



Worksheet 4.2

Natural Gas PES

Calculating PES from data

Using information from [this WSJ article](#), we can actually calculate the price elasticity of supply (PES) of natural gas. In this case, since the price of natural gas went down, producers decreased the quantity of gas supplied. Once we know the price of natural gas before and after the price decrease, we can calculate the PES of gas. A little research from the time the article was published reveals that the price of gas fell from \$7.50 to \$5.75, so:

$$P1 = \$7.50$$

$$P2 = \$5.75$$

The article tells us how producers responded to this price change: read the first two sentences again.

Now we can calculate PES:

$$PES = \frac{\% \text{ change in Quantity supplied}}{\% \text{ change in price}}$$

Using this formula, calculate the PES for natural gas:

$$PES = \underline{\hspace{2cm}}$$

Questions:

1. What was the PES for natural gas at the time the article was written?
2. Based on the result of your PES calculation, how would you describe the responsiveness of gas producers to changes in price?
3. Do you think the PES for natural gas would remain constant over time if the prices were to remain low? Why or why not?
4. What are the primary determinants of PES for natural gas?