Edexcel Economics Theme 1.2b

1.	**What is the definition of price elasticity of demand?**	The sensitivity of demand to changes in price
2.	**Give the formula for PED**	$\%\Delta Qd \div \%\Delta P$
3.	**What is meant by 'price elastic demand'?**	Demand is very sensitive to price - the % change in demand will be bigger than the % change in price
4.	**What values would constitute 'price elastic demand'?**	-1 to -∞
5.	**Draw a price elastic demand curve**	Flatter curve
6.	**What is meant by 'perfectly price elastic demand'?**	If we increase price by even 1%, we lose all demand
7.	**What values would constitute 'perfectly elastic demand'?**	-∞
8.	**Draw a perfectly elastic demand curve**	Horizontal
9.	**What is meant by 'price inelastic demand'?**	Demand is not very sensitive to price - the % change in demand will be smaller than the % change in price
10.	**What values would constitute 'price inelastic demand'?**	0 to -1
11.	**Draw a price inelastic demand curve**	Steep curve
12.	**What is meant by 'unit elastic demand'?**	The % change in demand will be the same as the % change in price
13.	**What value would constitute 'unit elastic demand'?**	-1
14.	**Draw a unit elastic demand curve**	It is curvey
15.	**Give 3 factors which influence the PED of a product**	Number of subs, propotion of income, degree of luxury/necessity, addictiveness, time period, definition
16.	**What is the definition of cross price elasticity of demand?**	The sensitivity of demand of good A to a change in the price of good B

17.	**Give the formula for XED**	$\%\Delta Qd$ of Good A $\div \%\Delta P$ of Good B
18.	**What is the definition of substitute goods?**	Goods which can be used in place of one another
19.	**What values of XED would constitute a substitute?**	Positive
20.	**What is the definition of complementary goods?**	Goods that are used together
21.	**What values of XED would constitute complementary goods?**	Negative
22.	**What would an XED of 0 indicate?**	Unrelated goods
23.	**What is the definition of income elasticity of demand?**	The sensitivity of demand to changes in income
24.	**Give the formula for YED**	$\%\Delta Qd \div \%\Delta Y$
25.	**What is the definition of an inferior good?**	Where demand increases when incomes fall
26.	**What values of YED would constitute an inferior good?**	Negative
27.	**What is a normal good?**	When demand increases when incomes rise
28.	**What values of YED would constitute a normal good?**	Positive
29.	**What is the definition of a luxury good?**	Demand is very sensitive to changes in income - the % change in demand will be larger than the % change in income
30.	**What values of YED would constitute a luxury good?**	1+
31.	**What is another term for a luxury good?**	Normal income elastic
32.	**What is the term for a normal good which is not a luxury good?**	Necessity
33.	**Why do firms need to know the price elasticity of demand for their products?**	So they can predict the impact of a price change on demand/revenue
34.	**Under what circumstances would an increase in price increase the revenue gained from a product?**	PED inelastic

35.	**Under what circumstances would an increase in price decrease the revenue gained from a product?**	PED elastic
36.	**Under what circumstances would an increase in price leave revenue unchanged?**	PED unit elastic
37.	**Why do firms need to know the cross price elasticity of demand for their products?**	To predict revenue change of one good when the price of another good changes
38.	**Why do firms need to know the income price elasticity of demand for their products?**	To predict revenue change of one good when incomes change
39.	**Under what circumstances would a recession increase the sales of product?**	Inferior good
40.	**What is the definition of price elasticity of supply?**	The sensitivity of supply to changes in price
41.	**Give the formula for PES**	$\%\Delta Q s \div \%\Delta P$
42.	**What is meant by 'price elastic supply'?**	Supply is very sensitive to price – the % change in supply will be bigger than the % change in price
43.	**What values would constitute 'price elastic supply'?**	1 to ∞
44.	**Draw a price elastic supply curve**	Shallow
45.	**What is meant by 'perfectly price elastic supply'?**	Where supply is infinite at a certain price
46.	**What values would constitute 'perfectly elastic supply'?**	∞
47.	**Draw a perfectly elastic supply curve**	Horizontal
48.	**What is meant by 'price inelastic supply'?**	Supply is not very sensitive to price – the % change in supply will be smaller than the % change in price
49.	**What values would constitute 'price inelastic supply'?**	0 to 1
50.	**Draw a price inelastic supply curve**	Steep
51.	**Give 3 factors which influence the PES of a product**	Time, Capacity, Storability
52.	**What is meant by 'perfectly price inelastic demand'?**	Only one quantity can be supplied, regardless of the price
53.	**What values would constitute 'perfectly inelastic demand'?**	0
54.	**Draw a perfectly inelastic demand curve**	Vertical
55.	**What is the economic definition of the long run?**	The period of time in which at least one factor of production is fixed
56.	**Why is PES more elastic in the long run?**	Because firms have time to increase capacity