

Elasticity of Demand

In this lesson, students will identify characteristic of elastic and inelastic demand.

Students will be able to define and/or identify the following terms:

Elasticity

Elastic Demand

Inelastic Demand

Factors Affecting Elasticity of Demand



Gas prices keep rising but we keep
buying!

E. Napp



Doesn't the law of demand state that consumers buy less at higher prices?

So, why are we still buying gas?

Elasticity of Demand

- Elasticity of demand is a measure of how consumers react to a change in price.
- Inelastic demand is demand that is not very sensitive to a change in price.
- Elastic demand is demand that is very sensitive to a change in price.



Think pants. These pants have inelastic waistbands. The waistbands do not change if people gain weight.

E. Napp



Our demand for gasoline is inelastic.
It does not change even with a price
increase.

E. Napp

Sweat Pants



Think pants again! Sweat pants have elastic waistbands. The pants change depending on the size of the person.



Our demand for apple juice is elastic. If the price increases, we will buy less. Our demand changes.

E. Napp



So, why is our demand for apple juice elastic and our demand for gasoline inelastic?

E. Napp

Factors Affecting Elasticity of Demand

- The following are factors that can affect the elasticity of demand:

Availability of Substitutes

Relative Importance

Necessities Versus Luxuries

Time (It takes time to find substitutes.)



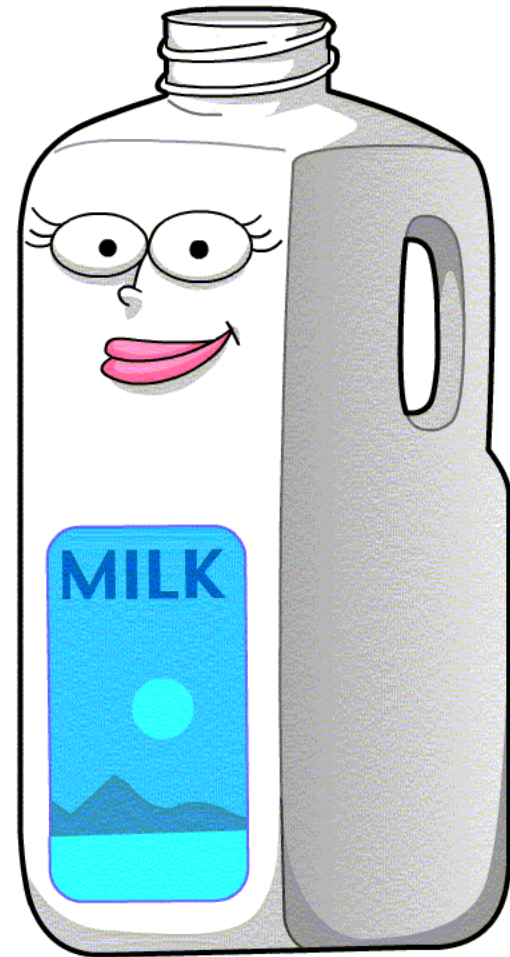
It's obvious, isn't it?

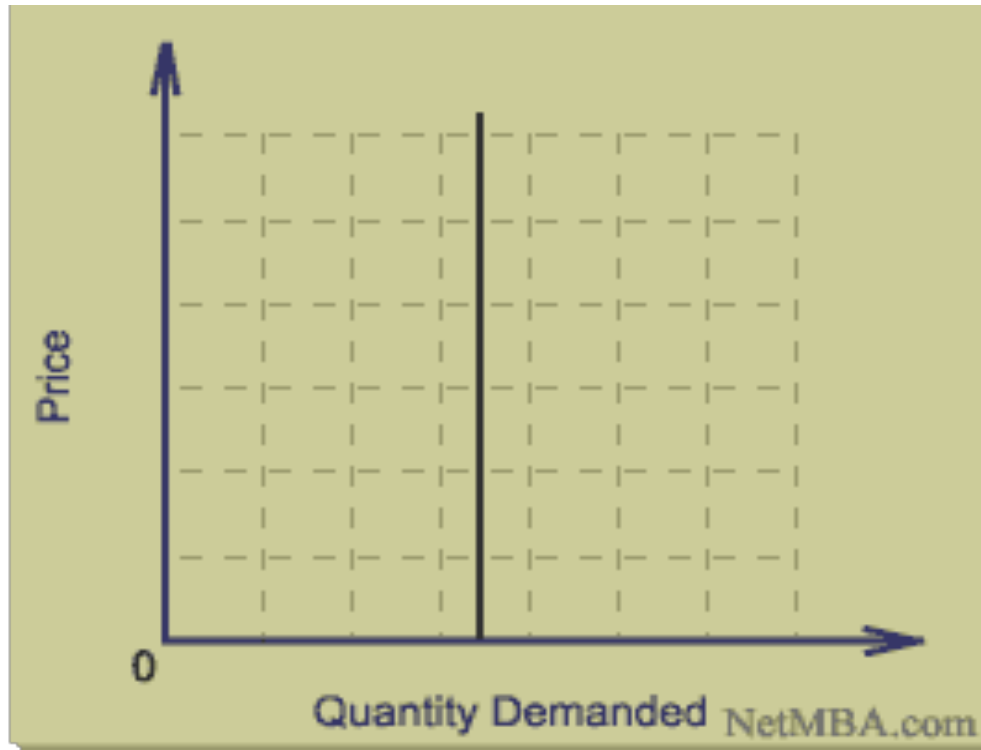
We can substitute orange juice
for apple juice.

Therefore, we deal with a price increase
by substituting one product for another
product.



However, we cannot substitute milk for gasoline.





What is this graph telling us about elasticity of demand?

Questions for Reflection:

- State the Law of Demand.
- Why is the law of demand not always true?
- Define elasticity.
- Provide one example of a good with inelastic demand and explain why demand for that good is inelastic.
- Provide one example of a good with elastic demand and explain why demand for that good is elastic.