Answer on Question #40208 – Economics – Microeconomics

Assignment

if price elasticity of demand for petrol is 0.8 and the market price is 30 per litre, by how much should price be raised to reduce consumption by 5%?

Solution

Price elasticity of demand (PED or Ed) is a measure used in economics to show the responsiveness, or elasticity, of the quantity demanded of a good or service to a change in its price. More precisely, it gives the percentage change in quantity demanded in response to a one percent change in price (ceteris paribus, i.e. holding constant all the other determinants of demand, such as income).
If price elasticity of demand for petrol is 0.8, the demand is inelastic.

If the market price is 30 per litre, and reducing in consumption is 5%,

price should be raised by

price change = quantity change/elasticity = 5%/0.8 = 6.25%.