# GCE BUSINESS

## Price Elasticity of Demand

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**Area of Specification -** *Understand the concept* of price elasticity of demand.

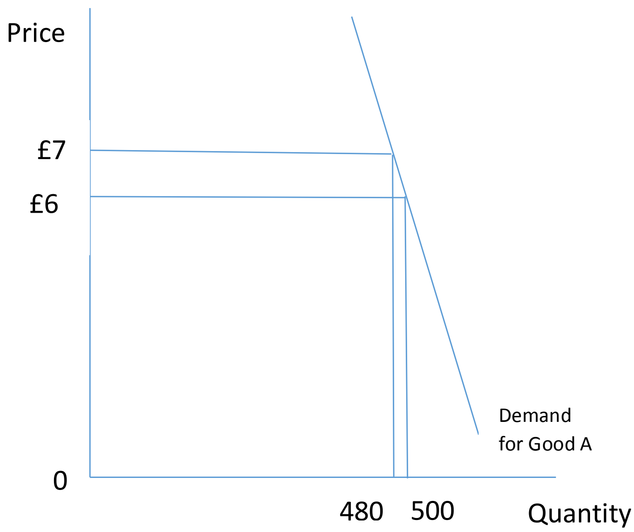


**Figure 1**

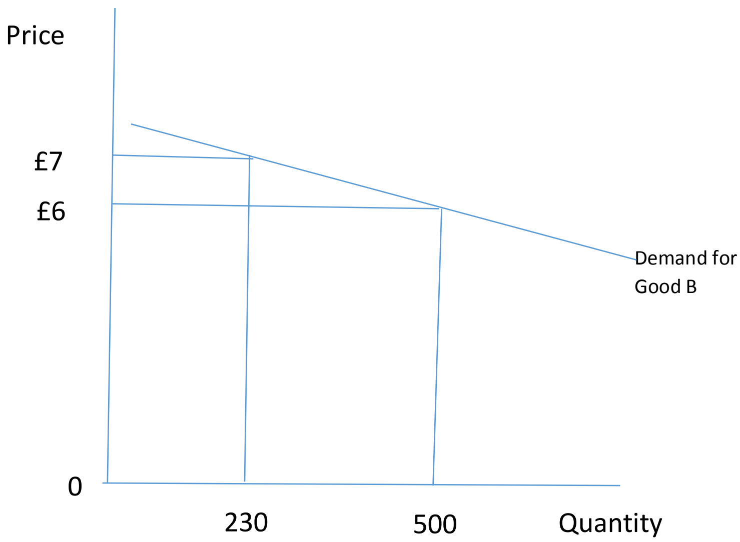


**Figure 2**

**Undertake the following tasks:**

- Define '*Price Elasticity of Demand*'.

- What is '*revenue*'?

- With reference to Figures 1and 2, calculate the total revenue for both Good A and Good B at a price of £6.

- Calculate the revenue for both products when price rises from £6 to £7.

- Shade in those areas on each diagram that represent a gain and loss in revenue following the price rise.

- Using the concept of price elasticity of demand, explain the different outcomes as a result of the rise in price. Include the term 'price sensitivity' in your explanation. **Remember – it is the DEMAND for a product that is elastic/inelastic….. PRODUCTS ARE NOT ELASTIC/INELASTIC!**

- Think of the type of products that Good A and Good B might be in reality. Explain your choices.