Your notes

GCSE Economics: revision notes

# Price elasticity of demand and supply

## Contents

1. Price elasticity of demand (PED)
2. What affects PED
3. PED and revenue
4. Price elasticity of supply (PES)
5. Key terms
6. Quick questions
7. What to do next

## Price elasticity of demand (PED)

- PED measures how much quantity demanded responds to a change in price.
- PED = percentage change in quantity demanded ÷ percentage change in price. (PED is negative, so economists often ignore the minus sign.)
- **Elastic demand** (PED above 1): quantity changes by a bigger percentage than price. **Inelastic demand** (PED below 1): quantity changes by a smaller percentage.
- Example: price rises 10% and quantity demanded falls 20%. PED = –20 ÷ 10 = –2, which is elastic.

## What affects PED

- Number of substitutes: more substitutes make demand more elastic.
- Necessities are inelastic; luxuries are more elastic.
- Proportion of income: goods taking a large share of income are more elastic.
- Time: demand becomes more elastic over time as people find alternatives.
- Addictive goods, such as cigarettes, are inelastic.

## PED and revenue

- If demand is inelastic, raising the price increases **total revenue**. If demand is elastic, raising the price reduces **total revenue**.
- This is why governments tax goods with **inelastic demand**, such as petrol and cigarettes.

## Price elasticity of supply (PES)

- PES = percentage change in quantity supplied ÷ percentage change in price.

- Supply is more elastic if firms have **spare capacity**, stocks, and more time to respond.

Your notes

## Key terms

| | |
|---|---|
| **Price elasticity of demand** | How much quantity demanded responds to a change in price. |
| **Elastic demand** | Quantity demanded changes by a larger percentage than price. |
| **Inelastic demand** | Quantity demanded changes by a smaller percentage than price. |
| **Total revenue** | Price multiplied by quantity sold. |
| **Price elasticity of supply** | How much quantity supplied responds to a change in price. |
| **Spare capacity** | Being able to produce more with existing resources. |

## Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is the formula for PED?
2. A price rises 10% and quantity demanded falls 20%. What is the PED (ignoring the minus sign)?
3. Is a PED of 0.4 elastic or inelastic?
4. Which good is likely to have inelastic demand?
5. What happens to total revenue if a firm raises the price of a good with inelastic demand?
6. What happens to total revenue if a firm raises the price of a good with elastic demand?
7. What makes demand more elastic?
8. Why do governments tax cigarettes heavily?

### Answers

1. Percentage change in quantity demanded ÷ percentage change in price
2. 2
3. Inelastic
4. Petrol
5. It rises
6. It falls
7. Having many substitutes
8. Demand is inelastic, so tax raises a lot of revenue

## What to do next

Practise 10 questions on this topic

## Try 3 exam questions, with mark schemes

## Read the lesson, one step at a time

Free revision for GCSE and KS3 at lycolearn.co.uk. Some notes are for one exam board only, and say so in brackets.

Your notes