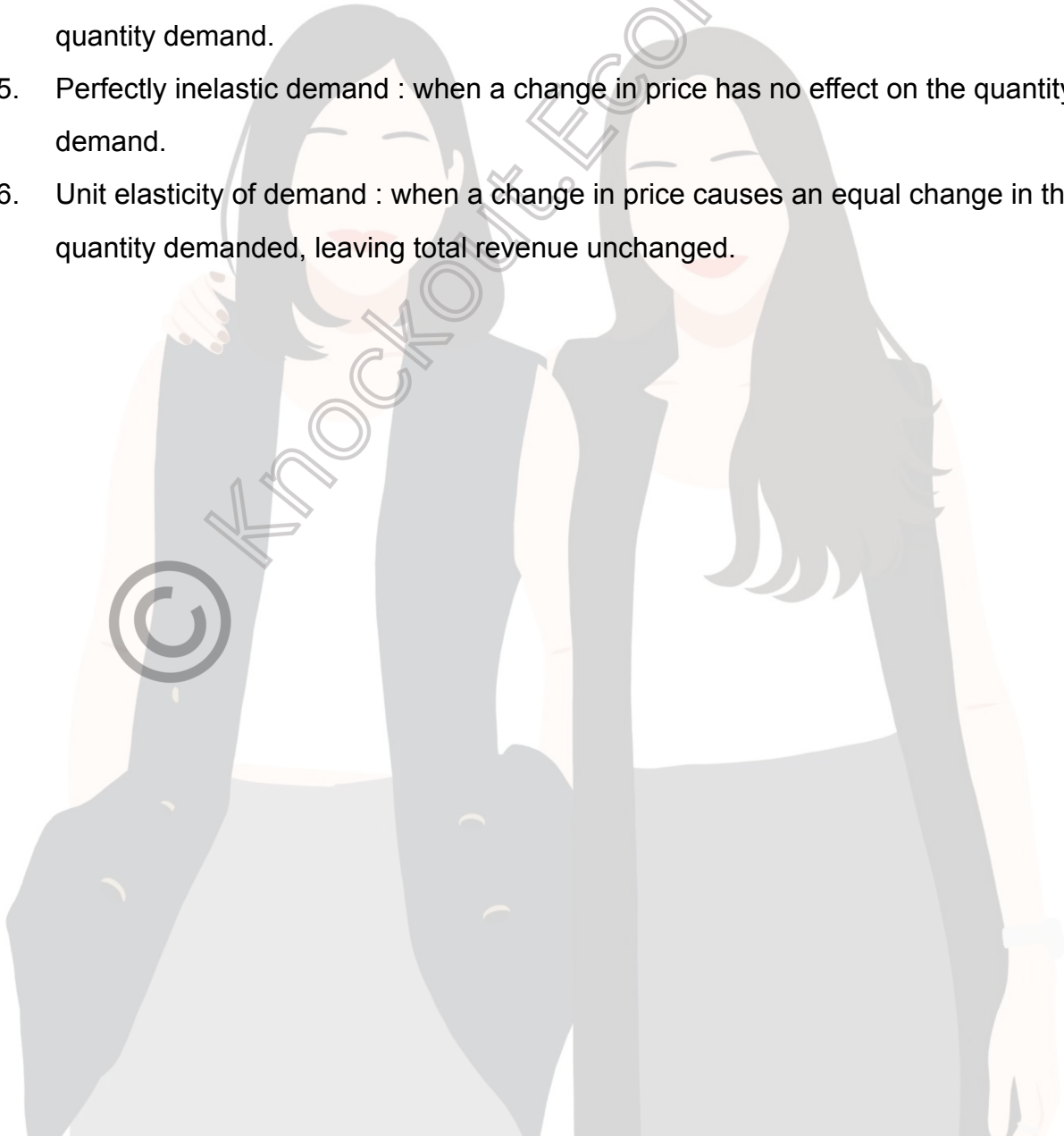


## CHAPTER 11 : PRICE ELASTICITY OF DEMAND

### Key terms



1. Price elasticity of demand (PED) : a measure of the responsiveness of the quantity demand to a change in price.
2. Elastic demand : when the quantity demanded changes by a greater percentage than a change in price.
3. Inelastic demand : when the quantity demanded changes by a smaller percentage than a change in price.
4. Perfectly elastic demand : when a change in price causes a complete change in the quantity demand.
5. Perfectly inelastic demand : when a change in price has no effect on the quantity demand.
6. Unit elasticity of demand : when a change in price causes an equal change in the quantity demanded, leaving total revenue unchanged.



## 1. Definition of price elasticity of demand

: Price elasticity of demand(PED) measures the responsiveness of quantity demanded to changes in price.

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

	Price elastic demand	Price inelastic demand
<b>Definition</b>	The percentage change in quantity of demand is greater than the percentage change in price	The percentage change in quantity of demand is lesser than the percentage change in price
<b>Value of PED</b>	$PED > 1$	$0 < PED < 1$
<b>Curve</b>		

## 2. Determinants of price elasticity of demand

### 2.1) The number of substitute product

: The large number of substitute product  $\Rightarrow$  Elastic PED

### 2.2) The period of time

: In the short run  $\Rightarrow$  Inelastic PED

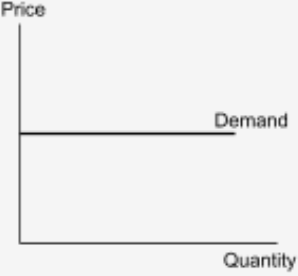


### 2.3) The proportion of income spent on the product

: The large proportion of income spent on the product  $\Rightarrow$  Elastic PED

### 2.4) Type of products

: Luxury goods  $\Rightarrow$  Elastic PED

### 3. Special demand curve

Perfectly price elastic	Perfectly price inelastic	Unitary price elastic
		
$PED = \infty$	$PED = 0$	$PED = 1$

### 4. PED and total revenue

Type of PED	Price	Quantity	Total Revenue
1.PED elastic	↑	Demand decreases by a larger proportion.	TR decreased
2.PED elastic	↓	Demand increases by a larger proportion.	TR increased
3.PED inelastic	↑	Demand decreases by a smaller proportion.	TR increased
4.PED inelastic	↓	Demand increases by a smaller proportion.	TR decreased
5.PED unitary	Price ↑ 10%	Quantity decreases by 10%	TR unchanged
6.PED unitary	Price ↓ 10%	Quantity increases by 10%	TR unchanged