

CONCEPT: PRICE ELASTICITY OF SUPPLY

- We calculate Price Elasticity of Supply in a similar fashion to Price Elasticity of Demand.

Price Elasticity of Supply: How does quantity supplied respond to a change in price?

$$\text{Price Elasticity of Supply} = \frac{\text{Percentage Change } (\% \Delta) \text{ in Quantity Supplied}}{\text{Percentage Change } (\% \Delta) \text{ in Price}} = \frac{\% \Delta Q_s}{\% \Delta P}$$

☐ We still use the _____ in this calculation!

Steps for calculating Price Elasticity:

1. Subtract the two quantities and subtract the two prices.
2. Sum the two quantities and sum the two prices.
3. Divide your Quantity Sum by two. Divide your Price Sum by two.
4. Divide your answers from Steps 1 and 3. (Step 1 ÷ Step 3 for both quantity and price)
5. Divide your answers from Step 4. (Quantity ÷ Price)

EXAMPLE: When the price of ice cream rises from \$4 a tub to \$6 a tub, the quantity supplied increases from 90,000 to 110,000. What is the price elasticity of supply for ice cream?

For Price Elasticity of Supply, we will always get a positive number. So don't worry about positive or negative here!

- ☐ Supply is **elastic** when _____
- ☐ Supply is **inelastic** when _____
- ☐ Supply is **unit-elastic** when _____

PRACTICE: The price elasticity of supply measures the responsiveness of:

- a) Quantity supplied to changes in price
- b) Quantity demanded to changes in supply
- c) Quantity supplied to changes in income
- d) Quantity supplied to changes in demand

PRACTICE: If a one percent decrease in the price of a pound of pound cake causes a three percent decrease in the quantity of pound cake supplied:

- a) Demand is inelastic
- b) Demand is elastic
- c) Supply is inelastic
- d) Supply is elastic

PRACTICE: If a decline in the price of flags \$9 to \$7, caused by a shift in the demand curve, decreases the quantity of flags supplied from 5,500 to 4,500, the:

- a) Demand for flags is elastic
- b) Supply of flags is elastic
- c) Demand for flags is inelastic
- d) Supply of flags is inelastic