

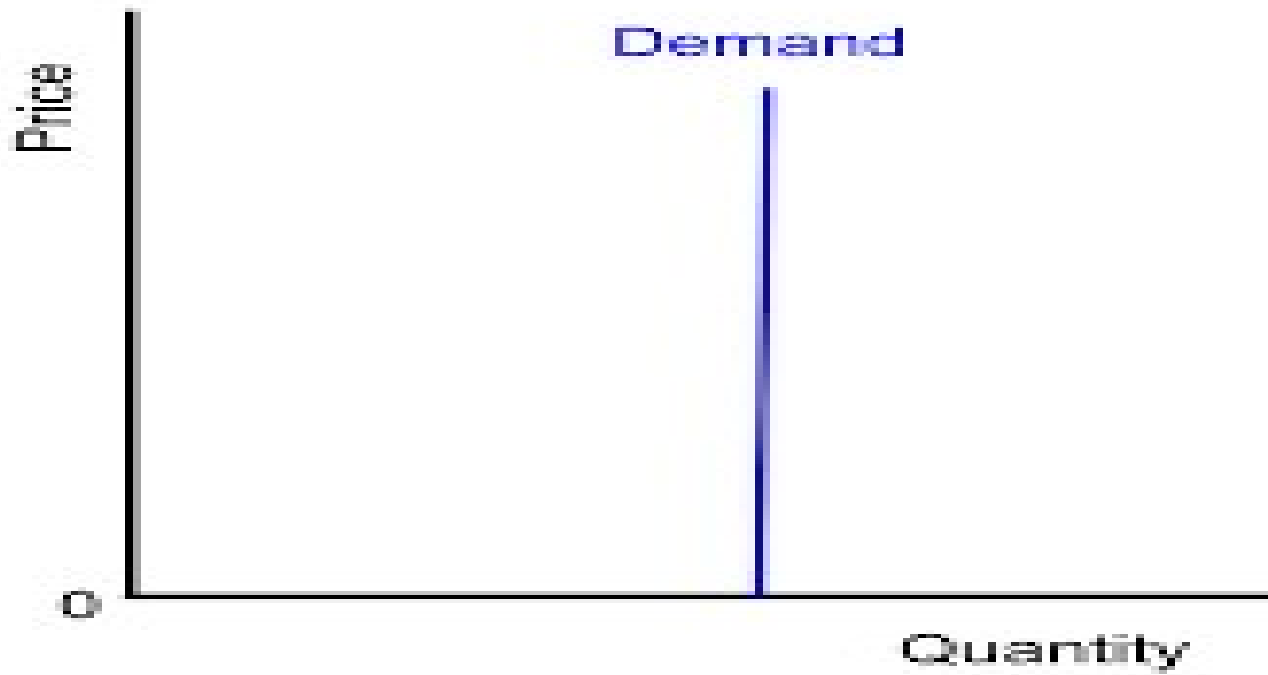
DIFFERENT DEGREES OF PRICE ELASTICITY OF DEMAND

Dr Anjali Dash

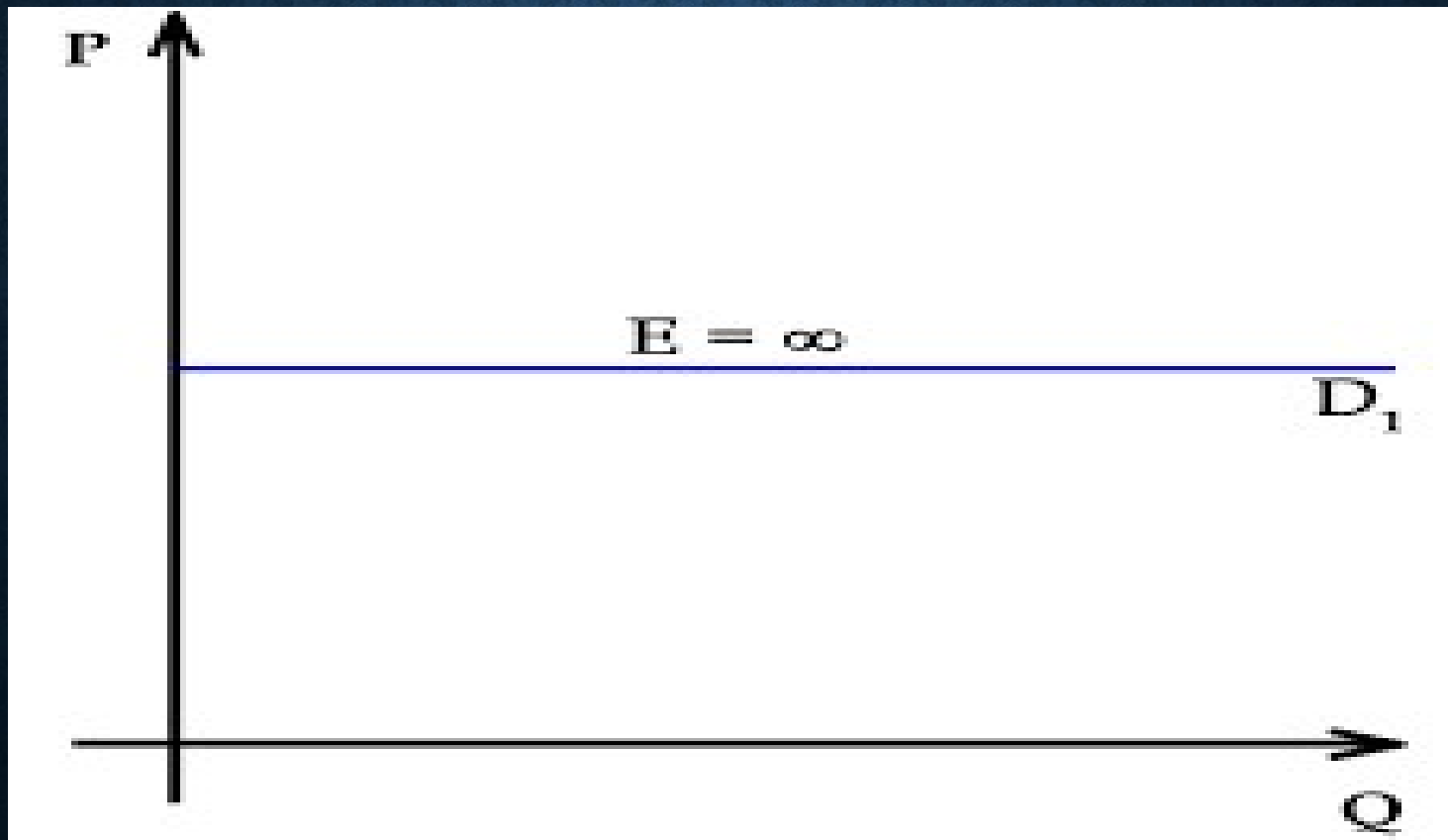
DIFFERENT DEGREES OF PRICE ELASTICITY OF DEMAND

- Perfectly Inelastic Demand
- Perfectly Elastic Demand
- Inelastic Demand
- Elastic Demand
- Unit Elastic Demand

PERFECTLY INELASTIC DEMAND



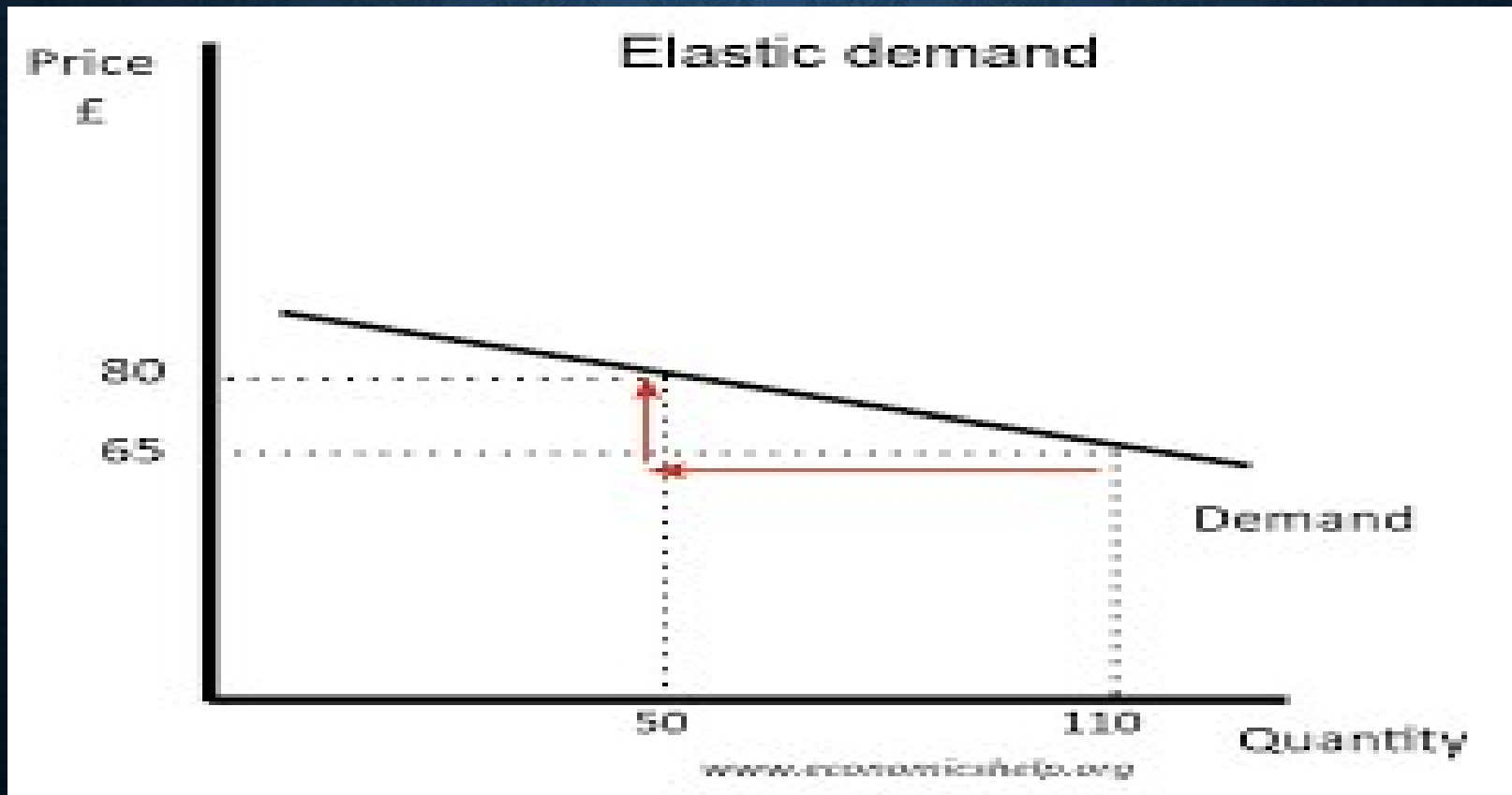
PERFECTLY ELASTIC DEMAND



INELASTIC DEMAND

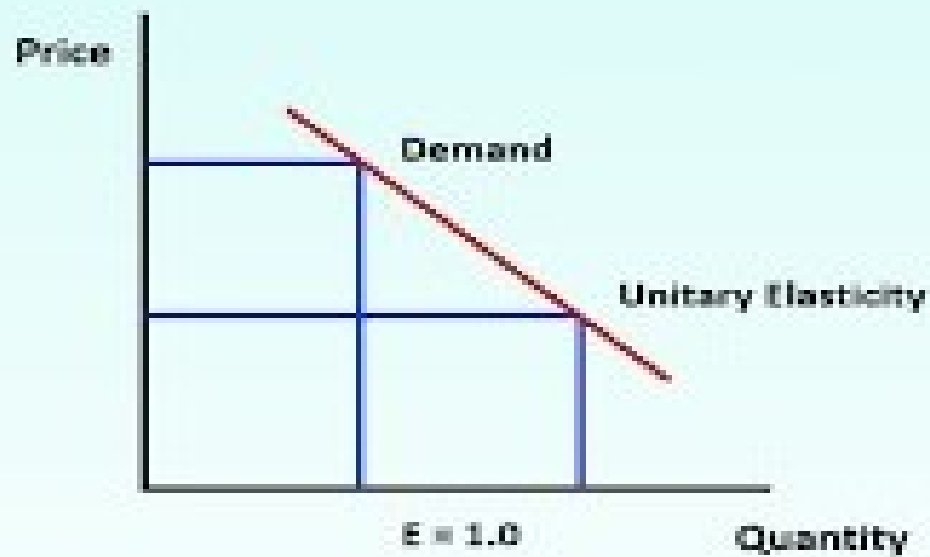


ELASTIC DEMAND

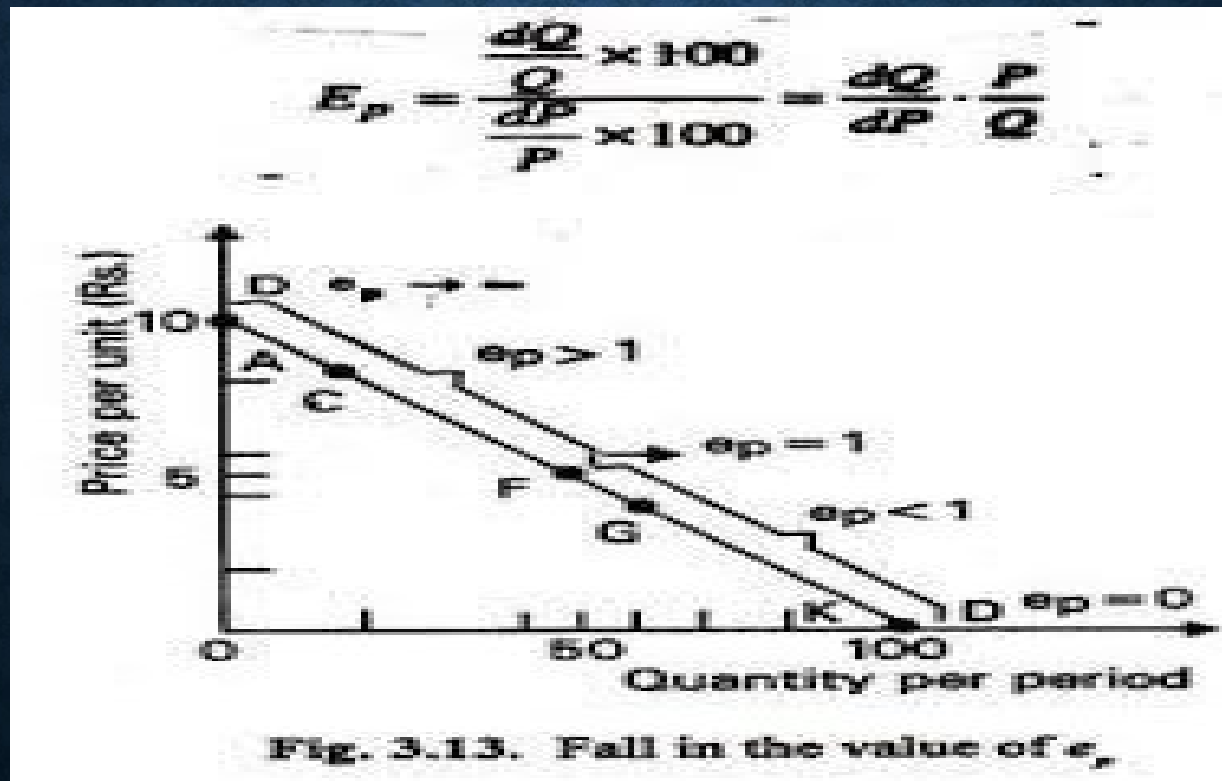


UNIT ELASTICITY

Unitary Elastic Demand

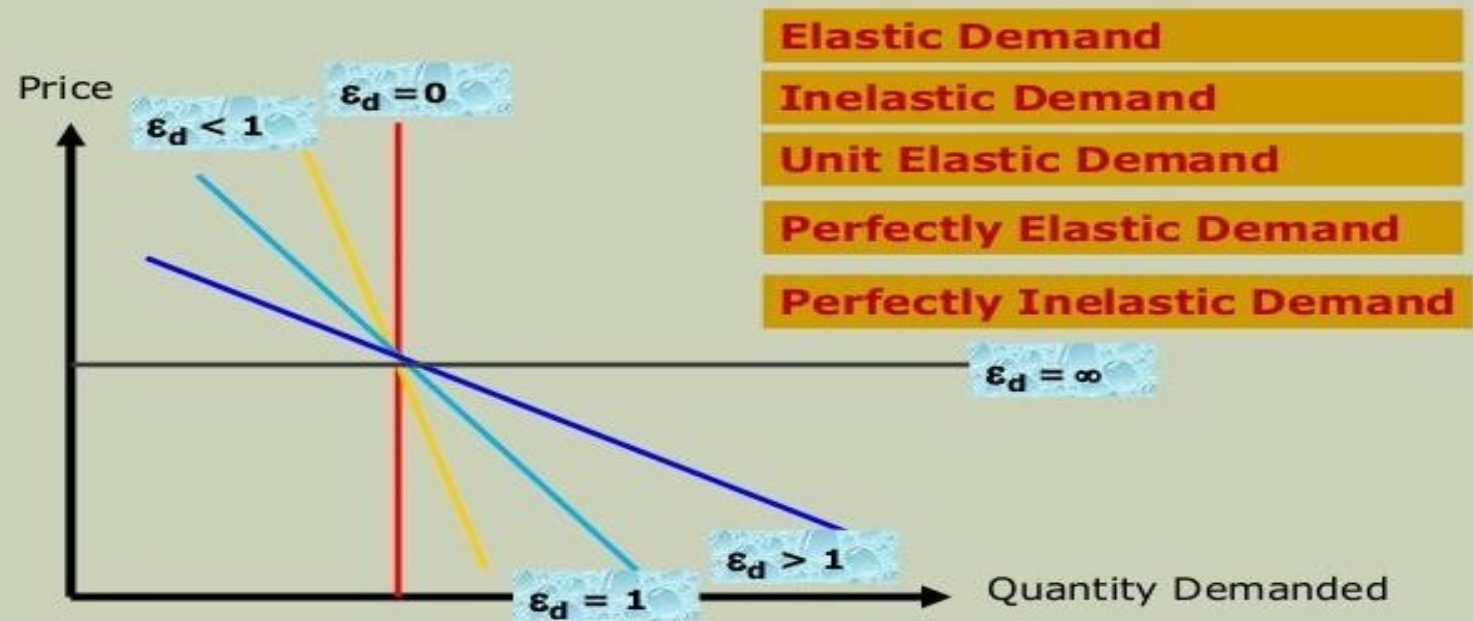


Point elasticity of Demand



Continued

DEGREES OF ELASTICITY



SUMMARY

- If $e_p = 0$, the demand is perfectly inelastic
- If $e_p = 1$, the demand has unitary elasticity
- If $e_p = \infty$, the demand is perfectly elastic
- If $0 < e_p < 1$, the demand is inelastic
- If $1 < e_p < \infty$, the demand is elastic

DETERMINANTS OF PRICE ELASTICITY OF DEMAND

- The availability of substitutes
- Nature of the need that the commodity satisfies
- The time period
- The number of uses to which a commodity can be put
- The proportion of income spent on the particular commodity

ARC ELASTICITY OF DEMAND

ARC ELASTICITY

- The arc elasticity is a measure of the average elasticity
- The elasticity at the mid-point of the chord that connects the two points on the demand curve defined by the initial and the new price levels
- An approximation of the true elasticity of the section two points (R_1 and R_2) of the demand curve

ARC ELASTICITY

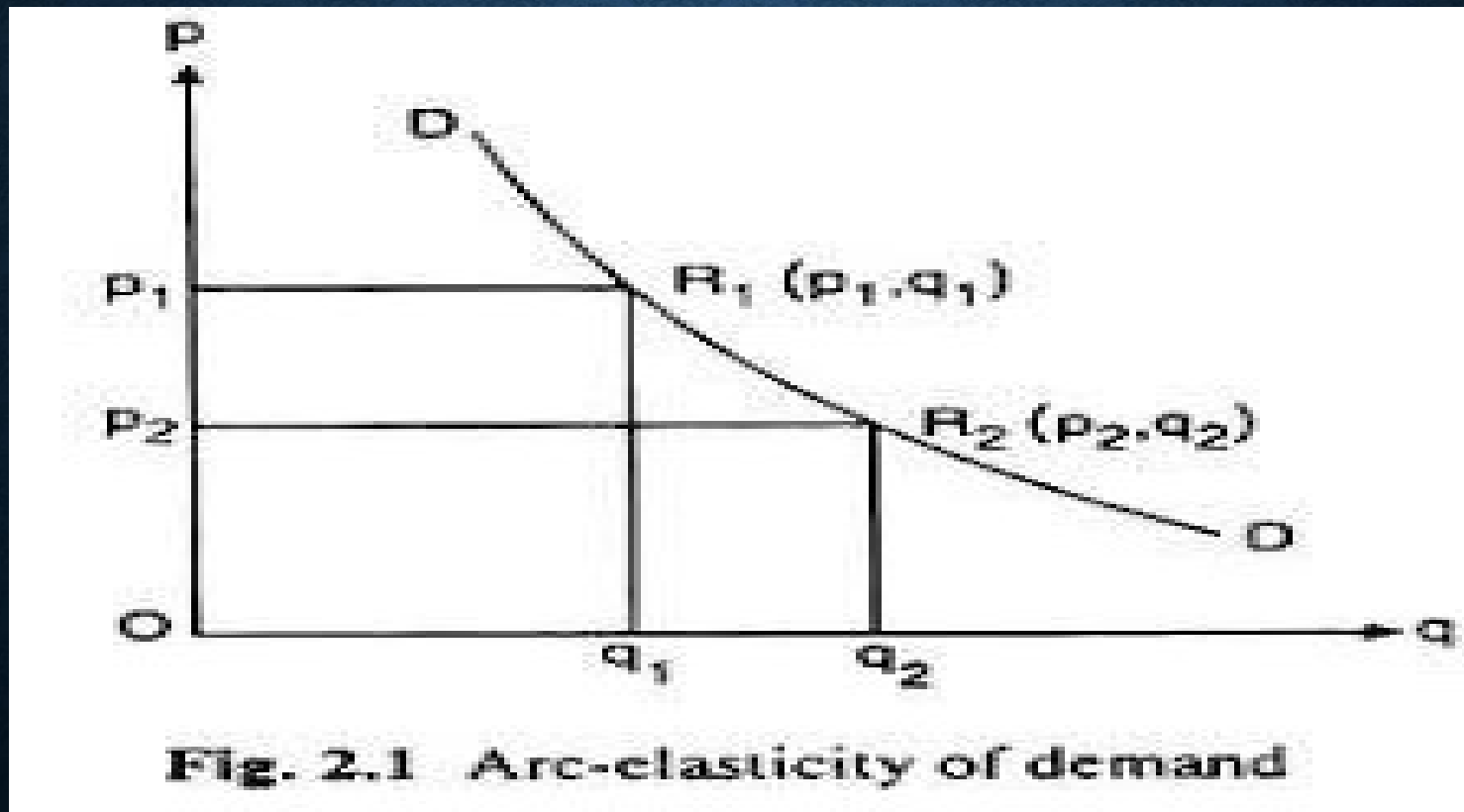


Fig. 2.1 Arc-elasticity of demand

ARC ELASTICITY

$$e_p = \frac{\Delta Q}{\Delta P} \times \frac{\frac{P_1+P_2}{2}}{\frac{Q_1+Q_2}{2}}$$

$$= \frac{\Delta Q}{\Delta P} \times \frac{(P_1+P_2)}{(Q_1+Q_2)}$$