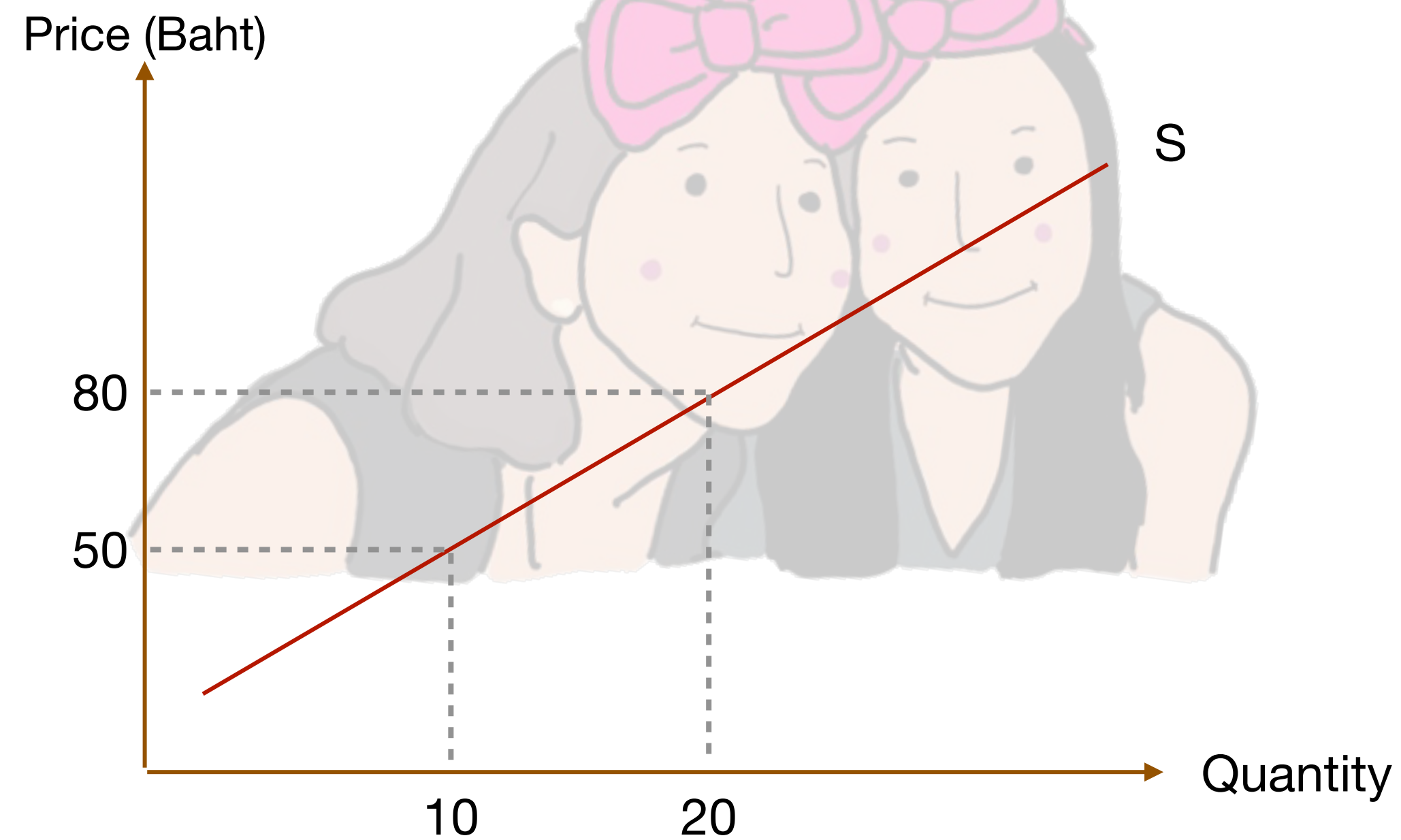


MICROECONOMICS - Exercise - Price elasticity of supply

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Exercise: MCQ

1. The diagram represents the supply curve for a product. What is the price elasticity of supply when the price increases from 50 baht to 70 baht ?



A. 1.7

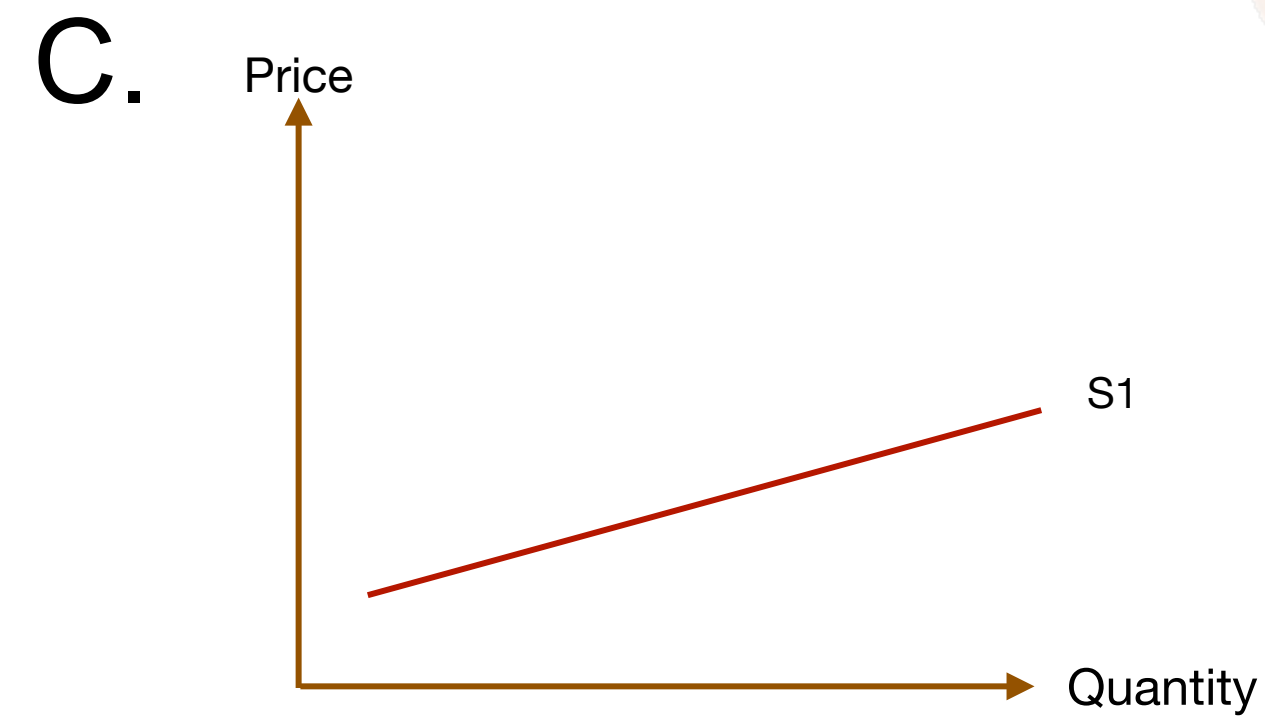
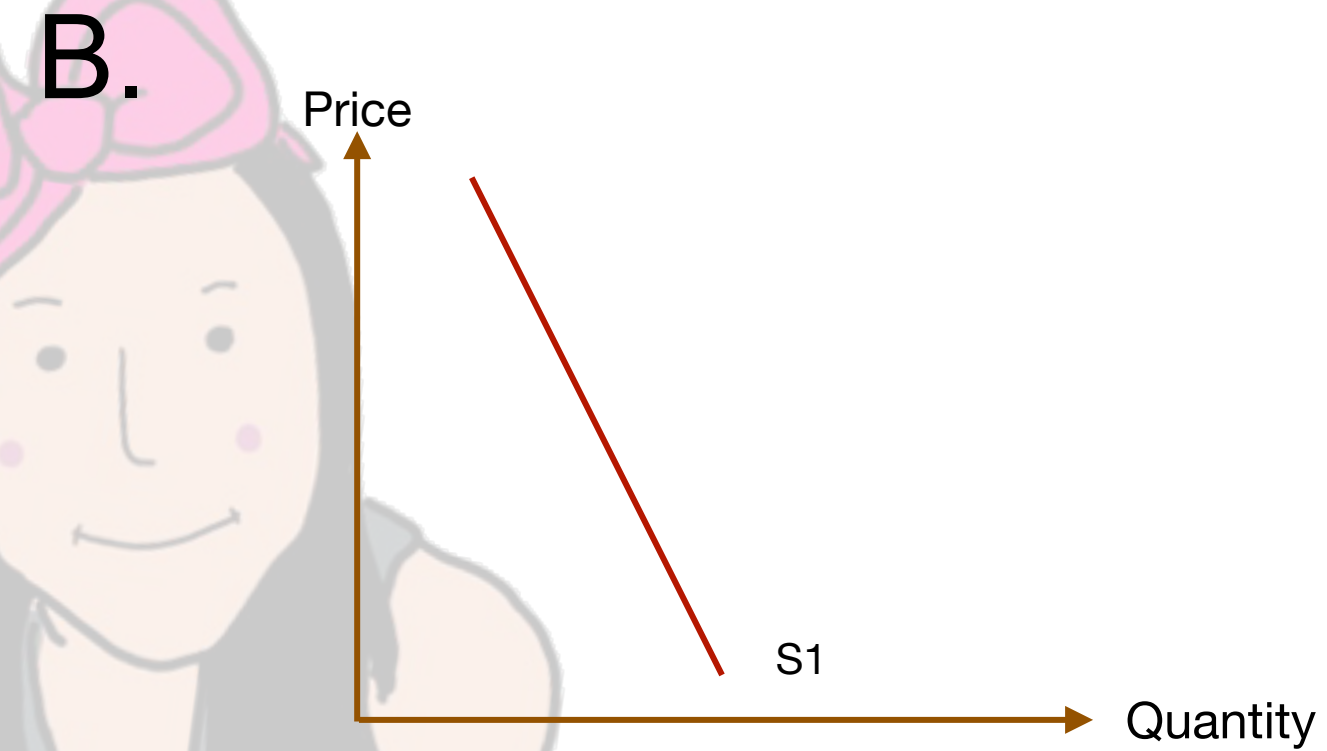
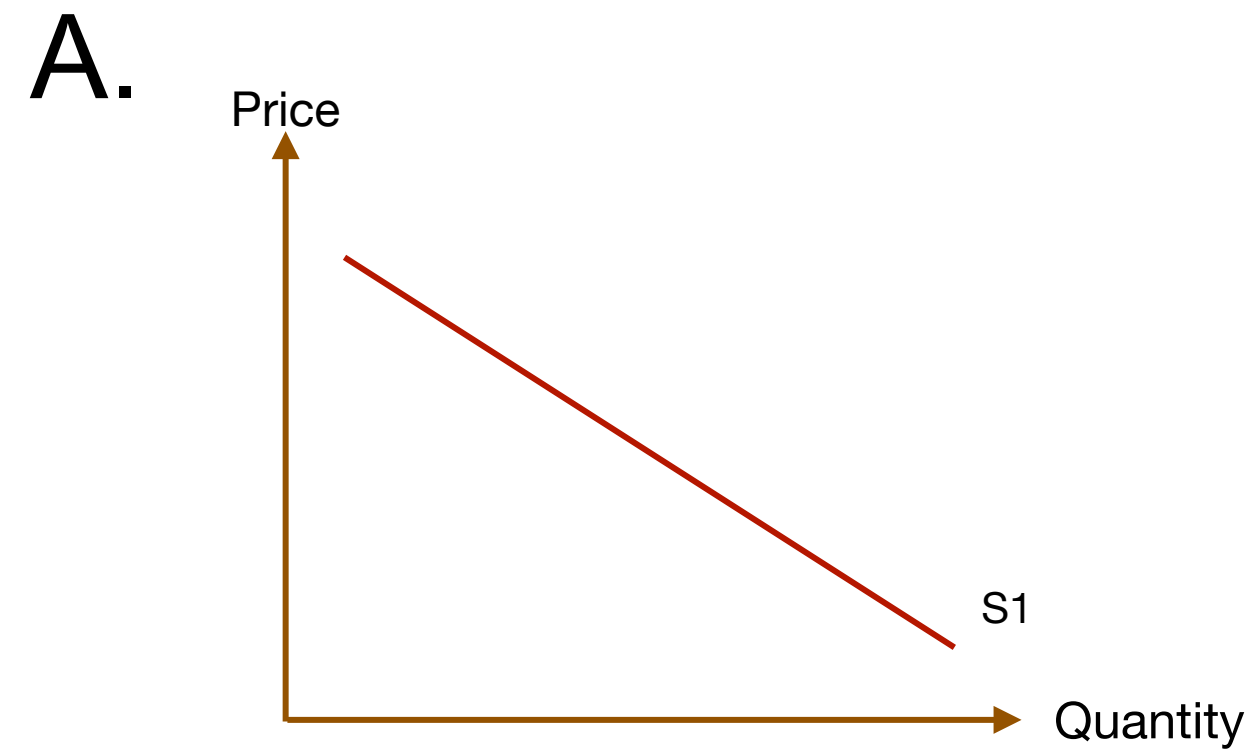
B. 1.2

C. 2.0

D. 2.5

Exercise: MCQ

2. Which diagram represents elastic supply?



Exercise: Essay

1. Explain how economist can determine whether the supply of a good is inelastic or elastic [4]

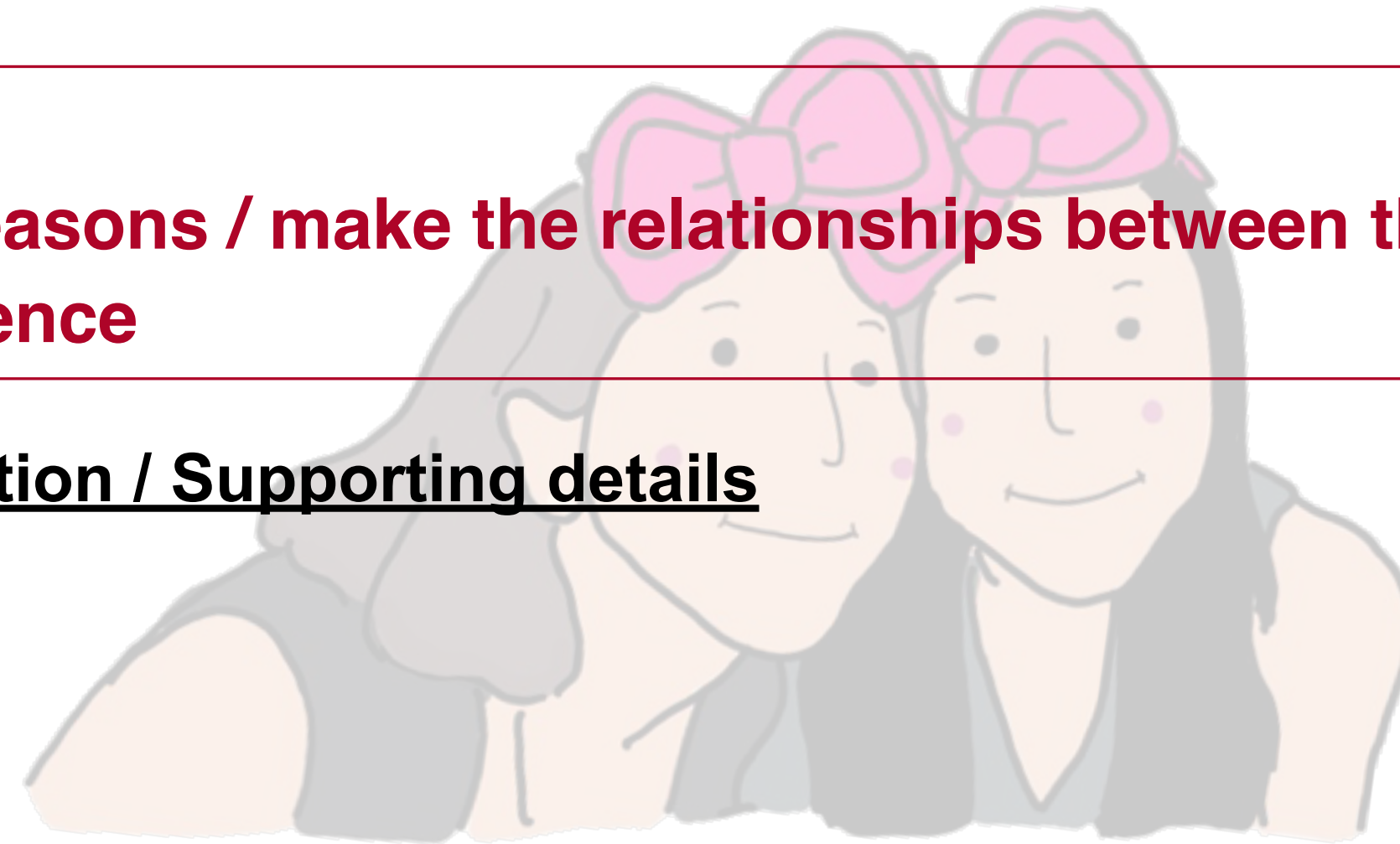
Command Word:

Explain: Set out purposes or reasons / make the relationships between things clear / say why and/or how and support with relevant evidence

Knockout Tips: Issues + Explanation / Supporting details

- Factors of production

- Timing



Exercise: Essay

2. Discuss whether the supply of agriculture products tends to be more inelastic than the supply of manufactured products [8]

Command Word:

Discuss: Set out both sides of an argument (For and against)

Knockout Tips: For / Against + Supporting details

For

Against

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