

Summary

2.5 Elasticities of demand

Subject	Year	Start date	Duration
Economics	IB1	Week 2, October	1 week 2 hours

Course Part

2. Microeconomics

Description

2.5 Elasticities of demand, you should be able to:

- Define the following terms: elasticity of demand, price elasticity of demand (PED), price elastic demand, price inelastic demand, unitary elastic demand, perfectly elastic demand, perfectly inelastic demand, necessity good, total revenue, profit, tax incidence, commodities (primary commodities, primary goods), manufactured goods, income elasticity of demand, Engel curve, income elastic demand, income inelastic demand, perfectly income inelastic demand, superior goods, economic growth, recession, primary sector, secondary sector, tertiary sector, sectoral change.

Price elasticity of demand (PED)

- Calculate PED using the following equation:

$$\text{PED} = \% \text{ change in quantity demanded} / \% \text{ change in price}$$

- Calculate PED from two points on a demand curve.
- Explain, using diagrams and PED values, the concepts of:
 - Elastic demand
 - Inelastic demand
 - Unitary elastic demand
 - Perfectly elastic demand
 - Perfectly inelastic demand
- Explain why PED varies along a linear demand curve and is not represented by the slope of the demand curve.
- Explain the determinants of PED, including:
 - Number and closeness of substitutes
 - Degree of necessity
 - Proportion of income spent on the good
 - Time
- Explain the relationship between price elasticity of demand and total revenue.
- Examine the importance of PED for firms and government decision-making.
- Explain why the PED for primary commodities is relatively low and the PED for manufactured products is relatively high (HL).

Income elasticity of demand

- Calculate YED using the following equation:

$$\text{YED} = \% \text{ change in quantity demanded} / \% \text{ change in income}$$

- Explain, using Engel curves and YED values, the concepts of:
 - Elastic demand
 - Inelastic demand
 - Perfectly inelastic demand
 - Normal goods
 - Inferior goods
- Examine the importance of YED for producers (HL).

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- Examine the importance of YED for sectoral change in the economy (HL).

Inquiry & Purpose

Inquiry / Higher Order Questions

Type	Inquiry Questions
Concept-based	An investigation into the extent to which firms actually use knowledge of elasticity to inform pricing decisions.

Curriculum

Objectives

Application and analysis (AO2)

Analyse how economic information is used effectively in particular contexts

Use and application of appropriate skills (AO4)

Use quantitative techniques to identify, explain and analyse economic relationships

ATL Skills

Approaches to Learning

Thinking


- In this unit, we will reward a new personal understanding, solution or approach to an issue

Research

- In this unit, we will require students to formulate/construct a focused research question (either in class or in a homework assignment)

Developing IB Learners

Learner Profile

 Knowledgeable

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Balanced