

Answer on Question #44217 – Economics – Microeconomics

Task

Is the elasticity same as slope? Discuss.

Solution

Slope is ratio of absolute changes in P and Q, e.g. slope of 2 means that if P increases by 1, Q increases by 2.

Elasticity is ratio of percentage changes in P and Q, i.e. elasticity of 2 means 10% in P will lead to 20% increase in Q.

Elasticity = % change in quantity / % change in price

Slope and elasticity will have same sign, but aside from that they are different.

The slope of the demand curve represents change in price divided by change in quantity, and it can be thought of as answering the question "by how much does an item's price need to change for customers to demand one more unit of it?"

Price elasticity of demand answers the question "by how much does the quantity demanded of an item change in response to a change in price?"