2 Elasticity and government intervention – Part 2 — Answers

Answers

Work through these after you have tried the questions yourself.

2.1 how strongly the quantity demanded responds to a change in price.
2.2 $E_d = \dfrac{10\%}{20\%} = 0.5$ – inelastic (less than 1).
2.3 any of: more substitutes, the good is a luxury, it takes a large share of income, more time to adjust.
2.4 a shortage – at the low legal price, quantity demanded exceeds quantity supplied.
2.5 a surplus – at the high legal price, quantity supplied exceeds quantity demanded (e.g. unemployment for a minimum wage).