

## Business Economics: Elasticities Cheat Sheet

by mgxx2004 (mgrawahi) via cheatography.com/197440/cs/41865/

#### Elasticity

a measure of the responsiveness of one economic variable following a change in another variable.

PED = % change in quantity demanded/ % change in price

% New Value - Old Value / Old
Change Value x 100
=

#### Interpreting Elasticities

PED = 0 Perfectly Elastic.

- demand stays constant regardless of changes in the price (theoretically not real).

PED = 1 Unitary Elastic.

- change of 1 % in price leads to a 1% change in the quantity demanded.

#### PED < 1 Demand is Inelastic.

- consumers are insensitive to changes in the price and their purchasing behaviour does not change when prices rise.

#### PED > 1 Demand is Price Elastic.

- consumers are very sensitive to changes in price and 1% increase in price causes a drop in the quantity demanded of more than 1%.

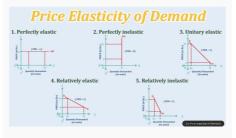
### If PED = $\infty$ Perfectly Price Elastic.

 any price change will lead the demand to fall to Zero and price reductions will not boost sales.



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# Curve of Elasticities of Demand



#### **Determinants of Price Elasticity of Demand**

1. Necessities vs. Luxuries

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