2 Elasticity and government intervention – Part 2

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
Price elasticity of demand	需求价格弹性			
elastic	富有弹性			
inelastic	缺乏弹性			
price ceiling	价格上限			
price floor	价格下限			

Recall

In Part A you met supply and demand. Now two more ideas:

- Some goods barely change in demand when the price changes; others swing a lot.
- Governments sometimes set maximum or minimum prices.

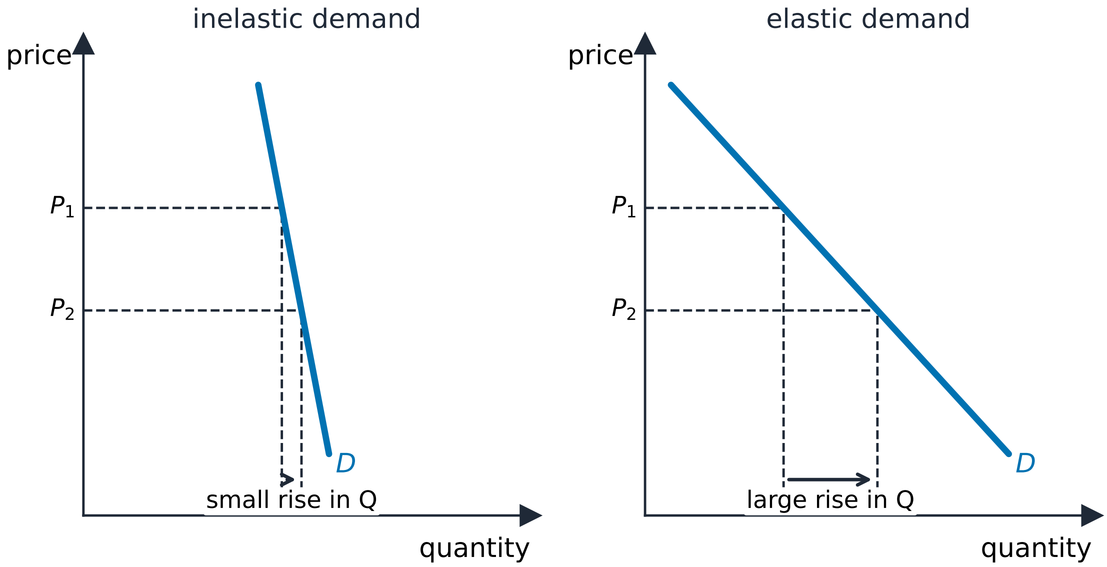
Each idea has a worked example before the Practice.

New ideas

1 Price elasticity of demand

Price elasticity of demand 需求价格弹性 measures how strongly quantity responds to a price change:

$$E_d = \left| \frac{\%\ \Delta\ \text{quantity}}{\%\ \Delta\ \text{price}} \right|.$$



- $E_d > 1$ is **elastic** 富有弹性 (quantity responds strongly),
- $E_d < 1$ is **inelastic** 缺乏弹性 (quantity barely responds).

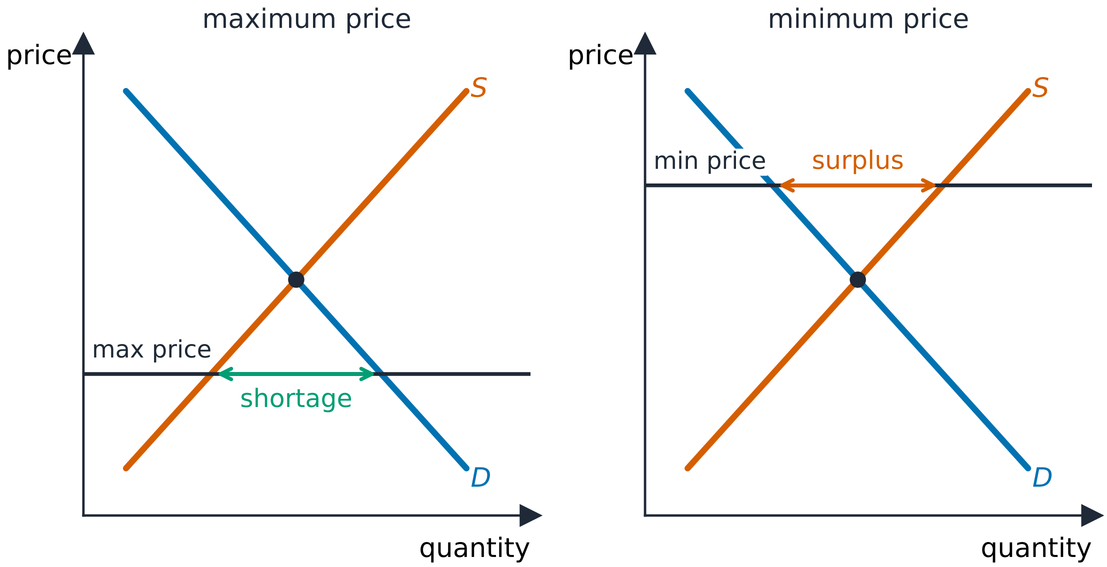
Worked example. If a 10% price rise cuts quantity by 5%, then $E_d = \frac{5\%}{10\%} = 0.5$ – inelastic.

■ 2 What makes demand elastic

Demand is more elastic when there are more substitutes, the good is a luxury, or buyers have more time to adjust.

■ 3 Price controls

- A **price ceiling** 价格上限 (a legal maximum, below equilibrium) causes a **shortage**.
- A **price floor** 价格下限 (a legal minimum, above equilibrium) causes a **surplus**.



Watch out: an elasticity below 1 still means demand **does** respond – just weakly. "Inelastic" does not mean "no response", only a small one.

Practice

Try these in order. The methods are all above.

2.1 State what price elasticity of demand measures. [1]

2.2 A 20% price rise cuts quantity demanded by 10%. Find the elasticity and state whether it is elastic or inelastic. [3]

2.3 State one thing that makes a good's demand more elastic. [1]

2.4 State what a price ceiling below equilibrium causes, and why. [2]

2.5 State what a price floor above equilibrium (like a minimum wage) causes. [2]