(15) * Factors Governing elasticity of demand :-

Elasticity is governed by a number of factors.
Change in any one of these factors is likely to
affect the elasticity of demand the factors are

(a) **Nature of Product :-** Based on their nature, the
products and services are classified into
necessities, comforts and luxuries. Necessaries
simply the absolute or basic necessities such as
food, clothing, housing comforts refer to TV,
refrigerator and so on. By luxuries, we mean
sofa sets, marble flooring in a house and
such others. The meaning and definition of
these necessaries, luxuries & comforts change
from person to person, time to time and place to
place. ex:- a scooter may be a comfort or
luxury for a student but when he does a part
time job, it may be a necessity for him.

The nature of product has a significant
impact on the elasticity of demand. For instance
if there is an increase in the price of rice, we
still buy it because it is a necessity for us. This
means that the demand is inelastic to price
though there is an increase in price, we tend to
buy the necessaries such as petrol, diesel &

(a) So on In other words, the demand does not fall because of increase in price. From this, we can say that the necessaries have inelastic demand. For comforts and luxuries, the demand is relatively elastic. It means that any increase in the price of comforts or luxuries will lead to moderate, to significant fall in their demand.

(b) Time frame :- The more the time available for the customer, the demand for a particular product may be elastic and vice versa. Take the case of vegetables. when you do not have time, you go to a nearby shop and buy whatever you want at the give price. Had you had little free time you would have preferred to get the same from a vegetable market at lesser price.

(c) Degree of postponement :- Where the product of consumption can be postponed, the product is said to have elastic demand and where it cannot be postponed, it is said to have inelastic demand. The consumption of necessaries cannot be postponed and hence they have inelastic demand.

d) Number of alternative Uses :- If the no. of alternative uses are more, the demand is said to be highly & inelastic and vice versa. Take the cas of power or electricity. It is used for a number of alternative uses such as running of machines in industries, offices, households, trains and so on.

e) Tastes and preferences of consumer :-

Where the customer is particular about his tastes and preferences the product is said to be inelastic for the customers who are particular or loyal to certain brands such as Colgate, Pata tea, Annapurna Atta and so on, price increases do not matter they tend to buy that brand inspite of the prince changes..

f) Availability of close substitutes:-

Where there are a good no. of close substitutes, the demand is said to be elastic and vice versa for gold, there is no close and literal substitute and here the demand for gold is inelastic. If coffee & tea are equally good for me, if there is an increase in price of coffee, I may tend to switch over to tea But this may not hold good when I am particular about coffee only. I may be prepared to pay higher prince for coffee

g) <u>In case of complementaries or joint goods:-</u>

In case of complementaries or goods having joint demand, the elasticity is comparatively low.

h) <u>Level of prices:-</u> If the price is expensive (such as diamonds) or very cheap (such as salt), then the product is likely to have an inelastic demand if the price is too high, a fall in it will not increase the demand much.

Similary, if the price is too low, a further fall in its price is not likely to result in more demand. The demand of the relatively poor people is more sensitive to price changes. In order to derive maximum satisfaction from their limited income, they try to plan their purchases in response to changes in prices. The rich may not bother about price changes.

i) <u>Availability of subsides:-</u> Subsidy refers to money paid by a government or other public authority in order to help a company financially or to make something cheaper for the public. There is need for subsidies in case of goods with inelastic demand such as LPG, sugar, wheat and soon.

j) <u>Expectation of prices</u> :- Where people expect a fall in the price, the demand for the product is likely to be inelastic.

k) <u>Durability of product</u> :- Where the product is durable in case of consume durables such as TV The demand is elastic. In the case of perishable goods such as milk, the demand in inelastic

l) <u>Government policy</u> :- Where the government policy is liberal, the product is likely to have elastic demand and vice versa. Government, in the interest of the lower income group consumers, closely monitors the prices of certain products (such as, ration good as sold in fair price shops are likely to have inelastic demand). Also, Another example could be taxes. Government can raise tax collections with a little reduction in the tax rates.