1.3 Price determination in a competitive market: 10-minute Pack

AQA 7136 · Calculator allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Show all your working.

1 The price of a good rises from £5 to £6. As a result, quantity supplied rises from 1,000 to 1,300 units per month.

(a) Calculate the price elasticity of supply (PES). **(3)**

(b) State two factors that determine whether supply of a good is elastic or inelastic. **(2)**

(c) Would supply typically be more elastic in the short run or the long run? Justify your answer. **(2)**

(Total for Question 1 is 7 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 1.3 Price determination in a competitive market: 10-minute Pack

Question 1

(a) %change in price = (6 - 5) / 5 x 100 = 20% **M1**

(a) %change in quantity supplied = (1300 - 1000) / 1000 x 100 = 30% **M1**

(a) PES = 30 / 20 = 1.5 cao **A1**

(a) Answer: PES = 1.5 (elastic).

(b) the amount of spare capacity firms have (ease of increasing output) **B1**

(b) the length of time producers have to respond (short run vs long run); allow: availability/mobility of factors of production, ease of storing stock, number of alternative uses of inputs **B1**

(b) Answer: Spare capacity; time period (any two valid, distinct determinants).

(c) more elastic in the long run **B1**

(c) because firms have time to vary all factors of production (e.g. build new factories, employ more capital), allowing a larger response of quantity supplied to a price change **B1**

(c) Answer: Long run, since all factors of production can then be varied.

© Revision Library | revisionlibrary.co.uk