Introduction to Microeconomics

Elasticity - 04

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Factors affecting demand elasticity

1. Nature of goods $\Rightarrow$ Necessary goods (inelastic), luxury goods (elastic), cheap goods (inelastic) etc.
2. Closeness of Substitutes $\Rightarrow$ If close substitutes exist for a good then elastic (Pepsi and Coke are close substitute goods); if no close substitutes then that good is inelastic (Rice in context of Bangladesh)
3. Proportion of Income $\Rightarrow$ Larger portion of income/budget spent on a good then that good is elastic for you (responsiveness to price change is high).
   Smaller portion of income spent on a good then that good is inelastic (e.g. 1tk chocolate)
4. Time factor $\Rightarrow$ Price change of a good $\rightarrow$ short run (inelastic) and long run (elastic); e.g. Oil

Factors affecting supply elasticity

1. Availability of resources $\Rightarrow$ If resources supply is scarce or close substitute of resources is not available then the supplied good is inelastic.
2. Number of producers/suppliers $\Rightarrow$ The more suppliers/producers in the market means the higher elasticity.
3. Ease of storage/stocking capacity $\Rightarrow$ If there is higher stocking capacity, then supply can be more responsiveness to price changes and vice versa.
4. Time factor $\Rightarrow$ Price change of a good $\rightarrow$ short run (inelastic) and long run (elastic); it is not easy for suppliers to adjust supply immediately but they can do so in the long run.