Price Elasticity of Supply: Is a formula that calculates the responsiveness of supply of any product due to change in its price.

Price and Supply has direct relationship. But PES is capturing the extent of change in supply due to given change in price.

If PES is more elastic / elastic it means that for any change in price the change in supply will be more than proportionate.

If PES value is less than one it means that the supply is less elastic / inelastic. Which means that change in supply is less than proportionate than the change in price.

What factors affect PES?

1. Availability of resources
2. Nature of good (manufactured versus agricultural good)
3. Spare capacity / excess capacity: how much more a business can produce before it reaches its maximum limit
4. Locally versus imported good
5. The complexity of the product

If the product has more elastic supply then in case of increase in supply it is easier to increase production / supply and when price of the product is decreasing it is easy to decrease the supply.

Physical Class versus online classes

Toothpaste versus apples -

Locally manufactured car versus imported car

Capacity is the maximum amount that a business can produce.

Hotel A: 1000	Hotel B = 1000
Occupied = 500	Occupied = 900

Masks versus vaccination

Cell phone versus fighter jet

Consumer Surplus: calculates the benefit that consumers get from their participation in the market.

What is the benefit of calculating consumer and producer surplus?

Consumer surplus is an indicator of consumer well-being and producer surplus is the indicator of producer well-being.

If due to any government policy the consumer and producer surplus increased then it shows that consumers and producers benefited from that policy and vice versa.