**Outline for Lecture 6**

Price Elasticity of Supply

How do we define the price elasticity of supply?

*The Price Elasticity Coefficient and Formula*

How do we measure the price elasticity of supply? What is in the numerator of the elasticity equation? What is in the denominator?

In elasticity calculations, we use the midpoint formula to determine percentage changes.

According to the midpoint formula, how do we measure the percentage change in quantity supplied? How do we measure the percentage change in price?

*Interpretation*

If the price elasticity of supply for a commodity is \_\_\_\_\_ 1, the supply is elastic. What does elastic supply mean in terms of how responsive producers are to price changes?

If the price elasticity of supply for a commodity is \_\_\_\_\_ 1, the supply is unit-elastic.

If the price elasticity of supply for a commodity is \_\_\_\_\_ 1, the supply is inelastic. What does inelastic supply mean in terms of how responsive producers are to price changes?

*Numerical Example*

Suppose that an increase in the price of a commodity from $4 to $6 raises the quantity supplied from 10 to 14 units. What is the price elasticity of supply for this section of the supply curve? Is supply elastic, unit-elastic, or inelastic?

Next, suppose that the price rises further from $6 to $8, which raises the quantity supplied from 14 to 18 units. What is the price elasticity of supply for this second section of the curve? Is supply elastic, unit-elastic, or inelastic?

Finally, suppose that another increase in price from $8 to $10 raises the quantity supplied from 18 to 22 units. What is the price elasticity of supply for the third section? Is supply elastic, unit-elastic, or inelastic?

Based on your calculations, is the price elasticity of supply on a given supply curve (Lecture 6) more or less volatile than the price elasticity of demand on a given demand curve (Lecture 5)?

*Determinant of Price Elasticity of Supply*

We focus on a single factor that affects the price elasticity of supply: ease of shifting resources (capital, labor, materials, etc.) from production of one commodity to another commodity.

Suppose that a firm produces two goods, footballs and basketballs, and the price of footballs rises, prompting the firm to produce more footballs and fewer basketballs.

Suppose further that there are two possible cases: in the first case, footballs and basketballs are produced in the same factory and resources can be moved from the basketball line to the football line immediately with no cost; in the second case, footballs and basketballs are produced in different factories and it takes time and money to move resources from the basketball plant to the football plant.

We may conclude as follows. The easier for the firm to move resources from basketball to football production, the \_\_\_\_\_ (higher or lower?) is the price elasticity of supply for footballs. Explain why.

**Materials for Lecture 6**

Start with the textbook to get familiar with the content and progression of the lecture. Then, go to videos and supplemental articles, if provided, for further clarification and additional examples.

Textbook

Read carefully pages 130 through 133 from the textbook.

Video

Price elasticity of supply

<https://www.khanacademy.org/economics-finance-domain/microeconomics/elasticity-tutorial/price-elasticity-tutorial/v/elasticity-of-supply>

Another take on price elasticity of supply

<https://www.youtube.com/watch?v=NyV_SHgA4Dc>