**RWS#3: Elasticity (Advanced Price Toolkit**

**Due for: Monday 19th November**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you* ***up to 2 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.5 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **COMPULSORY (YOU MUST USE)**   * Notes you have taken in class * PREP homework – notes we reviewed in class which you prepared at home * Powerpoint – available on GOL * Course textbook – pp 25-30 and 32-36   **EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**   * Economics Help – examples of goods with differing elasticities: <http://www.economicshelp.org/blog/7019/economics/examples-of-elasticity/> * VIDEO on PED - <http://www.tutor2u.net/economics/reference/price-elasticity-of-demand> * VIDEO - PED and Indirect Taxation - <http://www.tutor2u.net/economics/reference/price-elasticity-of-demand-and-indirect-taxes> * VIDEO - PED and Total Revenue - <http://www.tutor2u.net/economics/reference/price-elasticity-and-total-revenue> * VIDEO – XED: <http://www.tutor2u.net/economics/reference/cross-price-elasticity-of-demand-topic-video>   **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS3 – Elasticity (Advanced Price Toolkit)**  **Introduction to the concept of elasticity (3/4 of a side of A4)**   * What does elasticity measure? * Define PED, PES, YED and XED * For YED also define Normal and Inferior Goods. Remember to distinguish between different types of Normal good – i.e. Luxury Goods and Necessities * For XED also define substitutes (competitive demand) and complements (joint demand) * PED and PES Diagrams: Draw an elastic, inelastic and unitary demand and supply curves (so 6 diagrams in total). For each graph, draw a price change (increase or decrease) and explain why the graph demonstrates elastic, inelastic or unitary demand (HINT: Look at the difference between say p1 and p2 and q1 and q2 to see how the distance between the points on the axis tell you whether there has been a large response or not)   **Applications of elasticity: Price Elasticity of Demand and Firms and Government’s (3/4 a side of A4)**   * FIRMS: Explain why a firm facing an inelastic demand curve would raise it’s prices using diagrams and the concept of total revenue (HINT: Show how revenue rises as a firm lowers its price and show how it would fall if it lowered it’s price if it faced an inelastic demand curve). Use the example of Ryanair and price increases for carry on luggage as part of your explanation. The info is on the powerpoint. * FIRMS: Explain why a firm facing an elastic demand curve would lower it’s prices using a diagram and the concept of total revenue (HINT: Show how revenue rises as a firm lowers it’s price and how revenue would fall if it raised it’s price if it faced an elastic demand curve). Use the example of Ryanair and price cuts leading to greater profits as an example (the info is on the powerpoint) * GOVERNMENT: Using diagrams, explain how the implementation of a tax and it’s success will depend on the elasticity of the product. * GOVERNMENT: Using diagrams, explain how the implementation of a subsidy and it’s success will depend on the elasticity of the product.   **Elasticity Calculations (1/2 of a side of A4)**   * Recreate the ‘elasticity spectrum’ which summarises what all the data means for PED, PES, XED and YED * Explain how you would calculate PED, XED,PES and YED |