Business Economics: Elasticities Cheat Sheet

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Elasticity

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

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

% Change =	New Value - Old Value / Old 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.

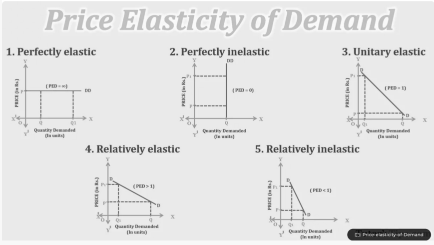
PED > 1 Demand is Price Elastic.

- 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 = ∞ Perfectly Price Elastic.

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

Curve of Elasticities of Demand



Determinants of Price Elasticity of Demand

1. Necessities vs. Luxuries