The law of demand states:

**P**

**Q**

**d**

**P**

**Q**

**d**

and

BUT….the demand for all products does not respond evenly to price changes

***How much demand moves (how consumers respond) to price changes is known as:***

**ELASTICITY**

**A change in price creates very little change in demand**

**A change in price creates a significant change in demand**

**INELASTIC**

**DEMAND**

**ELASTIC**

**DEMAND**

So, how do we determine (calculate) if the demand for a product is elastic or inelastic?

**ELASTICITY** =

% change in price

% change in qty demanded

If elasticity is

then demand is **ELASTIC**

then demand is **INELASTIC**

**> 1**

If elasticity is

**< 1**

**CALCULATING ELASTICITY**

Let’s say the price for shoes increased from $70 to $80

% change in qty demanded

**ELASTICITY** =

% change in price

$110

$100

$90

$80

$70

$60

5 10 15 20 25 30 35 40

1st $ – New $

1st $

X 100

1st Qty – New Qty

1st Qty

X 100

X 100

30

30 - 20

$70 - $80

$70

X 100

2.35

**>** 1

33

14

Let’s say the price for shoes increased from $70 to $80,

*but demand only dropped from 30 to 27*

% change in qty demanded

**ELASTICITY** =

% change in price

$110

$100

$90

$80

$70

$60

5 10 15 20 25 30 35 40

1st $ – New $

1st $

X 100

1st Qty – New Qty

1st Qty

X 100

X 100

30

30 - 27

$70 - $80

$70

X 100

.714

**<** 1

10

14