

Answer on the Question #72258, Economics / Economics of Enterprise

With the increase in price of tomato from Rs. 40 per kg to Rs. 80 per kg in super market, the demand for tomato has gone down from 40 kg to 20 kg. Calculate the demand elasticity.

The formula used to calculate the price elasticity of demand is:

$$\frac{\% \text{ change in quantity}}{\% \text{ change in price}} > 1 \quad \text{Elastic}$$

$$\frac{\% \text{ change in quantity}}{\% \text{ change in price}} = 1 \quad \text{Unitary}$$

$$\frac{\% \text{ change in quantity}}{\% \text{ change in price}} < 1 \quad \text{Inelastic}$$

$$(20-40)/40 : (80-40)/40 = -0,5/1 = -0,5$$

the demand elasticity is -0,5, so the demand is inelastic

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