Summary

2.6 Elasticity of supply

Subject	Year	Start date	Duration
Economics	IB1	Week 3, October	1 week 2 hours

Course Part

2. Microeconomics

Description

2.6 Elasticity of supply, you should be able to:

- Define the following terms: price elasticity of supply (PES), price elastic supply, price inelastic supply, unitary elastic supply, perfectly elastic supply, perfectly inelastic supply, primary commodities/primary goods.
- Calculate PES using the following equation: PES=% change in the quantity supplied% change in the price PES=% change in the quantity supplied% change in the price
- Explain, using diagrams and PES values, the concepts of elastic supply, inelastic supply, unitary elastic supply, perfectly elastic supply, and perfectly inelastic supply.
- Draw and interpret diagrams of relatively elastic supply, relatively inelastic supply, unitary elastic supply, perfectly elastic supply and perfectly inelastic supply.
- Explain the determinants of PES, including: time, mobility of factors of production, unused capacity, the rate at which costs increase, and ability to store stock.
- Explain why the PES for primary commodities is relatively low and the PES for manufactured products is relatively high (HL).

Inquiry & Purpose

Inquiry / Higher Order Questions

Type	Inquiry Questions
Skills-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)

Interpret appropriate data sets

Syllabus Content

Unit 2: Microeconomics

Real-world issue 1: How do consumers and producers make choices in trying to meet their economic objectives?

2.6 Elasticity of supply

Price elasticity of supply (PES)

$$\text{PES} = \frac{\text{percentage change in quantity supplied}}{\text{percentage change in price}}$$

Degrees of PES—theoretical range of values for PES

Determinants of PES—time, mobility of factors of production, unused capacity, ability to store, rate at which costs increase

Reasons why the PES for primary commodities is generally lower than the PES for manufactured products (HL only)

Diagram: relatively elastic and inelastic supply

Diagram: constant PES —perfectly elastic, perfectly inelastic and unitary PES along a supply curve

Calculation: PES, change in price or quantity supplied from data provided

Inquiry—possible areas to explore (not an exhaustive list)

An investigation into the problems associated with volatile prices of commodity-dependent countries.

An investigation into how choice architecture influences decision-making in different contexts (for example, its role in a supermarket, or how it may influence the rate of organ donation in different countries).

A critical investigation into the CSR practices of different companies.

An investigation into the extent to which firms actually use knowledge of elasticity to inform pricing decisions.

Theory of knowledge questions

Is the assumption of rational consumer choice realistic?

Can laws in economics, such as the law of demand and the law of supply, have the same status as laws in the natural sciences?

Can the use of empirical evidence ever allow us to arrive at the truth about the real world?

What practical problems does economics try to solve?

Concepts

Change

ATL Skills

Approaches to Learning

Communication

- In this unit, we will

  ask students to formulate arguments clearly and coherently

Developing IB Learners

Learner Profile

Communicators