1.1 Price and Income Elasticity of Demand: 10-minute Pack

Total Marks

AQA 7132 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show your working for every calculation. Use the figures given in each question's prompt; no calculator is needed for any calculation.

1 Which one of the following best describes price elasticity of demand (PED) as used in business analysis?

- ☐ A) The percentage change in price divided by the percentage change in quantity demanded
- ☐ B) The percentage change in quantity demanded divided by the percentage change in price
- ☐ C) The change in total revenue after a change in advertising
- ☐ D) The absolute difference between price and marginal cost

(Total for Question 1 is 1 mark)

2 State the formula for income elasticity of demand (YED) used to measure how demand responds to changes in consumer income.

(Total for Question 2 is 2 marks)

3 Define what it means for demand to be 'price elastic' in the context of PED values for a product sold by a UK retailer.

(Total for Question 3 is 2 marks)

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4 A small coffee shop raises the price of a takeaway latte from £3 to £4. Quantity demanded falls from 120 cups per day to 60 cups per day. Without calculation, state whether demand is likely to be price elastic, inelastic or unitary for this price change in this example.

(Total for Question 4 is 1 mark)

5 A bakery increases the price of a loaf from £2 to £2.20 and sales fall from 1,000 to 980 loaves per week. Calculate the approximate percentage change in price and the percentage change in quantity demanded, showing your working. (Do not compute PED in this question.)

(Total for Question 5 is 2 marks)

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Mark scheme · 1.1 Price and Income Elasticity of Demand: 10-minute Pack

Question 1

B cao **B1**

Answer: B

Question 2

gives the formula as percentage change in quantity demanded divided by percentage change in income **B1**

or writes YED = (% change in Qd) / (% change in income) in words or symbols **B1**

Answer: YED = (percentage change in quantity demanded) / (percentage change in income).

Question 3

identifies that price elastic means quantity demanded changes proportionately more than price **B1**

gives the numeric condition, e.g. PED absolute value greater than 1 **B1**

Answer: Price elastic means quantity demanded changes proportionately more than price; numerically |PED| > 1.

Question 4

B1 for elastic, since quantity falls by a larger percentage than price rises (intuitive judgement) **B1**

Answer: Price elastic.

Question 5

% change in price = (2.20-2.00)/2.00 x 100 = 10% and % change in quantity = (980-1,000)/1,000 x 100 = -2% seen **M1**

10% price increase and -2% quantity decrease cao **A1**

Answer: Price +10%, Quantity -2%.

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