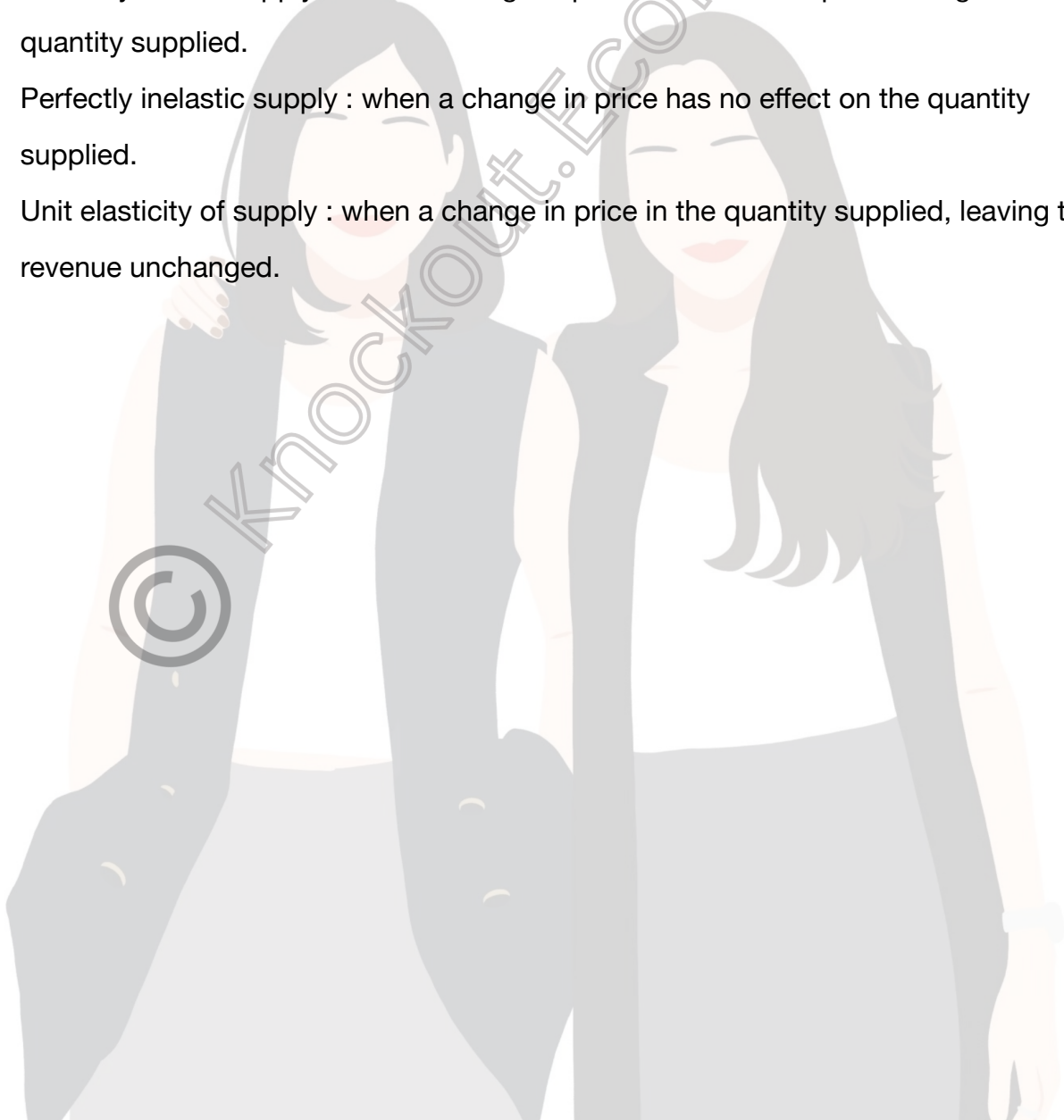


CHAPTER 12 : PRICE ELASTICITY OF SUPPLY

Key terms



1. Price elasticity of supply (PES) : a measure of the responsiveness of the quantity supply to a change in price.
2. Elastic supply : when the quantity supplied changes by a greater percentage than the change in price
3. Inelastic supply : when the quantity supplied changes by a smaller percentage than the change in price.
4. Perfectly elastic supply : when a change in price causes a complete change in the quantity supplied.
5. Perfectly inelastic supply : when a change in price has no effect on the quantity supplied.
6. Unit elasticity of supply : when a change in price in the quantity supplied, leaving total revenue unchanged.



1. Definition of price elasticity of supply

: Price elasticity of supply(PES) : measures the responsiveness of quantity supply to changes in price.

$$PES = \frac{\% \text{ change in quantity of supply}}{\% \text{ change in price}}$$

	Price elastic supply	Price inelastic supply
Definition	The percentage change in quantity of supply is greater than the percentage change in price	The percentage change in quantity of supply is lesser than the percentage change in price
Value of PES	$PES > 1$	$0 < PES < 1$
Curve		

2. Determinants of price elasticity of supply

2.1) Time under consideration

: In the short run ; firms cannot employ more labour and capital \Rightarrow Inelastic PES

: In the long run ; firms can employ more labour and capital \Rightarrow Elastic PES

2.2) Production time

: Products which take long time to produce \Rightarrow Inelastic PES

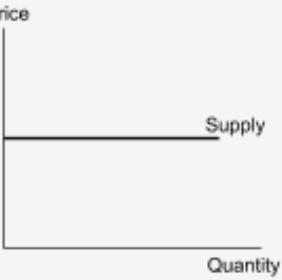


2.3) Resources availability

: Products which take long time to produce \Rightarrow Inelastic PES

2.4) Perishability

: Products which are easily perishable e.g. vegetable \Rightarrow Inelastic

3. Special supply curve

Perfectly price elastic	Perfectly price inelastic	Unitary price elastic
 <p>A graph showing a horizontal supply curve. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. A horizontal line is drawn across the graph, labeled 'Supply'.</p>	 <p>A graph showing a vertical supply curve. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. A vertical line is drawn, labeled 'Supply'.</p>	 <p>A graph showing a downward-sloping supply curve. The vertical axis is labeled 'Price' and the horizontal axis is labeled 'Quantity'. A curve starts high on the price axis and slopes downwards, labeled 'Supply'.</p>
PES = ∞	PES = 0	PES = 1