

Price Elasticities of Demand (PED)

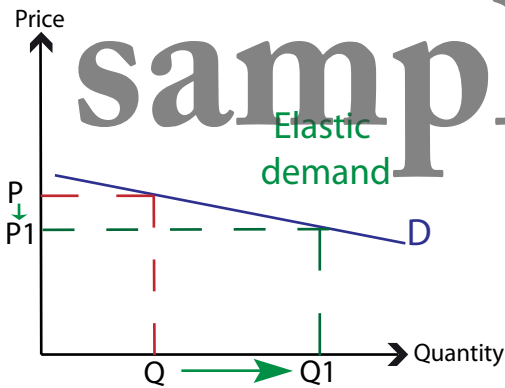
Price elasticity of demand measures how much the quantity demanded changes in relation to a change in price.

This is important for entrepreneurs as they want to know:

- the impact a change in price would have on their revenue & ultimately profit.
- how successful putting products on sale is likely to be.
- whether they should absorb cost increases themselves or pass them onto the consumer through higher prices

To calculate it:

$$PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$



Elastic demand

This is when a change in price results in a larger % change in the quantity demanded.

If substitutes exist then a product is likely to have elastic demand (coca cola & pepsi).

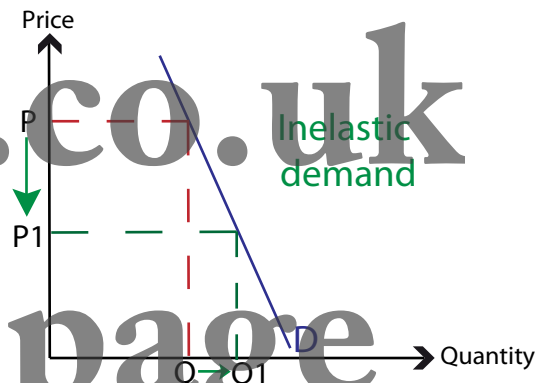
Luxury goods also tend to have elastic demand (since they are not essential).

Inelastic Demand

This is when a change in price results in smaller % change in the quantity demanded of a product.

Low value goods such as sugar & salt are likely to be inelastic.

Goods that are necessary such as shampoo & soap tend to be inelastic since people have to purchase them.



Price elastic

- * luxury good
- * lots of substitute goods
- * lots of competitors

Price inelastic

- * very cheap
- * necessity for food
- * no substitutes



Inferior Goods

* These are products that people actually buy less of as they have more disposable income.

* In this example, as consumers have more money, they are likely to buy less cheap disposable razors and buy a more expensive, high quality version instead.

