

3.1.3.5 Different price elasticities

1. Missing words

If a business meets customer needs by producing a _____ product and _____ service, price elasticity will be low. That means the product's demand curve will be steeply downward-sloping, like Figure 1, below. Even with big price changes, _____ is little-affected. But if the product has lots of direct competition, a relatively small price increase might push sales down sharply. So a small-ish price rise causes a big drop in demand. That means price elasticity is _____. See Figure 2, below, where the shallow slope of the demand curve shows that _____ in price cause big changes in demand.

Hint: words from – high, demand, changes, efficient, well-designed

2. Different elasticities: Figure 1 and 2.

	<p>2.1a) Using the information in Figure 1, calculate the revenue the business was making when a price of £300 led to sales of 400 units.</p> <p>2.1b) Then recalculate the revenue after the price cut to £200.</p> <p>2.1c) Then calculate the change in revenue caused by the price cut.</p> <p>2.2 Explain why revenue falls when prices are cut for a product with low price elasticity (i.e. price inelastic)</p> <hr/> <hr/> <hr/>
	<p>2.3a) Using the information in Figure 2, calculate the revenue the business was making when a price of £275 led to sales of 200 units.</p> <p>2.3b) Then recalculate the revenue after the price cut to £200.</p> <p>2.3c) Then calculate the change in revenue caused by the price cut.</p> <p>2.4 Explain why revenue rises when prices are cut for a product with high price elasticity (i.e. price elastic)</p> <hr/> <hr/> <hr/>

3. Write in the box whether price elasticity is high (elastic) or low (inelastic)

Explanation of a product and its price elasticity	Price elastic or price inelastic?
3.1 Even though Shell is a famous brand, drivers think all petrol is the same, so tend to buy on price, not brand.	
3.2 The Financial Times is the UK's only daily business newspaper.	
3.3 A David Lloyd leisure centre is the only one within 40 miles to have outdoor as well as indoor swimming pools.	
3.4 A fast-food restaurant has a menu that's much the same as McDonalds.	
3.5 A private school is famous for having the Royal Family's kids as pupils.	

3.1.3.5 ANSWERS – Different price elasticities

I. Missing words: well-designed ... efficient ... demand ... high ... changes

Q2

2.1a) $400 \times \text{£}300 = \text{£}120,000$

2.1b) $480 \times \text{£}200 = \text{£}96,000$

2.1c) Minus $\text{£}24,000$

2.2 Because it's price inelastic, the cut in price causes too small a boost to sales to make up for the lost revenue per unit sold

2.3a) $200 \times \text{£}275 = \text{£}55,000$

2.3b) $400 \times \text{£}200 = \text{£}80,000$

2.3c) Plus $\text{£}25,000$

2.4 Because it's price elastic, the cut in price causes such a big boost to sales that it outweighs the lost revenue per unit sold

Q3

3.1 Elastic

3.2 Inelastic

3.3 Inelastic

3.4 Elastic

3.5 Inelastic

3.1.1.3 The economic problem

1. Fill in the missing words

The economic problem is that people's wants and needs are _____ but resources are _____. Therefore resources are _____ meaning there are not enough for everyone. So either decisions have to be made by governments about which products should be produced and who will receive them (which is broadly what happens in the NHS), or the free market will allocate resources in line with customers' ability and willingness to pay. If the government chooses to allocate more money to the NHS, the _____ shows through in lower spending for other public services.

Choose four from: finite, limited, opportunity cost, unlimited, undervalued

2. State the phrase or term explained by each of the following:

- 2.1 The shortage of resources in the economy
- 2.2 The next best opportunity forgone
- 2.3 The dilemma of how scarce resources are allocated

3. Explain one:

- 3.1 Reason why the free market may not be the ideal way to allocate resources in the education sector.

- 3.2 Strength of the free market in allocating iPhones to iPhone customers.

4. Match each term with one of the explanations in the opposite column, e.g. 4.1 = E

	Factor affecting resource allocation		Explanation or connection
4.1	Brexit took the UK out of the single market for European labour	A	Responding to changes in consumer demand may take longer than you'd expect
4.2	People in the North-East can't afford to move to the South-East because of high house prices	B	There may be workers willing to work, yet unless they have the skills employers' need, they may be unemployable
4.3	Many school-leavers lack the practical skills taught years' ago, such as cooking and plumbing	C	It's harder now to employ highly skilled workers from the EU; you have to apply to the government's quota scheme
4.4	Skilled labour in Cornwall could take 2 hours each way to commute to Bristol	D	There may be demand for more car rental near Heathrow, but if there's no spare land, resources can't be allocated
4.5	There may be no suitable site available	E	Poor transport infrastructure can affect resource allocation
4.6	A farmer may want to switch from dairy to grape-vines, but vines need 3 years' growth before the first harvest	F	Labour flexibility would be helped by more social housing offering rented accommodation at reasonable rents.

5. True or false?

- 5.1 The economic problem is huge consumer wants and infinite resources. **True/False**
- 5.2 A country with a dense population is likely to find land its most scarce resource. **True/False**
- 5.3 As there's more than enough food to feed the world, maybe distribution of resources is as important as whether they are finite. **True/False**

3.1.1.3 ANSWERS: The economic problem

1. infinite ... limited ... finite ... opportunity cost

2.1 Scarcity

2.2 Opportunity cost

2.3 Economic problem

3.1 A free market in education would allocate school places on the basis of who could pay the most. Ordinary folk will be welcome at the local cheap school: £10 a week but 70 to a class (as in much of Africa until very recently)

3.2 The market allocates in terms of effective demand (ie people who want an iPhone sufficiently to pay the price premium) and therefore makes sure that enthusiasts get what they want (as long as they can afford it)

4.1 C

4.2 F

4.3 B

4.4 E

4.5 D

4.6 A

5.1 False

5.2 True

5.3 True