

Chapter 5

Elasticity of Demand and Supply

CHERYL CARLETON ASHER
Villanova University

ELASTICITY

- # We know that various factors cause the Demand and Supply curves to shift
- # We know that if P falls, the Q^D and the Q^S respond
- # BUT, the AMOUNT OF THE RESPONSE isn't always the same!
 - Examples: P cars, P milk, P electricity
- # SO, want to say something about the *degree* of responsiveness

Price Elasticity of Demand

- ❖ **Price elasticity of demand measures how responsive consumers are to price change; elasticity is another word for responsiveness**
- ❖ **Price elasticity of demand = $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$**