



Elasticity of Demand

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Demand & Elasticity of Demand

- Demand measures the inverse relationship between price and quantity demand
- Elasticity of demand measures the magnitude of change in quantity demand
- As many elasticities of demand as its determinants

Elasticity of Demand

- Elasticity of demand is a measure of the responsiveness of demand to changes in the commodity's own price or income or prices of related goods
- Three elasticities
 - The Price Elasticity
 - The Income Elasticity
 - The Cross Elasticity

Price Elasticity of Demand

- Price elasticity is a measure of the responsiveness of demand to changes in the commodity's price
- Changes in price are very small- point elasticity of demand
- Changes in price are not small- arc elasticity of demand

How to calculate Price Elasticity of Demand

- $e_p = \frac{\text{Proportionate Change in Quantity Demand}}{\text{Proportionate Change in Price}}$

- $e_p = \frac{\text{Change in Quantity Demand} / \text{Original Quantity}}{\text{Change in price} / \text{Original Price}}$

- Symbolically

- $e_p = \frac{\Delta Q / Q}{\Delta P / P}$

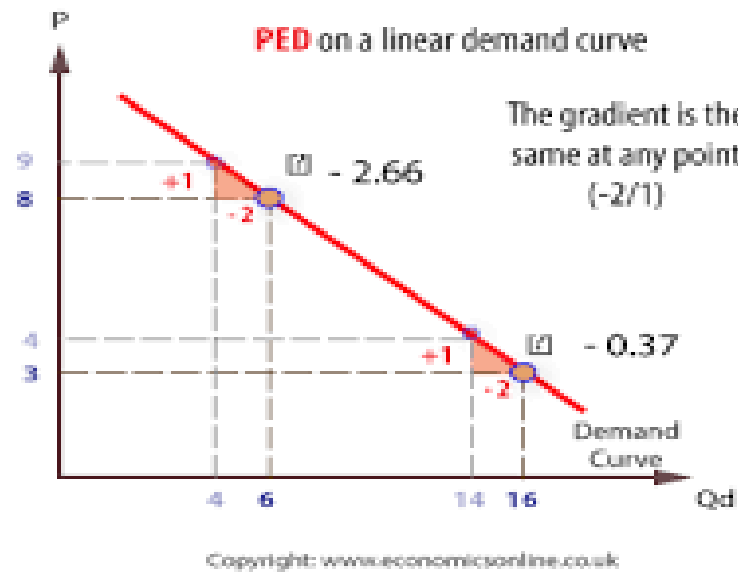
- $e_p = \Delta Q / Q \times P / \Delta P$

- $e_p = \Delta Q / \Delta P \times P / Q$

Point elasticity of Demand

- The proportionate change in the quantity of demanded resulting from a very small proportionate change in price
- Graphically the point elasticity of a linear-demand curve is shown by the ratio of the segments of the line to the right and to the left of the particular point

Point elasticity of Demand



Point elasticity of Demand

