STUDY MATARIALS OFR BA SUBSIDIARY ECONOMICS

PART – 1

PAPER – SUBSIDIARY

TOPIC – ELASTICITY OF DEMAND

INTRODUCTION

Elasticity of demand is the responsiveness of the quantity demanded of a commodity to changes in one of the variables on which demand depends. In other words, it is the percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends.

Types of elasticity of demand

1- Price elasticity of demand: - The price elasticity of demand is the response of the quantity demanded to change in the price of a commodity. It is assumed that the consumer's income, tastes, and prices of all other goods are steady. It is measured as a percentage change in the quantity demanded divided by the percentage change in price
   Ep=Change in Quantity×100Original/ Quantity Change in Price×100Original Price

2- Income elasticity of demand: - The income elasticity of demand is the degree of responsiveness of the quantity demanded to a change in the consumer's income.
   EI=Percentage change in quantity demanded/Percentage change in income

3- Cross elasticity of demand: - The cross elasticity demand of a commodity X for another commodity Y, is the change in demand of commodity X due to a change in the price of commodity Y.
   Ec=ΔqxΔpy×pyqx

Where ,EcEc is the cross elasticity ,qx is the original demand of commodity X, Δqx is the change in demand of X, py is the original price of commodity Y, and Δpy is the change in price of Y.