

### **Answer on Question #67525 -Economics - Microeconomics**

Explain why it is important for the supplier of a good to have information about the price elasticity of demand (PED) for the product.

**Answer.**

It is important to know about the price elasticity of demand (PED) for the product because it determines the price strategy. And the main purpose of pricing strategy of any firm is to maximize revenues.

By definition, total revenue (TR) is obtained by multiplying quantity demanded of a product ( $Q_x$ ) by price ( $P_x$ ), that is

$$TR = Q \times P$$

If  $|E_p| > 1$  demand is price elastic, and even a slight decrease in prices leads to a significant increase in sales. So, total revenue increases. An increase in price will have the opposite effect on total revenue. The relationship between price and total revenue is negative. Consequently, in that case the firm has to decrease the prices.

If  $|E_p| < 1$  demand is price inelastic, and the relationship between price and total revenue is positive. That is, an increase in price will have the effect of increasing total revenue and a decrease in price will cause a decline in revenue. Consequently, in that case the firm has to increase prices.

If  $|E_p| = 1.0$ , a change in price will have no effect on total revenue.