

Cambridge International AS Level Economics (9708)

Lecture Notes: AS Level

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- 1. The Price System: Demand, Elasticities and Consumer Surplus**
- 2. Supply, Price Elasticity of Supply and Market Equilibrium**

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The Price System and the Microeconomy

Complete Study Notes with Diagrams

*Demand and supply | Elasticities (PED, YED, XED, PES) | Market equilibrium and the price mechanism |
Consumer and producer surplus*

Prepared by: Abdur Rehman Shahzaib

AS Level Economics | Syllabus section 2: The price system and the microeconomy

1. Demand

Demand is the quantity of a good or service that consumers are willing *and able* to buy at each price over a period of time. Both words matter. Wanting something is not enough: a student may dream of a sports car, but if he cannot pay for it, economists say he has no demand for it. Demand that is backed by the ability to pay is called **effective demand**, and it is the only kind of demand that counts in the market.

The **law of demand** says that, other things being equal, when the price of a good rises the quantity demanded falls, and when the price falls the quantity demanded rises. Price and quantity demanded move in opposite directions, which is why the demand curve slopes downward from left to right. The phrase “other things being equal” has a Latin name you should use in exams: *ceteris paribus*. It means we study the effect of price alone while holding every other influence constant.

Individual demand is one person’s demand for a product, for example how many mangoes one shopper buys each week at each price. **Market demand** is found by adding together the quantities demanded by every individual buyer at each price. Exam questions almost always deal with market demand.

Movement along the curve versus a shift of the curve

This distinction is one of the most heavily tested ideas at AS Level. A change in the good’s **own price** causes a **movement along** the existing demand curve: a fall in price causes an extension of demand (down the curve), and a rise in price causes a contraction (up the curve). The curve itself does not move. A change in **any other factor** shifts the **whole curve**: to the right if consumers now demand more at every price, and to the left if they demand less at every price.

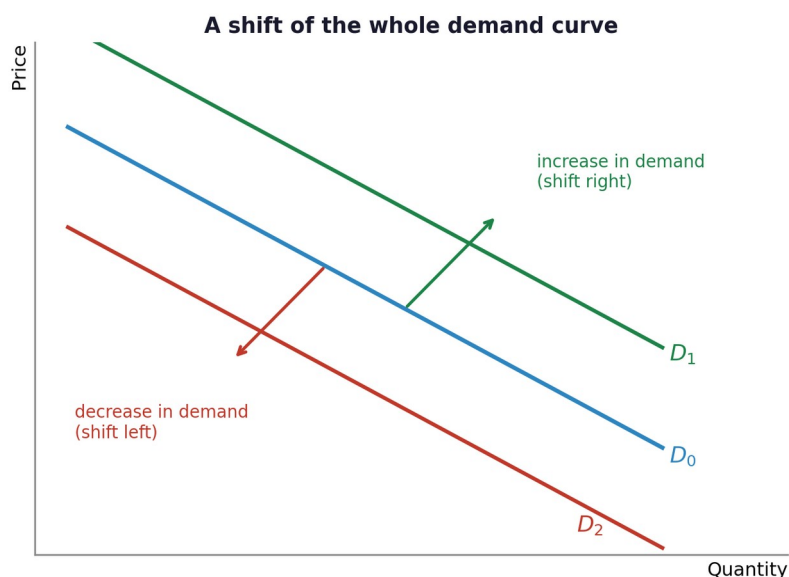


Figure 1: A rise in income, a dearer substitute or successful advertising shifts demand from D_0 to D_1 . A fall in income or a cheaper substitute shifts it from D_0 to D_2 .

The determinants of demand

Six non-price factors shift the demand curve. In the exam, always name the factor, state the direction of the shift, and give a brief reason.

Determinant	Shifts demand right when...	Shifts demand left when...
Income	income rises (normal goods); income falls (inferior goods)	income falls (normal goods); income rises (inferior goods)

Prices of related goods	a substitute becomes dearer, or a complement becomes cheaper	a substitute becomes cheaper, or a complement becomes dearer
Tastes and advertising	the product becomes more fashionable or is advertised well	tastes turn against the product
Speculation	buyers expect the price to rise soon, so they buy now	buyers expect the price to fall, so they wait
Population	the target population grows (size, age or gender structure)	the target population shrinks
Income distribution	income moves towards the groups who buy this product	income moves away from those groups

Two of these deserve extra care. A **normal good** is one whose demand rises as income rises, which covers most products. An **inferior good** is one whose demand falls as income rises, because richer consumers switch to better alternatives: think of basic instant noodles or second-hand clothing. The same product can be normal for one group of consumers and inferior for another, which is a useful evaluation point.

Substitutes are goods that replace each other, such as tea and coffee. When tea gets dearer, some drinkers switch, so the demand for coffee rises. **Complements** are goods used together, such as cars and petrol. When cars become dearer, fewer cars are bought, and the demand for petrol falls with them.

2. Supply

Supply is the quantity of a good or service that producers are willing and able to offer for sale at each price over a period of time. The **law of supply** says that, *ceteris paribus*, a higher price leads to a larger quantity supplied and a lower price to a smaller quantity supplied. The reason is profit: when the price rises, each unit sold earns more, so existing firms produce more and new firms are attracted into the market. This is why the supply curve slopes upward. **Market supply** adds together the quantities offered by every producer at each price.

Exactly as with demand, a change in the good's own price causes a movement along the supply curve (an extension upward or a contraction downward), while a change in any other factor shifts the whole curve.

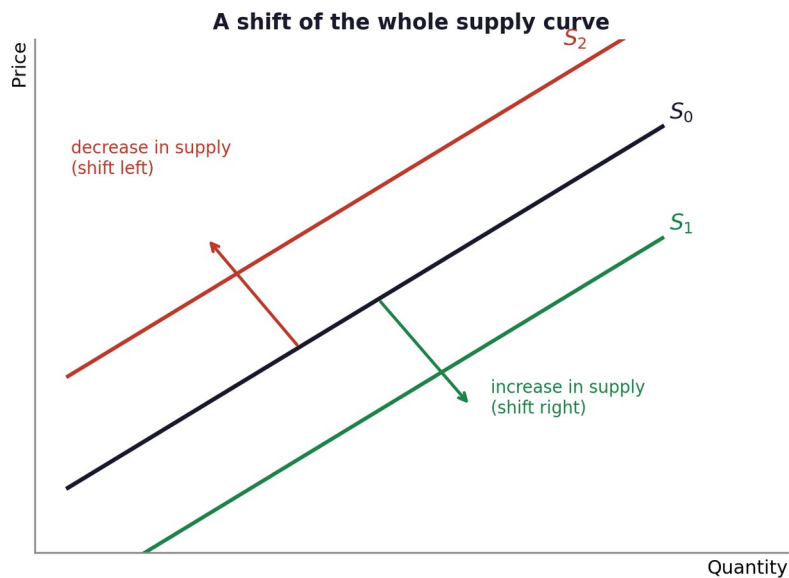


Figure 2: Lower costs or better technology shift supply from S_0 to S_1 , so more is offered at every price. Higher costs or an indirect tax shift it from S_0 to S_2 .

The determinants of supply

Determinant	Shifts supply right when...	Shifts supply left when...
Costs of production	wages, raw materials or energy become cheaper	costs of inputs rise
Availability of resources	new resources are found (a new copper deposit, say)	resources become scarce or imports are blocked
Climate and weather	growing conditions are good (mainly agriculture)	drought, floods or storms damage output
Technology	better machines let firms produce more at each price	rarely shifts left (technology is not usually forgotten)
Government regulation	rules are relaxed, cutting the cost of compliance	heavy regulation raises costs or slows production
Taxes and subsidies	a subsidy lowers the cost of each unit produced	an indirect tax raises the cost of each unit

A simple way to keep the whole table in your head: anything that makes production *cheaper or easier* moves supply right, and anything that makes it *dearer or harder* moves supply left.

3. Market Equilibrium and the Price Mechanism

The market reaches **equilibrium** at the price where quantity demanded equals quantity supplied. At this price, every buyer who is willing to pay finds a seller and every seller finds a buyer, so there is no pressure on the price to change. Economists call this the market-clearing price, written P_e with quantity Q_e .

At any other price the market is in **disequilibrium**, and one of two things happens. If the price is set above equilibrium, sellers offer more than buyers want: there is a **surplus** (excess supply), and unsold stock pushes sellers to cut the price. If the price is below equilibrium, buyers want more than sellers offer: there

is a **shortage** (excess demand), and competition among buyers bids the price up. In both cases the price moves back towards P_e on its own. This self-correction is the heart of the price mechanism.

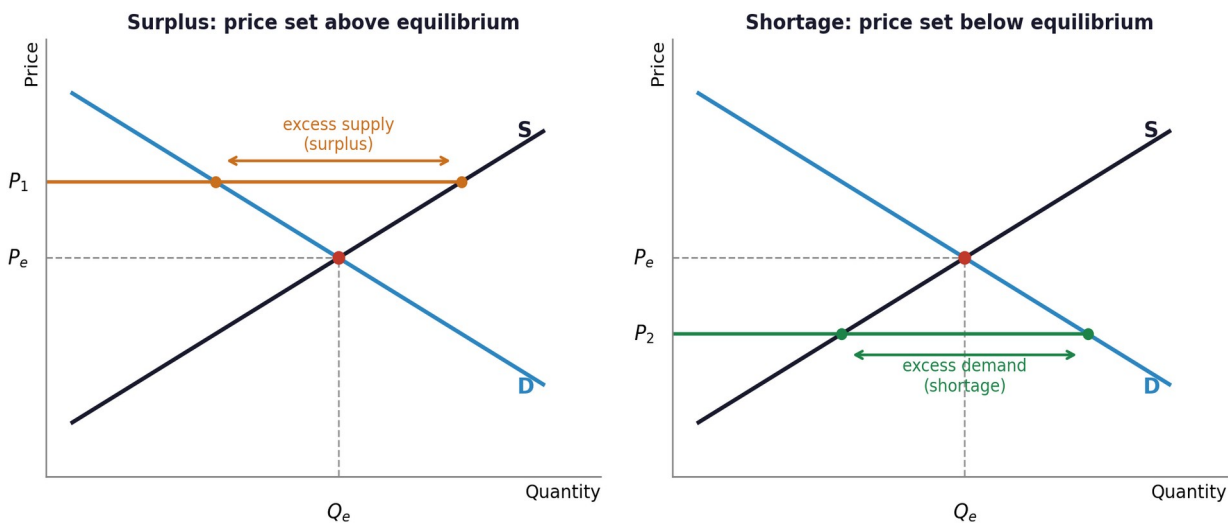


Figure 3: At P_1 (above P_e) supply exceeds demand and the surplus forces the price down. At P_2 (below P_e) demand exceeds supply and the shortage bids the price up.

The three functions of the price mechanism

Adam Smith described prices as an “invisible hand” guiding resources without any central planner. In the modern syllabus this idea is broken into three functions, and a good answer names all three.

Rationing. When something is scarce, its price rises, and the higher price limits the good to the buyers who value it most. Airline seats are the classic example: as a flight fills up, the remaining seats get dearer, which rations them among the passengers still willing to pay.

Signalling. Prices carry information. A rising price tells producers that consumers want more of this product and tells new firms that this market is worth entering. A falling price signals the opposite.

Incentivising. Prices do not only inform, they motivate. A high price gives firms a profit reason to expand output, and a low price pushes resources out of markets where they are no longer wanted. Through these three functions, consumer spending decisions steer the economy’s scarce resources without any government direction.

4. Price Elasticity of Demand (PED)

The law of demand says quantity demanded rises when price falls, but it does not say *by how much*. Elasticity fills that gap. **Price elasticity of demand** measures how responsive quantity demanded is to a change in the good’s own price.

$$\text{PED} = \% \text{ change in quantity demanded} \div \% \text{ change in price}$$

Because price and quantity move in opposite directions, PED always comes out negative. We usually ignore the minus sign and judge the size of the number. A worked example: the price of a sandwich rises by 15% and the quantity demanded falls by 20%. $\text{PED} = -20 \div 15 = (-)1.33$. Since 1.33 is greater than 1, demand for sandwiches is price elastic over this range.

Value of PED	Name	What it means	Shape of the curve
PED = 0	Perfectly inelastic	quantity does not change at all when	vertical line

		price changes	
$PED < 1$	Inelastic	quantity changes by a smaller % than price	steep curve
$PED = 1$	Unitary elastic	quantity changes by the same % as price	rectangular hyperbola
$PED > 1$	Elastic	quantity changes by a bigger % than price	flat curve
$PED = \infty$	Perfectly elastic	any price rise cuts quantity demanded to zero	horizontal line

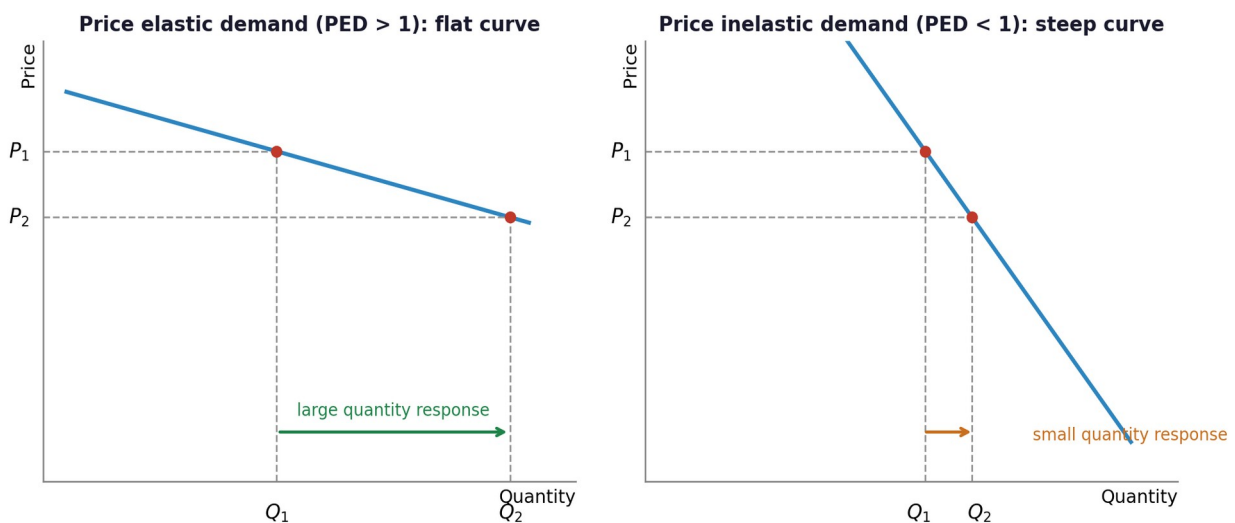


Figure 4: The same price fall from P_1 to P_2 causes a large quantity response on a flat (elastic) demand curve and a small response on a steep (inelastic) one.

What makes demand elastic or inelastic?

Factor	Demand tends to be ELASTIC when...	Demand tends to be INELASTIC when...
Availability of substitutes	many close substitutes exist (one phone brand among many)	few or no substitutes exist (petrol, bread)
Necessity or luxury	the good is a luxury that can be postponed (foreign holidays)	the good is a necessity (electricity, medicine)
Share of income	the good takes a large slice of income (a car)	the good is a tiny purchase (a box of matches)
Addictiveness and habit	the good is easy to give up	the good is habit-forming (cigarettes)
Durability	the good lasts, so replacement can wait (a washing machine)	the good is used up quickly (food)
Time period	consumers have had time to find alternatives (long run)	the price change is recent (short run)

PED and total revenue: why firms care

Total revenue = price × quantity sold. Whether a price change raises or lowers revenue depends entirely on PED, which is why this link appears in exam questions year after year.

If demand is...	A price RISE causes...	A price CUT causes...
Elastic (PED > 1)	revenue to FALL (quantity falls by more than price rises)	revenue to RISE (quantity rises by more than price falls)
Inelastic (PED < 1)	revenue to RISE (quantity barely falls)	revenue to FALL (quantity barely rises)
Unitary (PED = 1)	revenue unchanged	revenue unchanged

The practical rule: a firm facing inelastic demand should raise its price to earn more revenue, and a firm facing elastic demand should consider cutting it. Governments use the same logic in reverse, placing indirect taxes on inelastic goods such as fuel and cigarettes because the quantity bought falls only slightly and tax revenue stays high.

5. Income Elasticity of Demand (YED)

Income elasticity of demand measures how responsive demand is to a change in consumer income. Unlike PED, the **sign matters** and must never be ignored, because the sign tells you what type of good you are dealing with.

$$\text{YED} = \% \text{ change in quantity demanded} \div \% \text{ change in income}$$

Value of YED	Type of good	What happens when income rises	Everyday example
YED < 0 (negative)	Inferior good	demand falls; consumers trade up to better alternatives	basic instant noodles
0 < YED < 1	Normal good (necessity)	demand rises, but more slowly than income	toothpaste, groceries
YED > 1	Normal good (luxury)	demand rises faster than income	eating out, foreign travel

A worked example: incomes rise by 5% and the demand for restaurant meals rises by 10%. $\text{YED} = 10 \div 5 = +2.0$. The positive sign makes it a normal good, and the value above 1 makes it a luxury: demand grows twice as fast as income.

YED is valuable to businesses because it predicts how sales will behave over the business cycle. A firm selling luxuries (high positive YED) does very well in a boom but suffers badly in a recession. A supermarket's cheap own-brand range (negative YED) does the opposite, holding up or even growing when incomes fall. Many firms deliberately sell both a premium and a budget version of their product so that revenue is protected whichever way the economy moves.

6. Cross Elasticity of Demand (XED)

Cross elasticity of demand measures how responsive the demand for one good (X) is to a change in the price of a different good (Y). Once again the sign carries the meaning, so it must be kept.

$$\text{XED} = \% \text{ change in quantity demanded of X} \div \% \text{ change in price of Y}$$

Sign of XED	Relationship	Logic	Example
Positive (+)	Substitutes	dearer Y pushes buyers across to X, so demand for X rises	tea and coffee
Negative (-)	Complements	dearer Y means less Y is bought, so less X is wanted with it	cars and petrol
Zero (0)	Unrelated goods	the price of Y has no effect on demand for X	salt and laptops

The size of the number shows how strong the relationship is. An XED of +2.0 between two cola brands means they are very close substitutes: a small price rise by one sends many customers to the other. An XED of +0.1 between butter and jam means they are only weakly related. Firms use XED to predict how a rival's price cut will hit their own sales, and to price complements cleverly, such as selling a games console cheaply because the profit is made on the games.

7. Price Elasticity of Supply (PES)

Price elasticity of supply measures how responsive quantity supplied is to a change in price. PES is always positive, because price and quantity supplied move in the same direction.

$$\text{PES} = \% \text{ change in quantity supplied} \div \% \text{ change in price}$$

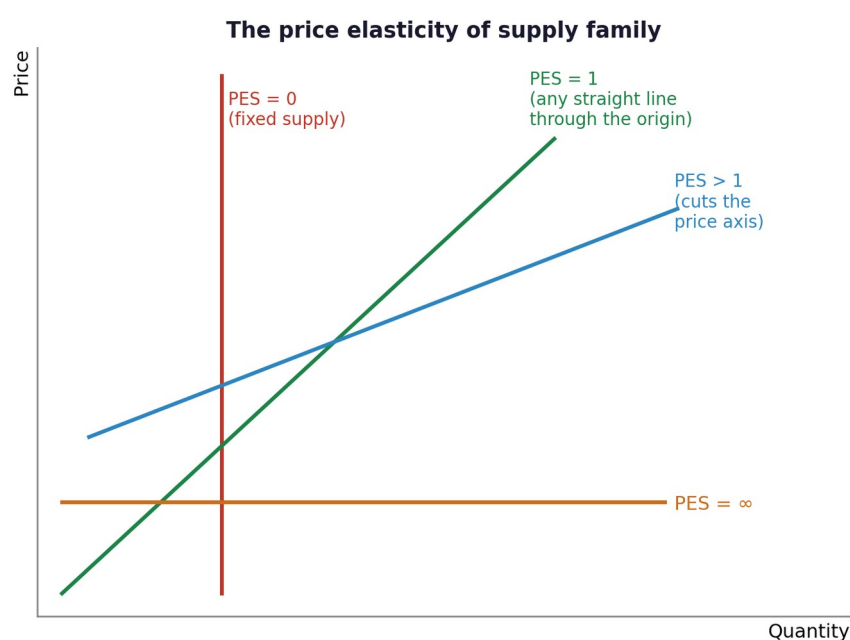


Figure 5: The PES family. A vertical supply curve is perfectly inelastic ($\text{PES} = 0$), any straight line through the origin has $\text{PES} = 1$, a straight line cutting the price axis is elastic, and a horizontal line is perfectly elastic.

What makes supply elastic or inelastic?

Factor	Supply tends to be ELASTIC when...	Supply tends to be INELASTIC when...
Time period	firms have had time to expand capacity (long run)	output cannot be changed quickly (short run)

Spare capacity	idle machines and workers can be put to work at once	the firm is already at full capacity
Stocks	the good can be stored and sold from stock (tinned food)	the good is perishable and cannot be stored (fresh fish)
Factor mobility	labour and capital can be switched between products easily	resources are specialised and hard to move
Barriers to entry	new firms can enter the market easily	entry is difficult or expensive

Agricultural products are the standard example of inelastic supply: once the season's crop is planted, no price rise can produce more wheat this year. Manufactured goods made by firms holding large stocks and spare capacity sit at the elastic end.

8. How Markets Are Connected

Markets do not operate in isolation. A change in one market ripples into others, and the syllabus names four connections you should be able to illustrate.

Relationship	Meaning	Example
Joint demand	two complements are demanded together, so a rise in demand for one raises demand for the other	more cars bought → more petrol demanded
Alternative (competitive) demand	two substitutes compete, so a rise in demand for one cuts demand for the other	more of one phone brand → fewer of its rival
Derived demand	a good is demanded not for itself but because of the demand for something else it helps produce	more computers demanded → more microchips demanded
Joint supply	producing one good automatically produces another	raising more cattle → more beef and more leather

Derived demand is the one students mix up most often. Nobody wants a microchip for its own sake; the demand for chips exists only because people demand the computers and phones built around them. Labour is the other big example: a firm demands workers only because consumers demand the product those workers make.

9. Consumer Surplus, Producer Surplus and Economic Welfare

Consumer surplus is the difference between the maximum price a consumer is willing and able to pay for a good and the price actually paid. If you would happily have paid \$25 for a shirt and the shop charges \$18, your consumer surplus is \$7 of satisfaction you did not have to pay for. On the diagram it is the area *below the demand curve and above the market price*, because the demand curve records what each successive buyer was willing to pay.

Producer surplus is the mirror image on the seller's side: the difference between the price a producer actually receives and the minimum price at which they were willing to supply. On the diagram it is the area *above the supply curve and below the market price*.

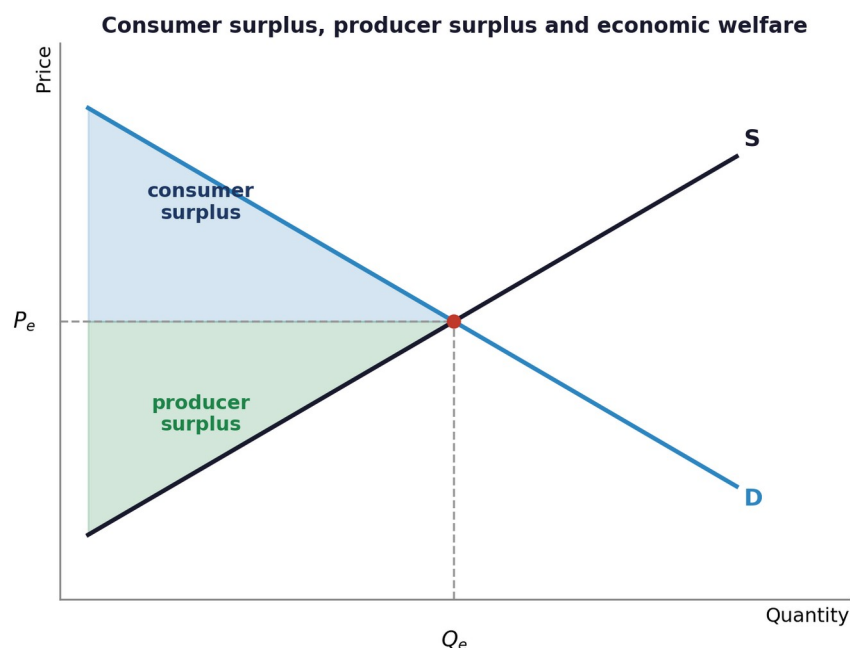


Figure 6: Consumer surplus (shaded blue) lies under the demand curve above P_e ; producer surplus (shaded green) lies above the supply curve below P_e . Together they measure economic welfare.

Consumer surplus shrinks with each extra unit bought because of the **law of diminishing marginal utility**: each additional unit gives less extra satisfaction than the one before, so buyers are willing to pay less and less for later units. This is also why steep, inelastic demand curves contain a large consumer surplus: buyers of necessities would have paid far more than the market price rather than go without.

The two surpluses respond to shifts in the curves. A rise in demand or a rise in supply increases consumer surplus; a fall in either shrinks it. The same holds for producer surplus. Adding the two areas together gives **economic welfare**, the total benefit society gains from the market. This total is the benchmark economists use to judge government intervention: a policy such as a tax or a price control changes the size and the split of these areas, and the welfare lost or gained tells us whether the intervention improved the market outcome.

10. Exam Tips and How to Write Your Answers

Definitions win easy marks

Learn the exact definitions of effective demand, the four elasticities, equilibrium, and the two surpluses word-perfectly. Every elasticity definition follows the same pattern, the responsiveness of one variable to a change in another, so learn the pattern once and swap the variables.

Movement versus shift: never confuse them

A change in the good's own price NEVER shifts its demand or supply curve; it moves you along the curve. Only the other determinants shift the curve. Examiners set multiple choice options specifically to catch this error.

Handle elasticity signs correctly

For PED and PES, ignore the sign and discuss the size. For YED and XED, the sign IS the answer: negative YED means inferior, positive means normal; negative XED means complements, positive means substitutes. Writing a YED or XED value without its sign loses the mark.

Draw diagrams that earn their marks

Label both axes (price and quantity), label every curve, mark the equilibrium with dashed lines to P_e and Q_e , and show any shift with an arrow. After drawing, refer to the diagram in your written answer: "as the diagram shows, the surplus at P_1 forces the price down towards P_e ". A diagram that is never mentioned in the text earns little.

Structure for data response answers

Follow the same four steps every time: define the key term in the question, state the economic relationship, apply it to the case or data given (use the actual numbers if any are provided), and finish with the consequence. For calculation questions, show the formula, substitute the numbers, give the answer with its sign, and then interpret what the value means in words. The interpretation mark is the one most students leave behind.

Cambridge International AS Level Economics (9708)

Supply, Elasticity of Supply, and Market Equilibrium

Study Notes with Diagrams

Prepared by: Abdur Rehman Shahzaib

1. Supply

Supply: the quantity of a good or service that producers are willing and able to offer for sale at each price over a period of time.

Just as with demand, both words carry weight. A farmer may wish to sell a thousand crates of mangoes, but if his orchard can only produce four hundred, his supply is four hundred. Willingness must be matched by the ability to actually deliver the goods to the market.

The **law of supply** states that, *ceteris paribus* (all other things held constant), a rise in price leads to a rise in quantity supplied, and a fall in price leads to a fall in quantity supplied. Price and quantity supplied move in the *same* direction, which is why the supply curve slopes upward from left to right. The reason is the profit motive: at a higher price each unit sold earns more, so existing producers find it worthwhile to produce extra units even at higher cost, and producers of other goods are tempted to switch into this market.

Individual supply is one producer's supply, one farmer's mangoes. **Market supply** is found by adding up the quantities offered by every producer at each price, and it is market supply that meets market demand to set the price. A simple supply schedule shows the idea:

Price per crate (\$)	Farmer A (crates)	Farmer B (crates)	Market supply (crates)
10	100	150	250
15	160	220	380
20	210	280	490

Movement along the curve versus a shift of the curve

A change in the good's **own price** causes a movement along the existing supply curve: up the curve when price rises (an **extension** of supply) and down the curve when price falls (a **contraction**). The curve itself has not moved. A change in **any other factor** shifts the whole curve: rightward when producers can offer more at every price, leftward when they can offer less at every price.

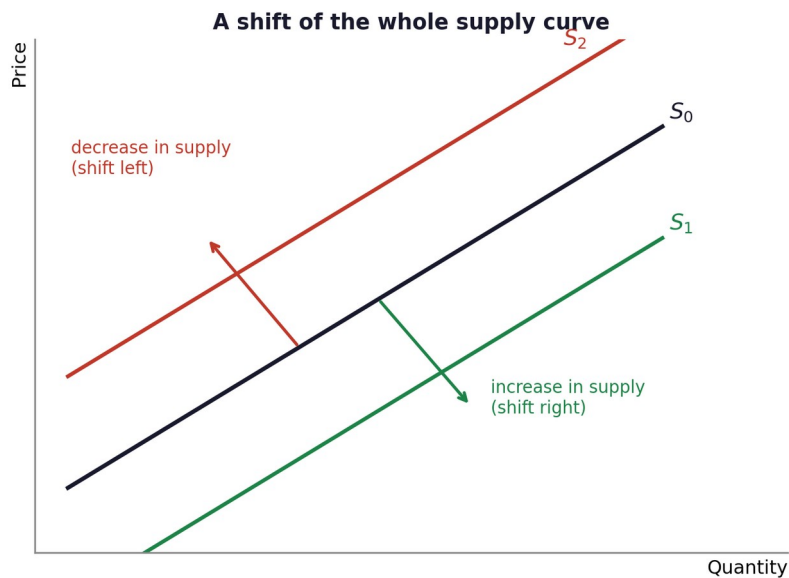


Figure 1: Lower costs or better technology shift supply from S_0 to S_1 (more offered at every price). Higher costs, bad weather or an indirect tax shift it from S_0 to S_2 .

The determinants of supply

Determinant	Shifts supply RIGHT when...	Shifts supply LEFT when...
Costs of production	wages, raw materials or energy become cheaper	input costs rise
Availability of resources	new resources are discovered or become easier to obtain	resources run short or imports are blocked
Climate and weather	growing conditions are good (mainly agriculture)	drought, floods or storms damage output
Technology	better machinery and methods cut the cost of each unit	rarely shifts left, since technology is not forgotten
Government regulation	rules are relaxed, lowering the cost of compliance	heavy regulation raises costs or slows production
Indirect taxes and subsidies	a subsidy cuts the cost of producing each unit	an indirect tax adds to the cost of each unit

The whole table fits into one sentence worth memorising: anything that makes production *cheaper or easier* shifts supply right, and anything that makes it *dearer or harder* shifts supply left.

2. Price Elasticity of Supply (PES)

Price elasticity of supply: a measure of how responsive the quantity supplied of a good is to a change in its price.

$$\text{PES} = \% \text{ change in quantity supplied} \div \% \text{ change in price}$$

PES is always positive, because price and quantity supplied move in the same direction, so there is no sign to worry about; only the size of the number matters. A worked example: the price of wheat rises by 15% and the quantity supplied rises by 20%. $PES = 20 \div 15 = 1.33$. Since 1.33 is greater than 1, the supply of wheat is price elastic over this range.

Value of PES	Name	What it means	Shape of the curve
$PES = 0$	Perfectly inelastic	supply is completely fixed whatever the price	vertical line
$PES < 1$	Inelastic	quantity supplied changes by a smaller % than price	steep curve
$PES = 1$	Unitary elastic	quantity supplied changes by the same % as price	any straight line through the origin
$PES > 1$	Elastic	quantity supplied changes by a bigger % than price	flat curve, cuts the price axis
$PES = \infty$	Perfectly elastic	any quantity is supplied at the going price	horizontal line

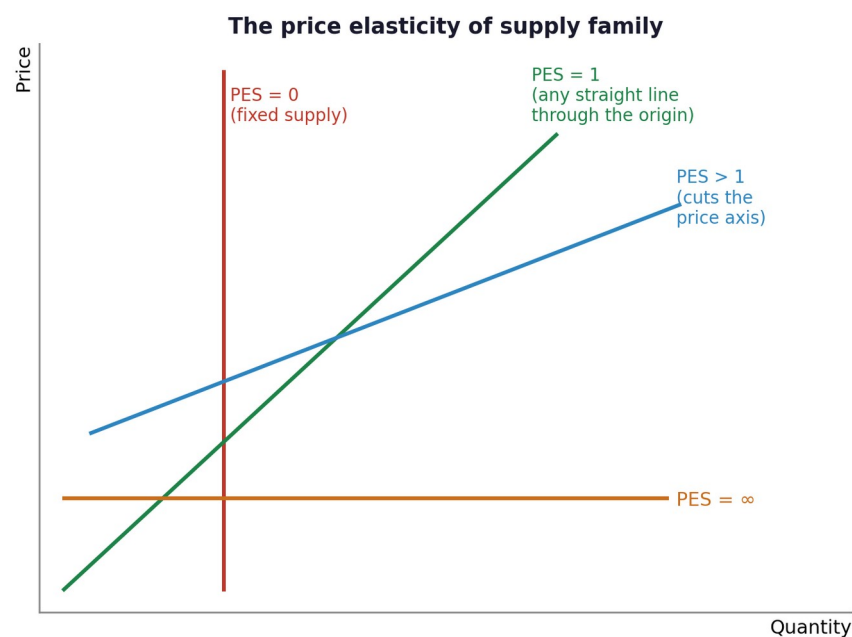


Figure 2: The PES family. A vertical supply curve has $PES = 0$, any straight line through the origin has $PES = 1$, a straight line cutting the price axis is elastic, and a horizontal line is perfectly elastic.

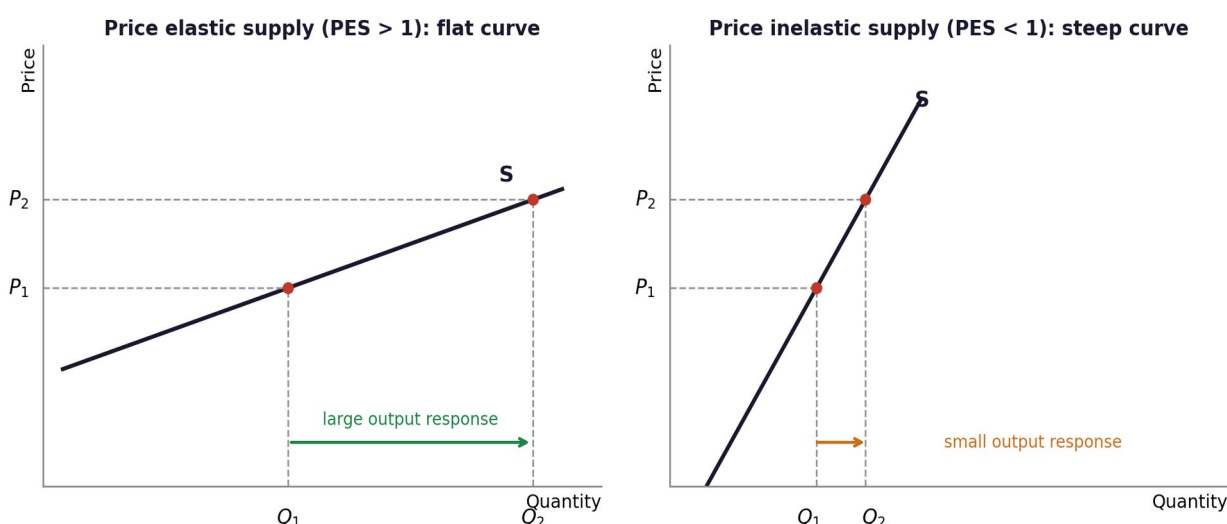


Figure 3: The same price rise from P_1 to P_2 calls out a large output response when supply is elastic (left) and only a small one when supply is inelastic (right).

What determines the elasticity of supply?

Factor	Supply tends to be ELASTIC when...	Supply tends to be INELASTIC when...
Time period	firms have had time to expand capacity (long run)	output cannot be changed quickly (short run)
Spare capacity	idle machines and workers can be put to work at once	the firm is already producing at full capacity
Level of stocks	the good can be stored and sold from stock (tinned food, cars)	the good is perishable and cannot be stored (fresh milk, fish)
Mobility of factors of production	labour and capital can switch between products easily	resources are specialised and hard to reallocate
Barriers to entry	new producers can enter the market easily	entry to the market is difficult or costly

Agriculture versus manufacturing is the classic application. Once a wheat crop is planted, no price rise can produce more wheat this season: the growing cycle fixes supply, the produce is perishable, and land cannot be switched overnight, so agricultural supply is price inelastic in the short run. A furniture factory holding stocks of finished goods and spare machine capacity can respond to a price rise within days, so manufactured supply is usually far more elastic. This one comparison answers a whole family of exam questions.

Why PES matters. For a firm, elastic supply means it can cash in quickly when prices rise, which is why businesses hold stocks and spare capacity. For the government, PES predicts how markets react to shocks: when demand for housing rises but supply is inelastic, the main result is higher prices rather than more houses, which is exactly why housing markets see such sharp price swings.

3. Equilibrium Price

Market equilibrium: the situation where quantity demanded equals quantity supplied, at the market-

clearing price. There is no pressure on price to change.

At the equilibrium price P_e , every buyer willing to pay the going price finds a seller, and every seller finds a buyer. The market “clears”: nothing is left unsold and no willing buyer goes home empty-handed. Equilibrium is found where the demand curve crosses the supply curve, and it changes only when one of the curves shifts.

How shifts in demand and supply change the equilibrium

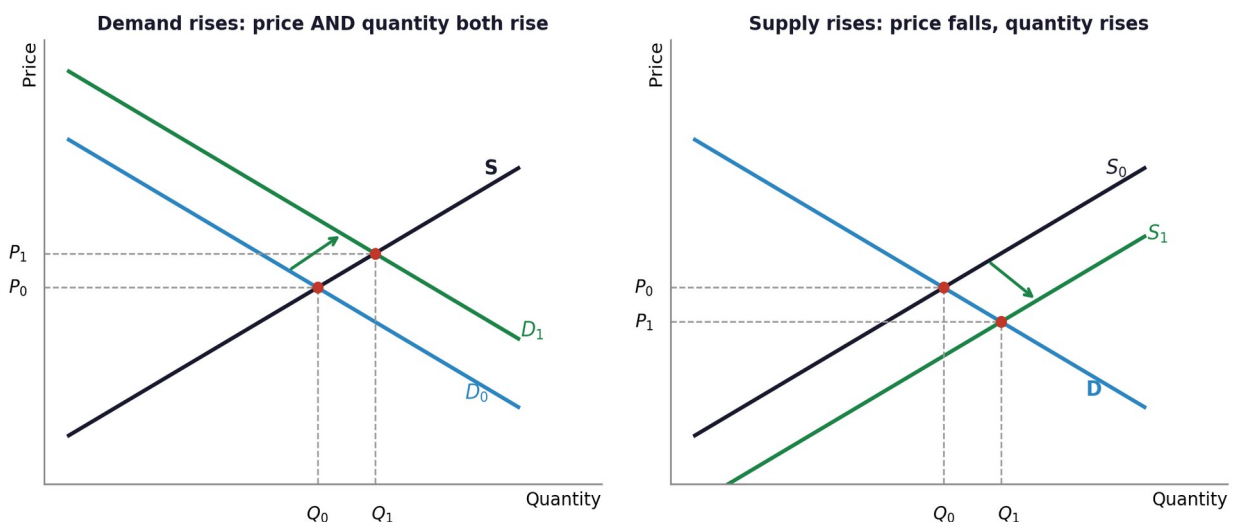


Figure 4: A rise in demand (left) raises both the equilibrium price and quantity. A rise in supply (right) lowers the price but raises the quantity.

Change	Equilibrium price	Equilibrium quantity
Demand rises (shift right)	rises	rises
Demand falls (shift left)	falls	falls
Supply rises (shift right)	falls	rises
Supply falls (shift left)	rises	falls

Notice the pattern: a demand shift moves price and quantity in the *same* direction, while a supply shift moves them in *opposite* directions. If an exam question tells you price rose while quantity fell, you know immediately that supply must have shifted left.

4. Disequilibrium and How Market Forces Restore Equilibrium

Disequilibrium: any situation where the market price is not at the equilibrium level, so quantity demanded and quantity supplied are unequal. It takes one of two forms: a surplus or a shortage.

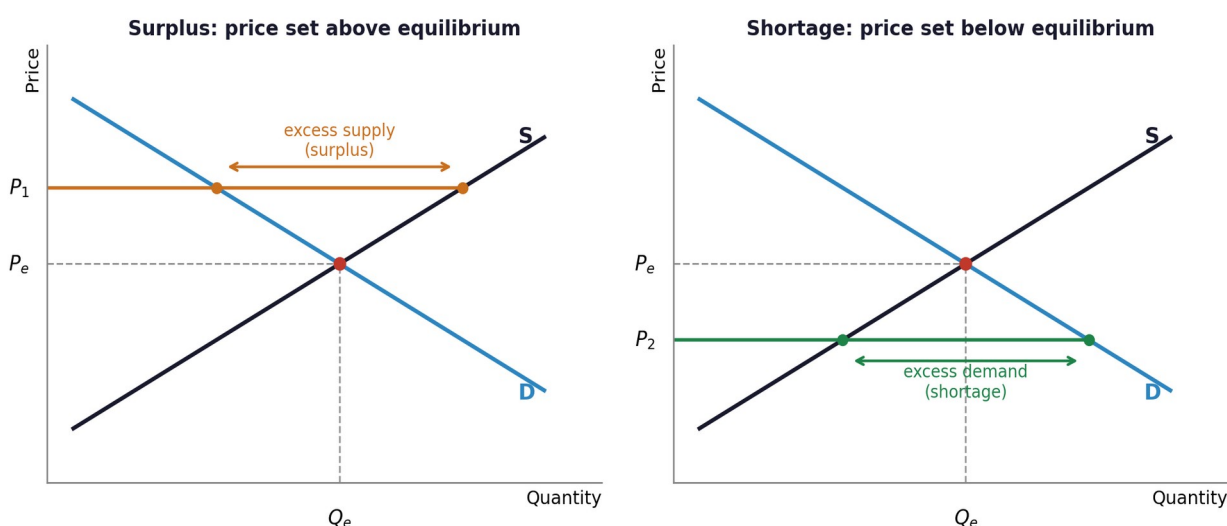


Figure 5: At P_1 (above equilibrium) there is excess supply, a surplus. At P_2 (below equilibrium) there is excess demand, a shortage. In both cases the price is pushed back towards P_e .

A surplus corrects itself

If the price is set above P_e , at P_1 in Figure 5, sellers offer more than buyers are willing to purchase: there is **excess supply**. Think of a fruit stall at closing time with crates of unsold mangoes. Unsold stock is expensive to hold and perishable goods rot, so sellers cut the price to clear it. As the price falls, two things happen at once: quantity demanded extends (buyers return) and quantity supplied contracts (producers offer less). The gap narrows until the market is back at P_e .

A shortage corrects itself

If the price is set below P_e , at P_2 , buyers want more than sellers are offering: there is **excess demand**. Queues form and shelves empty, the sign of a price that is too low. Frustrated buyers offer more rather than go without, and sellers realise they can charge more. As the price rises, quantity demanded contracts and quantity supplied extends, and the gap closes at P_e . This self-correcting behaviour needs no planner or government: it is the price mechanism at work.

The three functions of price behind this process

Rationing: a rising price limits a scarce good to the buyers who value it most, exactly what happens as a shortage bids the price up. **Signalling:** the changing price tells producers and consumers what is happening, since a surplus signals “produce less” and a shortage signals “produce more”. **Incentivising:** the price change gives producers a profit reason to act on that signal, expanding output when price rises and cutting it when price falls. Together these three functions are what carry a market from disequilibrium back to equilibrium.

5. Exam Tips and How to Write Your Answers

Extension and contraction, not “increase” and “decrease”

For movements along a curve caused by a price change, use extension and contraction. Save “increase/decrease in supply” for shifts of the whole curve. Using shift language for a price change is one of the most common mark-losing errors at AS.

PES calculations: show every step

Write the formula, substitute the percentages, give the value, then interpret it in words (“1.33 is greater than 1, so supply is price elastic”). The interpretation carries its own mark and is the step students most often skip.

Equilibrium diagrams: the four-step routine

Draw and label D, S and both axes; mark the original equilibrium P_0 and Q_0 with dashed lines; shift the correct curve with an arrow showing direction; mark the new P_1 and Q_1 . Then refer to the diagram in your written answer: “as shown, the surplus at P_1 puts downward pressure on price”. A diagram never mentioned in the text earns very little.

The restoration story must be a chain

When explaining how equilibrium is restored, write the full chain: price above equilibrium → excess supply → unsold stocks → sellers cut price → demand extends and supply contracts → equilibrium restored. Each link is a mark. Jumping straight from “surplus” to “equilibrium returns” skips the very analysis the question is testing.