

ELASTICITY

Price Elasticity of Supply

How Responsive ?

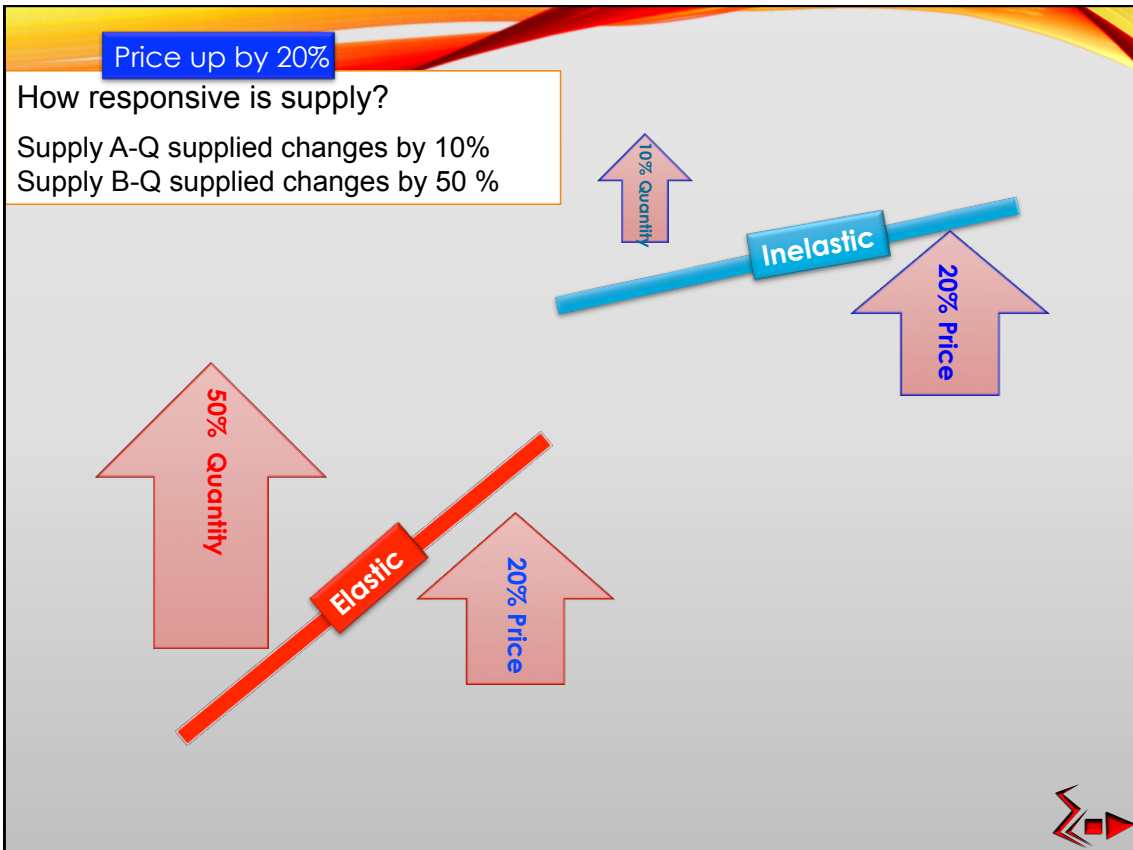
If the price of a product increased by 20%
Produce more

- ✓ How much more?
--increase supply- but by how much?



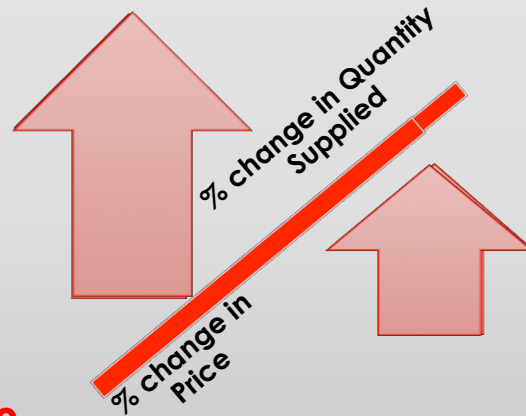
CONSIDER A CASE

Price Increases by 20%



HOW RESPONSIVE IS SUPPLY- MEASURE IT

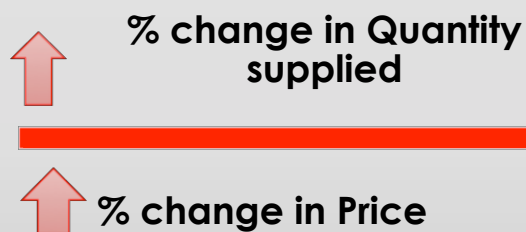
- Responsiveness of
 - Quantity Supplied
 - to a
 - change in its price



$$2.5 = 50 / 20$$



FORMULA: PRICE ELASTICITY OF SUPPLY



Change in Quantity Supplied

Change in Price

Average Quantity

Average Price



$$\% \Delta Q = \Delta Q / Q_{\text{average}}$$

$$Q_{\text{average}} = (Q_1 + Q_2) / 2$$

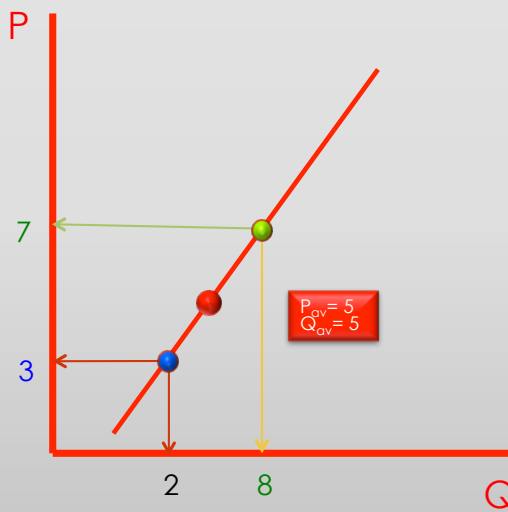


PRICE ELASTICITY OF SUPPLY

$$\begin{aligned} \% \Delta Q \\ = \Delta Q / Q_{\text{ave}}, = 6/5 \end{aligned}$$

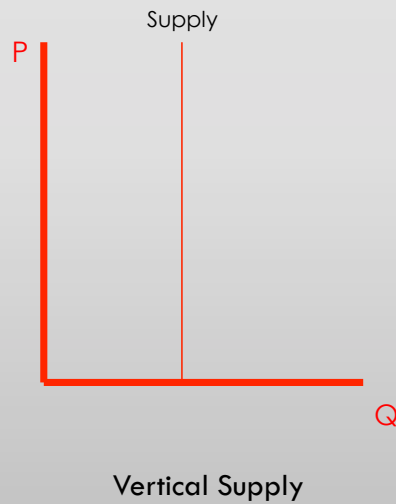
$$\begin{aligned} \% \Delta P \\ = \Delta P / P_{\text{ave}}, = \$4 / \$5 \end{aligned}$$

- The price elasticity of Supply is =
- $\% \Delta Q / \% \Delta P = (6/5) / (4/5)$
 $= 6/4 = 1.5$



PRICE ELASTICITY OF SUPPLY

- price elasticity of Supply is zero
- good has a **perfectly inelastic Supply**.

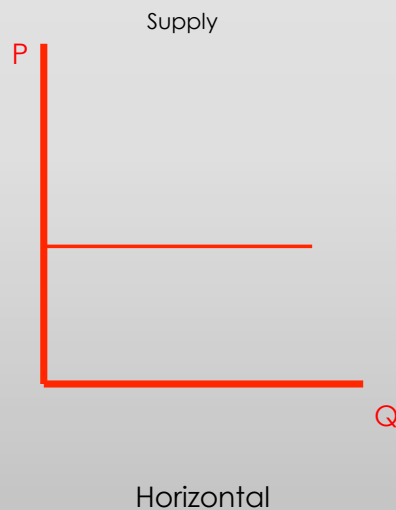


PRICE ELASTICITY OF SUPPLY

- If the percentage change in the quantity Supplied is infinitely large when the price barely changes,

...

price elasticity of Supply is infinite
perfectly elastic Supply.



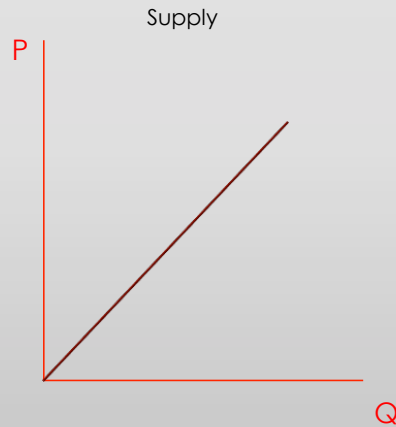
PRICE ELASTICITY OF SUPPLY

If % change in quantity Supplied = % change in price

Unit elastic Supply.

the price elasticity of Supply equals 1

Supply curve with ever declining slope.



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