

ELASTICITY describes how much a change in price affects the quantity demanded.

The demand for some goods and services will be inelastic under the following reasons:

- They are necessities.
- It is difficult to find substitutes.
- They are relatively inexpensive.

Answer the following questions.

1. What is the difference between desire and demand?
2. Make up a survey based on the demand schedule.
3. What are the factors which affect the demand?
4. What prices are elastic and inelastic?

Define the following words and expressions.

willingness afford survey	invest effect
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1.26. SUPPLY

Economists call the number of items sellers will offer for sale at different prices at a particular time and place **SUPPLY**. It is also possible to develop a supply schedule illustrating the quantity of a product suppliers would offer for sale at different prices.

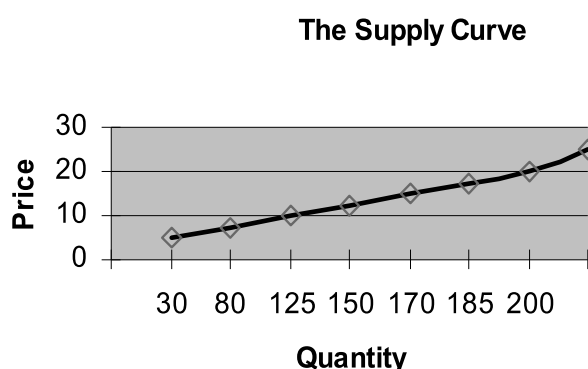
THE LAW OF SUPPLY

THE SUPPLY SCHEDULE	
Price	quantity supplied
\$ 5.00	30
7.50	80
10.00	125
12.50	150
15.00	170
17.50	185
20.00	200

So, we see that you would love to sell more T-shirts at high prices than at low ones. This agrees with the law of supply, which states that sellers will offer more of a product at a high price and less at a low price.

WHY DOES THE QUANTITY OF A PRODUCT SUPPLIED CHANGE AT DIFFERENT PRICES?

The answer is that producers supply things to make a profit. The higher the price the greater the incentive to produce and sell the product. Wouldn't you rather sell 300 shirts at \$ 20.00 each than at \$ 5.00 each?



ELASTICITY OF SUPPLY

The elasticity of supply measures the proportional change in quantity supplied following a price change. If a change in price has little effect on the quantity of a good or service offered for sale, the supply is inelastic. When a small change in price produces a large change in the quantity offered for sale, then the supply of the good or service is elastic.

Goods or services that are easy to provide have an elastic supply, because sellers can increase or decrease production with price changes. Goods and services requiring time, skills, or technology have an inelastic supply.

A supply curve shows the relationship between the price of a product and the number of units sellers will offer for sale. It slopes upward, from left to right. When supply changes, the supply curve shifts either to the right or to the left.

e.g. If the wages that a shop paid were to double from \$ 4 to \$ 8 per hour, there would be an increase in a number of people applying for those jobs. But, if the price of corn were to double from \$ 2 to \$ 4 per bushel, farmers could not rush more corn to market. This is because their elasticity of supply is different. The supply of people is relatively elastic, but the supply of corn is inelastic. (The wages rise – people are interested in jobs, the wages fall they lose interest, so the supply is described as elastic.) On the other hand it takes time, skills and technology to grow corn. Although the supply can be increased out of reserves which farmers set aside for their livestock, eventually they will have to plant more corn. For that reason, the supply of corn is relatively inelastic.

Answer the following questions.

1. How do economists call the number of items sellers offer for sale?
2. Make up a survey based on the supply schedule.
3. What does the law of supply state?
4. Why does the quantity of product supplied change at different prices?
5. What is the elasticity of supply?
6. In what case the supply is inelastic?

Define the following words and expressions.

supply relationship	slope upward shift.
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