Unit 2 Lesson 2 Elasticity of Demand

Elasticity of de	emand is a measure of how cons	umers react to a change in	
	nd for a good that consumers wil	I continue to buy despite a	price increase
■ Demar	nd for a good that is very sensitiv	e to changes in price is	·
Elasticity i	s determined using the	e following formula	:
Elasticity equa	ls (percentage change in) divided by	(percentage change in price)
If demand is el	astic, a small change in price lea	ds to a relatively large chan	ge in the quantity demanded.
Examples: 1.	2.	3.	
Draw graph he	re:		
	elastic, consumers are not very is mall change in quantity demand		·
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Draw graph he	re:		
Unitary Elastic	ity		
The condition	where something is neither elast to the percentage change in qua		
elasticity is equ	ual to		
Draw Graph He	ere:		

	Factors Affecting Elasiticy
	1
	■ If there are few substitutes for a good, then demand will not likely decrease as price
	increases. The opposite is also usually true.
	Another factor determining elasticity of demand is how much of your budget you spend on the good.
	3
	■ Whether a person considers a good to be a necessity or a luxury has a great impact on
	the good's elasticity of demand for that person.
	4
	Demand sometimes becomes more elastic over time because people can eventually find substitutes.
Elastici	ty and Total Revenue
•	A company's total revenue is the total amount of money the companyfrom selling its goods or services.
•	Firms need to be aware of the elasticity of demand for the good or service they are providing.
•	If a good has an elastic demand, raising prices may actually the firm's total revenue.
Profit =	total revenue - total costs
•	Total revenue = x quantity sold
•	Total costs = Fixed costs + Variable costs
•	: a cost that does not change no matter how many items produced.
•	: a cost that rises or falls depending on the number of items made.
To max	simize profits a manufacturer must find the output level (Q_s) that will create the biggest between the Total Revenue and the Total Costs.
Accor price.	ding to the law of supply, suppliers will offer more of a good at a higher
-	ty Supplied: actual amount a supplier is willing and able to supply at a certain price.
Supply	: chart showing Q _s and P
Supply ₋	graph of the chart (always goes up)
	Draw a supply curve to the right =========