Quick Answers

Question 1

State the formula for calculating the price elasticity of supply (PES)

- % change in quantity supplied % change in price (2)
  OR
- Percentage change in quantity supplied divided by percentage change in price (2).

Question 2

Calculate, using information from the extract, the price elasticity of supply (PES) of driverless cars.

- 2.5 (2)
- Correct working: 20% / 8% OR 20 / 8 (1)

Question 3

Explain why the concept of price elasticity of supply (PES) may be useful to a government in deciding whether to subsidise the production of a product.

- A subsidy is aimed at increasing supply / lowering price (1).
- If supply is elastic, supply will change by a greater (1) percentage (1) than price. Should subsidise production of the product (1)
- If supply is inelastic, supply will change by a smaller (1) percentage (1) than price. Should not subsidise production of the product (1).

Guidance

- supply change is greater/smaller than price change (1)
- supply changes by a greater/smaller **percentage** than price (2)

Question 4

Explain, using information from the extract, whether the supply of Iceland's fish is price-elastic or price-inelastic

- It is price-inelastic (1) because the quantity of fish supplied tends to change by a smaller percentage than the change in its price (1)

Question 5

Analyse how an increase in the price elasticity of demand and the price elasticity of supply of its products could benefit a firm

- A more elastic demand would mean that the firm could reduce price (1) to raise revenue (1) as demand would rise by more than the fall in price (1) if revenue rises by more than costs, profit will increase (1)
- A more elastic supply will mean that the firm can adjust more quickly the amount it sells when price changes (1) the firm will be able to take greater advantage of an increase in demand / rise in price (1) the firm will be able to take more of its products off the market should price fall (1)

Question 6

Explain two reasons why manufactured goods are usually in more price elastic supply than agricultural goods

- The difference in the time it takes to produce the goods (1) it is usually quicker to make manufactured goods/it takes time for crops to grow and/or animals to be raised (1)
- May have more skilled workers (1) more flexible in adjusting to changes in demand (1)
- May have more mobile factors of production (1) e.g. land itself is geographically immobile (1)

- The difference in storage time (1) it is usually easier to store manufactured goods (1)

Question 7

Define perfectly inelastic supply.

- A change in price causes no change in supply (2)
- Correct formula (1)
- A PES of 0 (1)