



ELASTICITY OF DEMAND

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LAW OF DEMAND

- **Law of Demand** states that if price of commodity increases quantity demanded will fall and if price of commodity falls quantity will increase.
- **Law of demand** indicates only direction of change in quantity demanded in response to change in price but **ELASTICITY OF DEMAND** states with how much or to what extent the quantity demanded will change in response to change in any determinants.

ELASTICITY - THE CONCEPT

- If price rises by 10% - what happens to demand?
- We know demand will fall.
- By more than 10% ?
- By less than 10% ?
- Elasticity measures the extent to which demand will change.

TYPES OF ELASTICITY OF DEMAND

ELASTICITY OF DEMAND IS OF FOLLOWING TYPES

- Price Elasticity Of Demand (PED)
- Income Elasticity Of Demand (IED)
- Cross Elasticity Of Demand (CED)
- Advertising Elasticity (AE)

TYPES OF ELASTICITY OF DEMAND

PRICE ELASTICITY OF DEMAND (PED)

Generally, A measure of the responsiveness of the quantity demanded of a good to a change in the price of that good.

Formally, The proportionate change in the quantity demanded that results from Proportionate change in its price.

INCOME ELASTICITY OF DEMAND (IED)

A measure of the responsiveness of the quantity demanded of a good to a change in the income of individual.

PRICE ELASTICITY OF DEMAND

- The **price elasticity of demand** is a units-free measure of the responsiveness of the quantity demanded of a good to a change in its price when all other influences on buyers' plans remain the same. According to the law of demand, whenever the price rises, the quantity demanded falls. **Thus the price elasticity of demand is always negative.**
- The price elasticity of demand is the percent change in quantity demanded divided by the percent change in price that caused the change in quantity demanded.

PRICE ELASTICITY OF DEMAND

$$E_d = \frac{\text{Proportionate change in quantity demanded}}{\text{Proportionate change in price}}$$

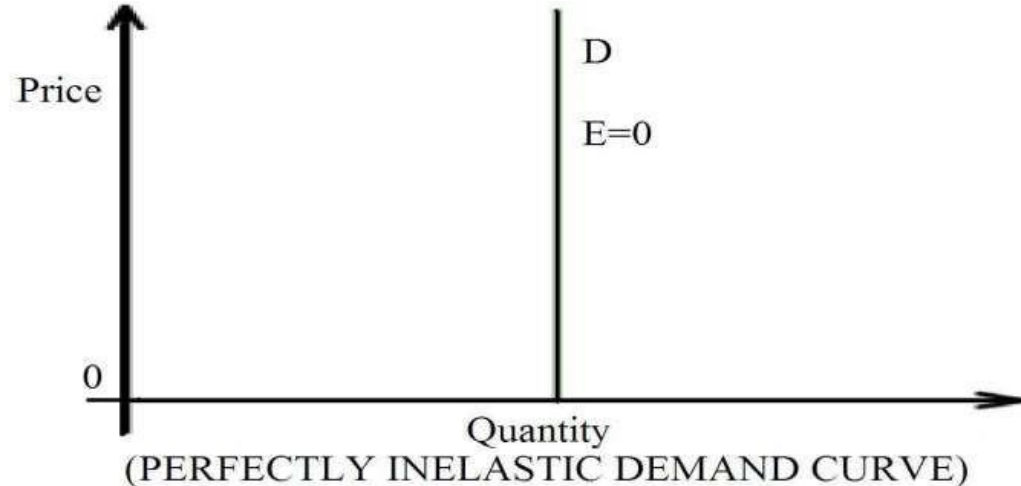
$$\text{Price elasticity}(E_d = \frac{(Q_1 - Q)/Q}{(P_1 - P)/P} = \frac{\Delta Q/Q}{\Delta P/P} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$**E_d = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}**$$

PERFECTLY INELASTIC / ZERO ELASTIC

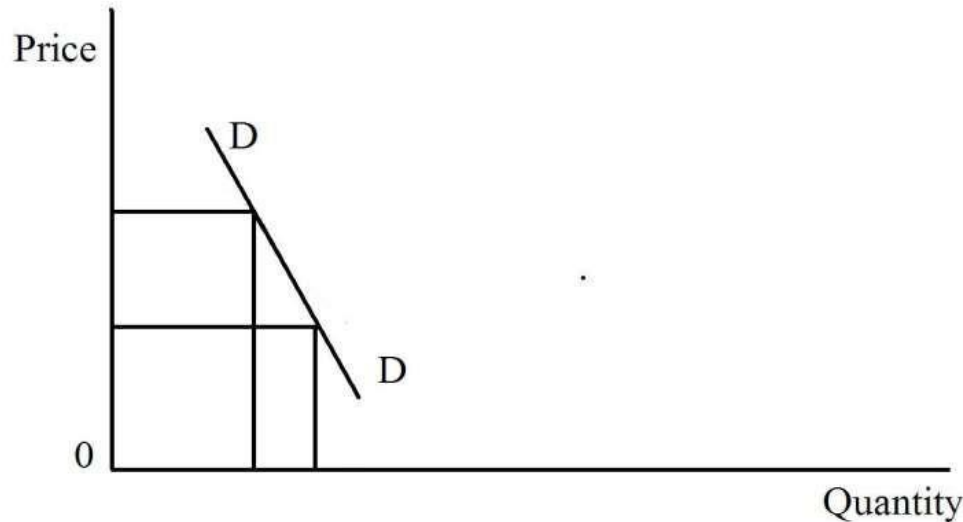
Perfectly Inelastic demand is where any price change does not change quantity demanded at all. Consumers are willing to pay any price in order to obtain a given quantity of a good or service. This situation can be represented by a vertical demand curve.

Ordinary necessities of life have a Perfectly Inelastic Demand like salt, medicines etc.



RELATIVELY INELASTIC / LESS ELASTIC

Relatively Inelastic Demand is that demand when any price change brings about a relatively lower change in quantity demanded. Those goods which are essential for our living have Relatively Inelastic Demand.



RELATIVELY ELASTIC / MORE ELASTIC

When a very small change in price brings about a very large change in quantity that is known as Relatively Elastic Demand.

