Pinky Rani

Assistant Professor (Guest Faculty)

Department of Economics

Maharaja College

Veer Kunwar Singh University, Ara

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Topic: Elasticity of Demand

Elastic and inelastic demand refer to the degree to which demand responds to a change in an economic factor. Price is the most common economic factor used when determining elasticity. Other factors include income level and substitute availability.

When demand remains constant regardless of economic changes, a good or service is called inelastic. Conversely, when demand changes for a good or service in relation to economic changes, it is known as elastic.

The elasticity of demand refers to the change in demand when there is a change in another economic factor, such as price or income.

Demand is considered inelastic if the demand for a good or service remains unchanged even when the price changes.

Elastic goods include luxury items and certain food and beverages as changes in their prices affect demand.

Inelastic goods may include items such as tobacco and prescription drugs as demand often remains constant despite price changes.

Elasticity of Demand

The elasticity of demand, or demand elasticity, measures how demand responds to a change in price or income. It is commonly referred to as price elasticity of demand because the price of a good or service is the most common economic factor used to measure it.

An elastic good is defined as one where a change in price leads to a significant shift in demand and where substitutes are available for an item, the more elastic the demand for the good will be

Formula of Elasticity of Demand

The price elasticity of demand is calculated by dividing the percentage change in quantity demanded by the percentage change in price.

If the quotient is equal to or greater than one, the demand is considered to be elastic. If it is less than one, demand is considered to be inelastic.

Common examples of products with high elasticity are luxury items and consumer discretionary items, such as brand-name cereal or candy bars. Food products are easily substituted and brand names are easily replaced by lower-priced items.

A change in the price of a luxury car can cause a change in the quantity demanded, and the extent of the price change will determine whether or not the demand for the good changes and if so, by how much.

Other factors such as income level and available substitutes also influence the demand elasticity of goods and services. During a period of job loss, people may save their money rather than upgrade their smartphones or buy designer purses, leading to a significant change in the consumption of luxury goods.

Available substitutes for a good or service make an item more sensitive to price changes. If the price of Android phones increases by 10%, this could shift demand from Androids to iPhones, for instance.

Inelasticity of Demand

Inelastic demand is evident when demand for a good or service is static even when its price changes.

Inelastic products are usually necessities without acceptable substitutes. The most common goods with inelastic demand are utilities, prescription drugs, and tobacco products. Businesses offering such products maintain greater flexibility with prices because demand remains constant even if prices increase or decrease. In general, necessities and medical treatments tend to be inelastic, while luxury goods tend to be most elastic.