

IB Economics SL and HL
Unit 4 Elasticity of Demand and Supply

IDs and Concepts:

Elasticity	Income Elasticity of Demand (YED)
Price elasticity of Demand (PED)	Cross Elasticity of Demand (XED)
Price elasticity of Supply (PES)	
Elastic	Substitute goods
Inelastic	Luxury goods
Perfectly inelastic	Necessary goods
Perfectly elastic	Normal goods
Unit Elastic	Inferior goods
Revenue	Elasticity and sectors of the economy
Total Revenue Test	

Elasticity Formula: (Supply or Demand)

$$\frac{\% \text{ Change in quantity}}{\% \text{ Change in Price}}$$

Income Elasticity of Demand

$$\frac{\text{Percentage change in quantity demanded for a good}}{\text{Percentage change in Income}}$$

Cross -price Elasticity of Demand

$$\frac{\text{Percentage change in quantity demanded for good A}}{\text{Percentage change in price of good B}}$$

Objectives:

1. Identify and explain the determinants of Price elasticity of Demand.
2. Use the quantity and price information to calculate elasticity using the elasticity formula.
3. Explain and calculate the varying elasticity along the demand curve and how this differs from the slope of the line.
4. Use the total revenue test to test for price elasticity of demand.
5. Use demand curves to demonstrate changes in total revenue and different elasticities.
6. Explain the varying PED for different sectors of the economy. (Primary, secondary, tertiary)
7. Calculate and explain the meaning of the values of XED and YED.
8. Examine the implications of varying YEDs for products from different sectors of the economy. (Primary, secondary, tertiary) and explain how this impacts producer revenue.
9. Describe the uses of the elasticity concept for firms and managers.
10. Identify and explain the determinants of Price elasticity of Supply.
11. Explain how elasticities can change in the Short run vs. the Long Run.
12. Explain the varying PES for different sectors of the economy. (Primary, secondary, tertiary)

Block B Due Tuesday Nov27 Blocks E/G Due Wednesday Nov 28	<i>HW4.1 PED</i> Read p. 47-52 and answer p. 52 # 1 and 2 and p. 53 #7 a,b,c
Block B Due Thursday Nov29 Blocks E/G Due Sunday Dec 2	<i>HW 4.2 TR and XED</i> Read p. 54-57 and 58-61 and answer: p. 53 4d p. 58 #1 (a) and (d) p. 61 #4
Block B Due Monday Dec 3 Blocks E/G Due Tuesday Dec 4	<i>HW 4.3 YED</i> Read p. 62-65 and answer p. 65 #1, 4 (a) and (b), #6
Block B Wed Dec 5 Block E/G Thursday Dec 6	Quiz on Objectives 1-8
Block B Due Sunday Dec 9 Blocks E/G Due Monday Dec 10	<i>HW 4.4 PES</i> Read p. 66-70 and answer p. 69 #5 and 6(a) and p. 71 # 1
	Final Exam Monday December 17 9:00 – 11:00am

Review to help you study:

1. By using the PED equation, explain why the PED for Sprite is higher than for carbonated beverages.
2. Describe an example that is not used in the book of a product that has:
 - a. inelastic supply
 - b. elastic supply
3. Why are Supply curves in the Short Run more inelastic than in the Long Run? Include graphs in your answer.
4. Why does housing in London have inelastic supply?