

■ **Chapter 4 Section 3** What is Elasticity of Demand?

■ Recall law of demand:

■ The answer to this question gives us elasticity of demand.

Definition of elasticity of demand:

Very responsive:

Not very responsive:

■ What Determines Elasticity?

■ S

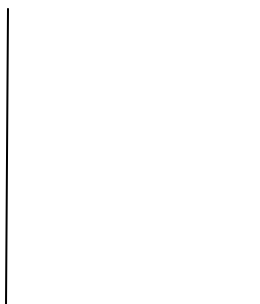
■ P

■ L

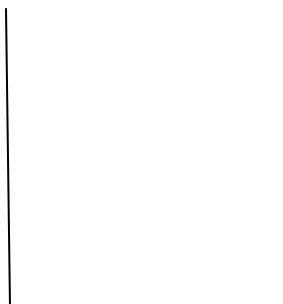
■ A

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■ Elastic Demand:



Inelastic Demand:



Perfectly Inelastic Demand:



■ 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:

If	And	THEN
Price increases	TR increases	
Price increases	TR decreases	
Price decreases	TR increases	
Price decreases	TR decreases	

P=100

Q=10

- TR=_____
- If P falls to 50, and Q increases to 25, TR is _____, so demand is _____
- If P falls to 50 and Q increases to 19, TR is _____ and demand is _____
- If P increases to 150, and Q decreases to 8, TR is _____ so demand is _____
- If P increases to 150 and Q decreases to 5, TR is _____ and demand is _____