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Revision

**Price elasticity of demand
worked examples**

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Complete the following questions to help you improve your understanding of elasticity of demand:

- 1 Work out the price elasticity of demand in each of the following situations:
 - a Price for a bottle of water increases by 20%. As a result there is a fall in demand of 5%.
 - b Price of a chocolate bar decreases by 4%. As a result there is an increase in demand of 12%.
 - c Price of a can of beans increases from 50p to 55p. As a result there is a decrease in demand of 25%.
 - d Price of a new car increases by 4.2%. As a result there is a decrease in demand from 8,000 units to 6,000 units.
- 2 Complete the following changes to revenue:

Change in the market	What happens to total revenue?
PED is inelastic and a firm raises its price	Increases
PED is elastic and a firm lowers its price	
PED is elastic and a firm raises price	
PED is -1.5 and the firm raises price by 4%	
PED is -0.4 and the firm raises price by 30%	
PED is -0.2 and the firm lowers price by 20%	
PED is -4.0 and the firm lowers price by 15%	

Extension question

3 Review the following data on the sales of coffee if the PED is -3 :

2014	£1 a jar	20,000 units sold
2015	£1.20 a jar	

- a What is the new quantity of coffee sold?
- b What is the change in revenue?