



DRIVING QUESTION

Raising your price by 10% could make you more money — or lose you money. What single number tells you which one it'll be, before you ever change the price?

Gut instinct now. Answer it again at the end using elasticity.

BEFORE THE GAME

A neighborhood coffee shop raises prices 10% and revenue climbs — regulars barely change their order. A gas station that goes 10% above every station on the next block watches revenue collapse — drivers just go two minutes further. Same increase, opposite outcome.

Your gut answer — why would the exact same price increase help one business and crush another?

Quick prediction — if customers barely change how much they buy when price rises, is that good or bad news for raising prices?

☐ Good ☐ Bad ☐ Depends

DURING THE GAME — SOLVE THE CASE

RD	ELASTICITY TYPE	COEFFICIENT	INTERPRETATION	PRICING CALL	REVENUE Δ
1	☐ PED ☐ XED ☐ YED ☐ PES	_____	_____	☐ Hi ☐ Mkt ☐ Lo	_____
2	☐ PED ☐ XED ☐ YED ☐ PES	_____	_____	☐ Hi ☐ Mkt ☐ Lo	_____
3	☐ PED ☐ XED ☐ YED ☐ PES	_____	_____	☐ Hi ☐ Mkt ☐ Lo	_____
4	☐ PED ☐ XED ☐ YED ☐ PES	_____	_____	☐ Hi ☐ Mkt ☐ Lo	_____
5	☐ PED ☐ XED ☐ YED ☐ PES	_____	_____	☐ Hi ☐ Mkt ☐ Lo	_____

PED = price elasticity of demand • XED = cross-price • YED = income • PES = price elasticity of supply. Interpretation = elastic/inelastic, substitute/complement, or normal/inferior, depending on type.

AFTER THE GAME

Find your most inelastic round and your most elastic round. Which one rewarded a HIGH price call, and which one punished it?

Now use the vocabulary: explain the **total revenue test** — why does raising price increase revenue for an inelastic good but decrease it for an elastic good?

TRANSFER — NOW APPLY IT

Breaking: "Movie Theater Raises Ticket Prices 15% — Attendance Barely Drops 3%"

A movie theater chain raises average ticket prices from \$12 to \$13.80 (a 15% increase). Attendance falls from 100,000 tickets/month to 97,000 (a 3% decrease). Management is deciding whether to raise prices again next quarter.

+15%

PRICE CHANGE

-3%

QUANTITY CHANGE

?

PED COEFFICIENT

?

REVENUE EFFECT

A. Calculate the PED coefficient. Is demand elastic or inelastic?

B. Did total revenue rise or fall after the price increase? Show why using the total revenue test.

C. Should the theater raise prices again next quarter? Justify using elasticity.

RETURN TO THE DRIVING QUESTION

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Use elasticity and the total revenue test in your final answer.
