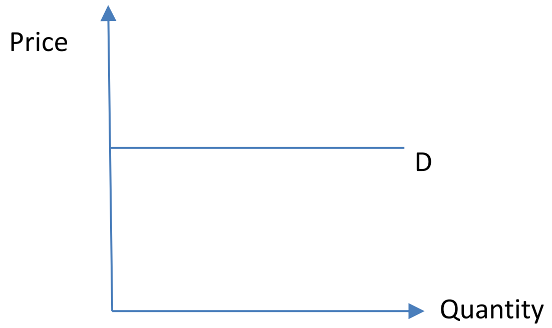
Question #75187, Economics / Microeconomics

3.1 $E_P^D = \frac{\Delta Q^D,\%}{\Delta P,\%} = \frac{\Delta Q}{Q} \div \frac{\Delta P}{P}$

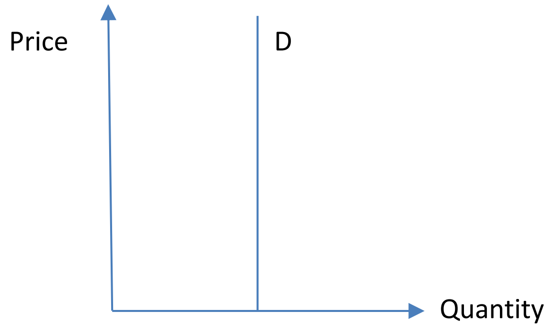
Price elasticity of demand measures the relationship between changes in quantity demanded of a good and changes in its price.

3.2 **Perfect elastic demand**



Customers demand all the quantity offered. E tends towards ∞.

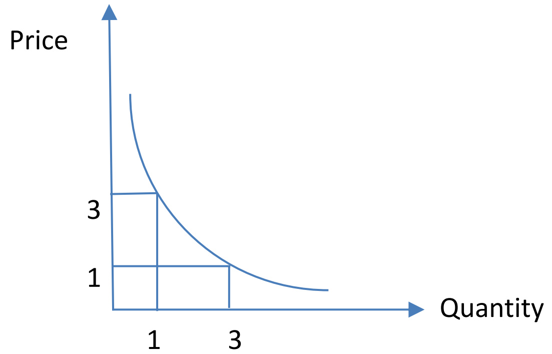
Perfect inelastic demand



The same quantity demanded for every level of price. E=0.

Unitary elasticity demand

Any change in the price of the good is accompanied by an inversely proportional change in a quantity demanded.



3.3 **Importance of the goods for the consumer.** There is a category of goods which consumptions cannot be postponed. They are called necessities. Necessities are inelastic, and luxuries are elastic in price.

Availability of substitute goods. The more substitute products are available to the consumer, the more elastic the demand for substitute goods (which prices change) will be, and vice versa.

Range of prices. Demand tends to be inelastic if prices are very high or very low. Usually small part of income is spent on low priced commodities. At the same time for rich people change in prices is not serious. So their demand is inelastic.