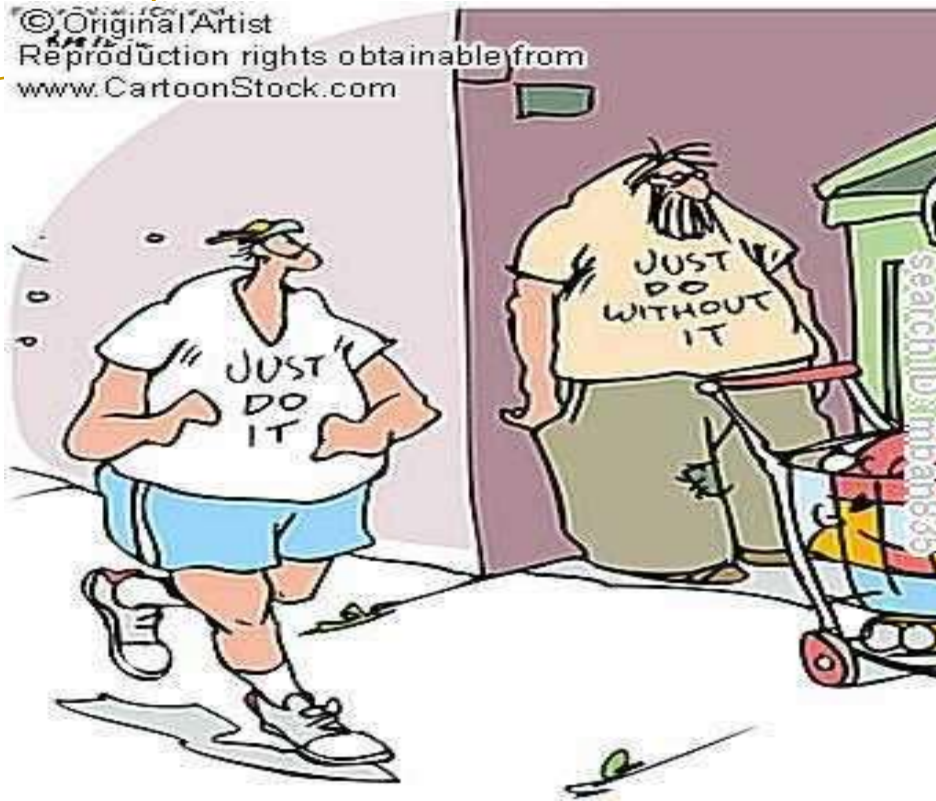


Chapter 4 Section 3

What is Elasticity of Demand?



How responsive are consumers to a change in price?

- Recall law of demand: As P increases, QD decreases. But how much does QD decrease?
- The answer to this question gives us elasticity of demand.



Elasticity of Demand

- Definition: measure of how responsive consumers are to a price change.

- Very responsive: elastic



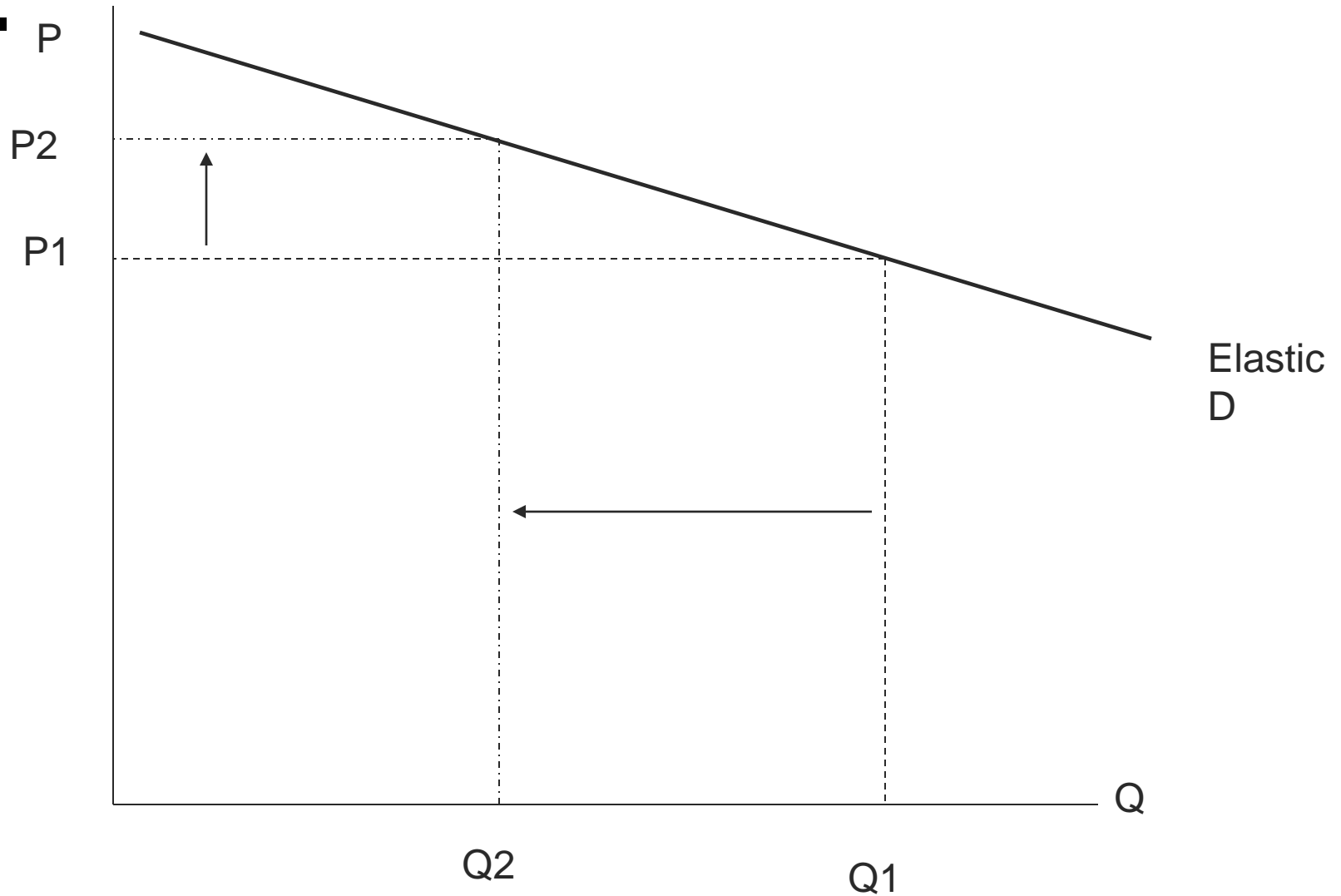
- Not very responsive: inelastic



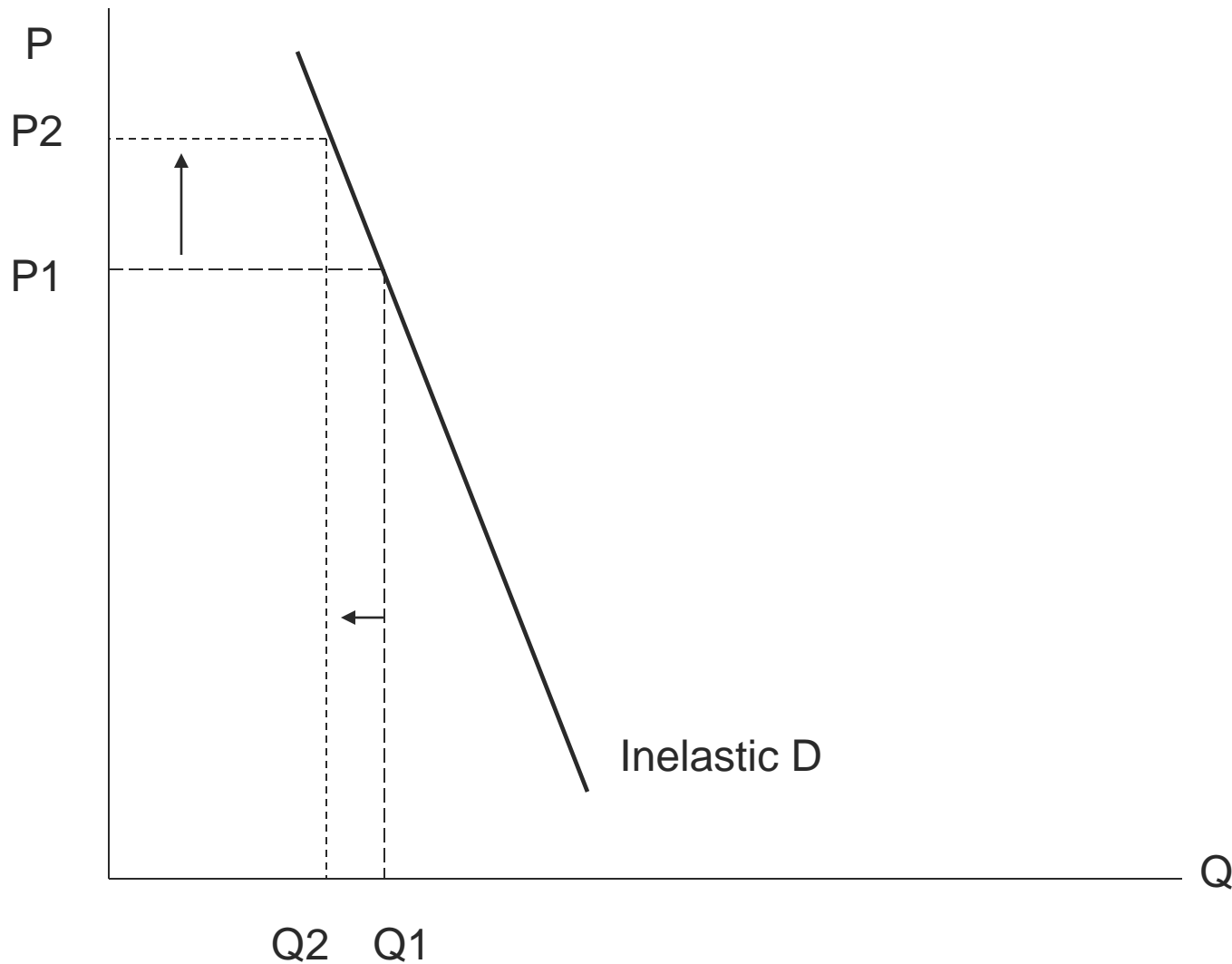
What Determines Elasticity?

- Substitute goods or services: subs mean more elastic
- Proportion of income: big purchases mean more elastic
- Luxury vs. necessity: necessity is more inelastic, luxury is more elastic. Addictive substances considered “necessity” in this context.
- Timeframe: the quicker you need it, the more inelastic it is

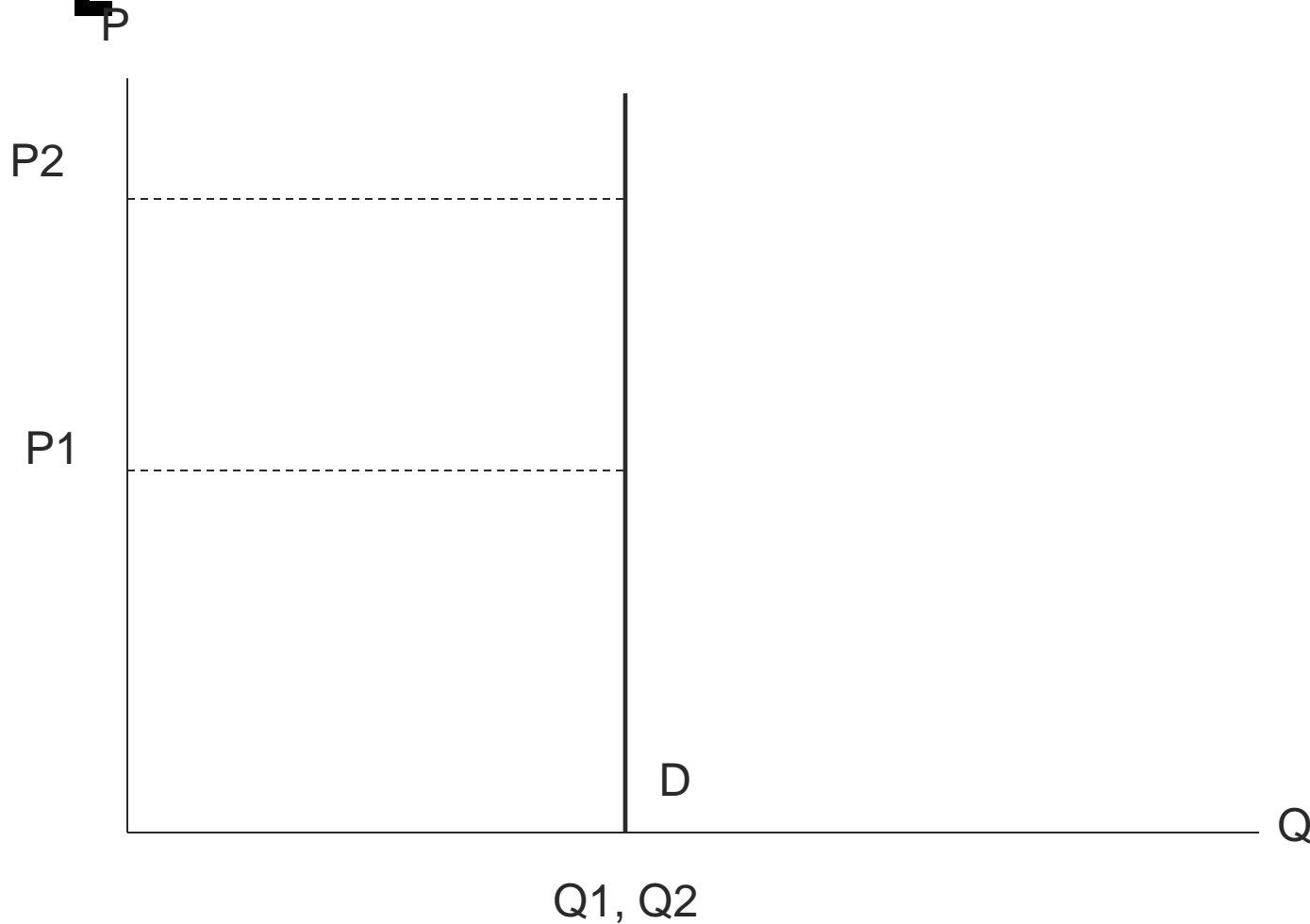
Elastic Demand: A little change in P causes a big change in QD




Inelastic Demand: A big change in P causes a little change in QD



Perfectly inelastic demand: Doesn't matter what the price is, QD remains the same



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- A large black left bracket and a large gold right bracket are positioned at the top of the slide. A horizontal line with a gold-to-white gradient runs across the slide, starting from the left bracket and ending at the right bracket.
- http://www.classzone.com/cz/books/economics/cnc/get_chapter_group.htm?cin=1&ci=1&rg=animations&at=animated_economics&npos=1&spos=1&var=animated_economics

Do you think these goods will have elastic or inelastic demand?

- Sports car
- Salt
- Ice cream
- Gas
- Insulin
- Braces
- Diamonds



- Education
- Applebee's food
- Cigarettes
- Gum
- House



[Total Revenue Test]

- Total Revenue Equation:
 - $TR = P * Q$ (price * quantity)
 - (If P and TR move in same direction, inelastic)
 - (If P and TR move in opposite directions, elastic)



[Total Revenue Test]

- $P=100$
- $Q=10$
- $TR=1000$
- If P decreases to 50, and Q increases to 25, TR is 1250, so demand is elastic
- If P decreases to 50 and Q increases to 19, TR is 950 and demand is inelastic

[Total Revenue Test]

- $P=100$
- $Q=10$
- $TR=1000$
- If P increases to 150, and Q decreases to 8, TR is 1200, so demand is inelastic
- If P increases to 150 and Q decreases to 5, TR is 750 and demand is elastic

[Assignment:

- Demand Poster Activity:

