1.2 ELASTICITY

I. DEMAND (PED) (XED) (YED): TERMS & OBJECTIVES (SL/HL)

- Price Elasticity of Demand (PED)
- Price Elastic
- Price Inelastic
- Price Unit Elastic
- Perfectly Elastic Demand
- Perfectly Inelastic Demand
- Substitutes
- Necessity
- Revenue
- Output
- Profit
- Income Elastic
- Direct Taxes
- Disposable Income
- Pricing Strategy
- Industry
- Branded Goods
- Market Share
- Primary Good
- Manufactured Goods
- Luxuries
- Unemployment
- Tax Revenue
- Cross-Price Elasticity of Demand (XED)
- Unrelated Goods
- Income Elasticity of Demand (YED)
- Income Inelastic

- Explain the concept of price elasticity of demand, understanding that it involves responsiveness of quantity demanded to a change in price, along a given demand curve.
- Calculate PED using the following equation: PED = percentage change in quantity demanded / percentage change in price.
- State that the PED value is treated as if it were positive although its mathematical value is usually negative.
- Explain using diagrams and PED values, the concepts of price elastic demand, price inelastic demand, unit elastic demand, and perfectly inelastic demand.
- Explain the determinants of PED, including the number and closeness of substitutes, the degree of necessity, time, and the proportion of income spent on the good.
- Calculate PED between two designated points on a demand curve using the PED equation.
- Explain why PED varies along a straight-line demand curve and is not represented by the slope of the demand curve.
- Examine the role of PED for firms in making decisions regarding price changes and their effect on total revenue.
- Explain why PED for many primary goods is relatively low and the PED for manufactured goods is relatively high.
- Examine the significance of PED for government in relation to indirect taxes.
- Outline the concept of cross-price elasticity of demand, understanding that it involves responsiveness of demand for one good (and hence a shifting demand curve) to a change in the price of another good.
- Calculate XED using the XED equation
- Show that substitute goods have a positive value of XED and complementary goods have a negative value of XED.
- Explain that the (absolute) value of XED depends on the closeness of the relationship between two goods.
- Examine the implications of XED for businesses if prices of substitutes or complements change.
- Outline the concept of income elasticity of demand, understanding that it involves responsiveness of demand (and hence a shifting demand curve) to a change in income.
- Calculate YED using the YED equation
- Show that normal goods have a positive value of YED and inferior goods have a negative value of YED. Distinguish, with reference to YED, between necessity (income inelastic) goods and luxury (income elastic) goods.
- Examine the implications for producers and for the economy of a relatively low YED for primary goods, a relatively higher YED for manufactured goods, and an even higher YED for services.

II. SUPPLY (PES): TERMS & OBJECTIVES (SL/HL)

- Price Elasticity of Supply (PES)
- Perfectly Elastic Supply
- Perfectly Inelastic Supply
- Price Inelastic
- Price Unit Elastic
- Short Run
- Long Run
- Unskilled Labour
- Skilled Labour

- Explain the concept of price elasticity of supply, understanding that it involves responsiveness of quantity supplied to a change in price along a given supply curve.
- Calculate PES using the equation
- Explain, using diagrams and PES values, the concepts of elastic supply, inelastic supply, unit elastic supply, perfectly elastic supply, and perfectly inelastic supply.