Elasticity of Demand

As a Young Historian, I will be able to…

Elasticity

What do you think Elasticity means?

Elasticity- the ability of an object or material to resume
   its normal shape after being stretched
   or compressed; stretchiness.

Elasticity of demand- How drastically buyers will
   cut back or increase demand when prices
   change

Inelastic- When you buy the same amount
   regards of price changes

Elastic- If you buy less of a good after a price
   increase

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How Do We Calculate It?

We take the percentage change in the quantity of a demand good, then divide it by a percentage change in the price of a good

Elasticity of demand can vary. Demand for an item can be highly elastic at one price, & inelastic at a different price

A product price is less than 1- Inelastic
Greater than 1- Elastic

Unitary Elastic- Demand is exactly equal to 1

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**Factors Affecting Elasticity

What are some goods that are essential to YOU?

1. Availability of Substitutes: you may buy an alternative, regardless of price

Can substituting a good be dangerous?

2. Relative Importance: deciding if its worth it to buy the product if prices rise. "Big Pants Decisions!"

**Factors Affecting Elasticity

3. Necessities Vs Luxuries- This is purchasing items you see as a necessity or a luxury & marking demand for those products

4.Change Over Time- It takes time to find substitues or notice the impact of a price hike

Sometimes changes can affect the public at large and change by popularity!

How Elasticity Affects Revenue

Business planners and economists determine elasticity to keep economy healthy or determine trends

Total Revenue- The amount of money a company receives by selling its goods

When rising a price the quantity sold will decrease by a larger percentage-
20% price = 50% decrease

Pricing Policies

When demand is inelastic, price & total revenue will move in the same direction

Firms need to know the demand for products to make pricing decisions for lost revenue

If they find a product to be inelastic, they will more than likely increase prices with no worry!