

Answer on Question #44885 – Economics – Microeconomics

Explain the link between cross elasticity of demand and price elasticity of demand

Solution

The cross elasticity of demand quantifies the theoretical relationship between the price of one good and the demand for another good as identified by the other prices demand determinant. A positive cross elasticity indicates a substitute good and a negative cross elasticity exists for a complement good.

Price elasticity of demand 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).

So, they are similar, because show relationship between price and quantity, but if first shows the relationship between price and quantity of different goods, second shows the relationship between price and quantity of one good.