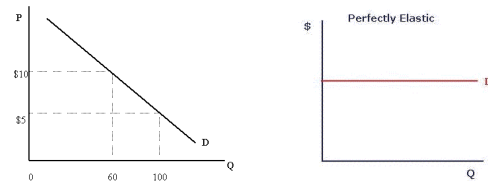


Concept Topic: Elasticity of Demand and Supply

Essential Question: If a business wants to generate more revenue, should it increase or decrease price?

Concept: Price Elasticity

(Price) elasticity of demand (PED or E_d) is a measure used in economics to show the responsiveness, or elasticity, of the quantity demanded of a good or service to a change in the products price, ceteris paribus (all else being equal).



Economic Skill: Measuring Elasticity

$$E_d = \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

$$E_d = \frac{\% \Delta Q}{\% \Delta P}$$

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However, please think about this question.....

"How big or small is the % change in price?"

Economic Skill: Measuring Elasticity

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However, please think about this question.....

"How big or small is the % change in price?"

Economic Skill: Measuring Elasticity

"How much is the % change in price?"

Product: Dinner

$$\begin{array}{ccc} P_0 & P_1 & \\ \text{(Current Price)} & \text{(New Price)} & \\ \$5 & \$10 & = \quad \% \end{array}$$

Economic Skill: Measuring Elasticity

"How much is the % change in price?"

E_d vs e_d

Product: Dinner

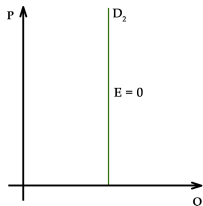
$$\begin{array}{ccc} P_0 & P_1 & \\ \text{(Current Price)} & \text{(New Price)} & \\ \$7 & \$8 & = \quad \% \end{array}$$

Key Concept: If the change in the elasticity of demand vs. the price is greater than 1, the demand is elastic. Therefore, the greater the change, the greater the elasticity of demand and thus the greater impact that price has on overall demand and your total revenue.

$$\begin{array}{ccc} P_0 & P_1 & \\ \text{(Current Price)} & \text{(New Price)} & \\ \$7 & \$8 & = \quad \% \\ P_0 & P_1 & \\ \text{(Current Price)} & \text{(New Price)} & \\ \$5 & \$10 & = \quad \% \end{array}$$

Another way of looking at it is through inelasticity of demand.

If the price increase had no impact whatsoever on the quantity demanded, the product would be considered perfectly inelastic. Basically depicted as a the demand curve for a vertical line, because the quantity demanded is the same at any price.



Concept Topic: Elasticity of Demand and Supply

Essential Question: If a business wants to generate more revenue, should it increase or decrease price?

Think about two products you recently bought, such as an airline ticket & paying for your electric bill.

To what extent are these products elastic or inelastic?

Concept: What are the characteristics that determine whether demand is elastic or inelastic?

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1st Factor: Luxury vs. Necessity

Think (Ford vs. A Car)

Concept: What are the characteristics that determine whether demand is elastic or inelastic?

2nd Factor: Number of Substitutes

Whose the competition?

Concept: What are the characteristics that determine whether demand is elastic or inelastic?

3rd Factor: Share of the Budget

The income effect

Concept: What are the characteristics that determine whether demand is elastic or inelastic?

4th Factor: Time available to make a purchase

As time increases, so does elasticity of demand.

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