

Implications



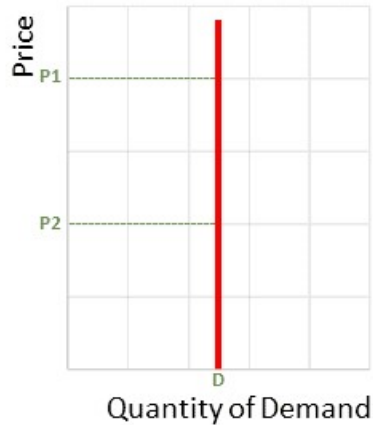
- Business Decisions
 - Pricing
 - Production
 - Promotion
- Government Regulations
 - Taxation
 - Maximum Retail Prices

Determinants of Price Elasticity

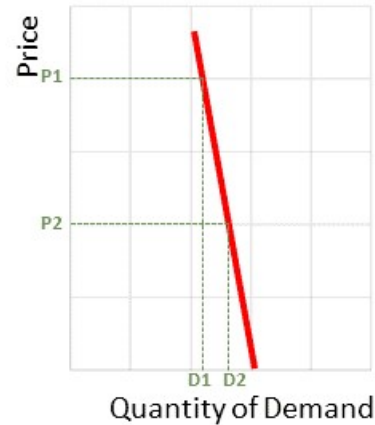
- Substitutes
 - High Substitutes: High Elasticity
- Timeframe
 - Longer Timeframe: High Elasticity
- Share in total income
 - High % Total Income: High Elasticity
- Luxury vs Necessity
 - Luxury: High Elasticity

Demand Curves for different types

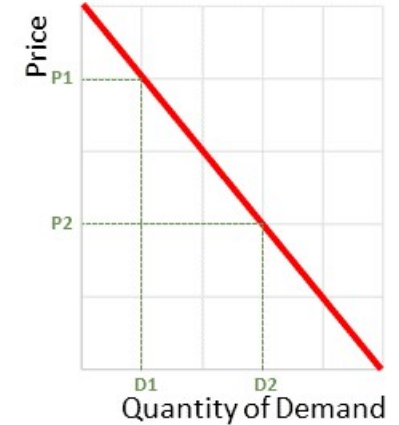
1) Perfectly Inelastic Demand



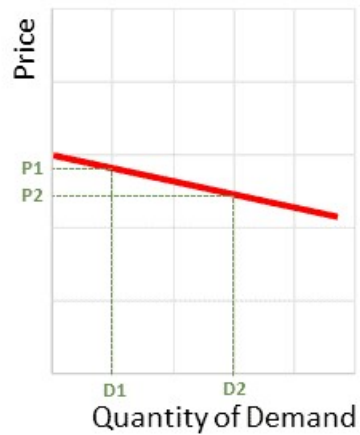
2) Inelastic Demand



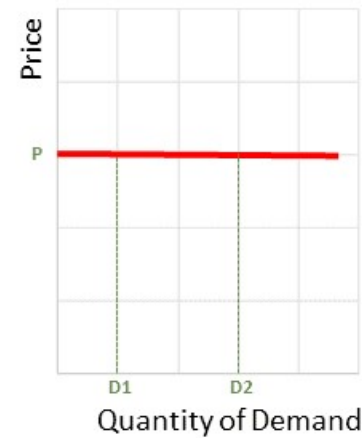
3) Unitary Elastic Demand



4) Elastic Demand

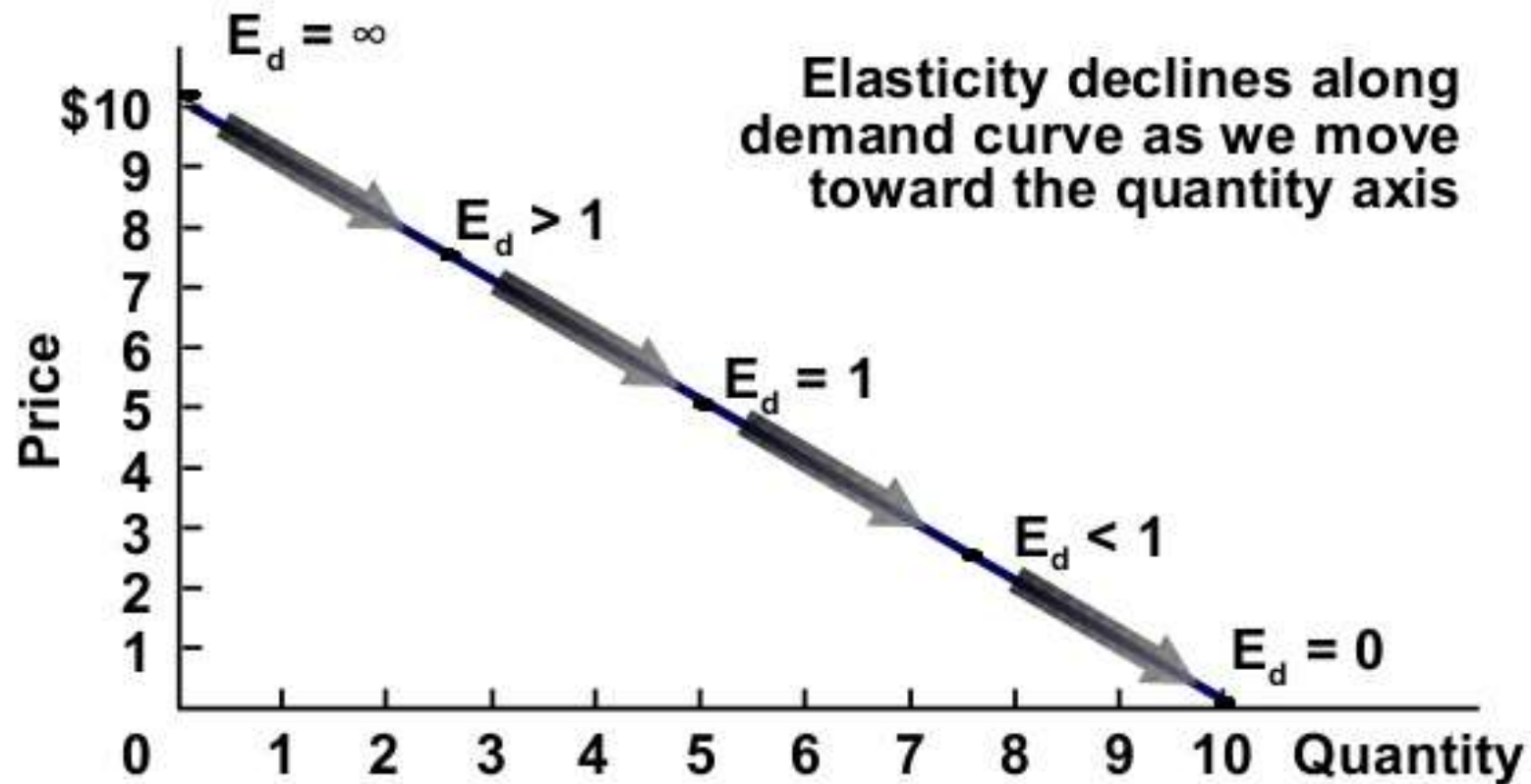


5) Perfectly Elastic Demand



Values of Price Elasticity of Demand

Elasticity Along a Demand Curve



Relation with Total Revenue

Value $ E_p $	Interpretation
∞	Reducing the price will be highly effective in Increasing TR
Greater than 1	Reducing the price will be effective in Increasing TR
1	Reducing the price will not affect TR at all
Less than 1	Reducing the price will reduce TR
0	Reducing the price will reduce TR

Income Elasticity of Demand

$$\text{Income Elasticity} = \frac{\% \text{ Change in QD}}{\% \text{ Change in Income}}$$

Normal Goods: Positive Income Elasticity

Inferior Goods: Negative Income Elasticity

Cross-Price Elasticity of Demand

$$\text{Cross Elasticity} = \frac{\% \text{ Change in } QD_x}{\% \text{ Change in Price of } y}$$

Substitute: Positive Cross Elasticity

Complimentary Goods: Negative Cross Elasticity

Other Elasticities

Wage Elasticity of Labor

$$= \frac{\% \text{ Change in } QL}{\% \text{ Change in Wages}}$$

Interest rate Elasticity of Savings

$$= \frac{\% \text{ Change in } QS}{\% \text{ Change in Interest Rates}}$$



Chapter 4 – Supply Functions

Prof. Siddhesh Soman

Law of Supply

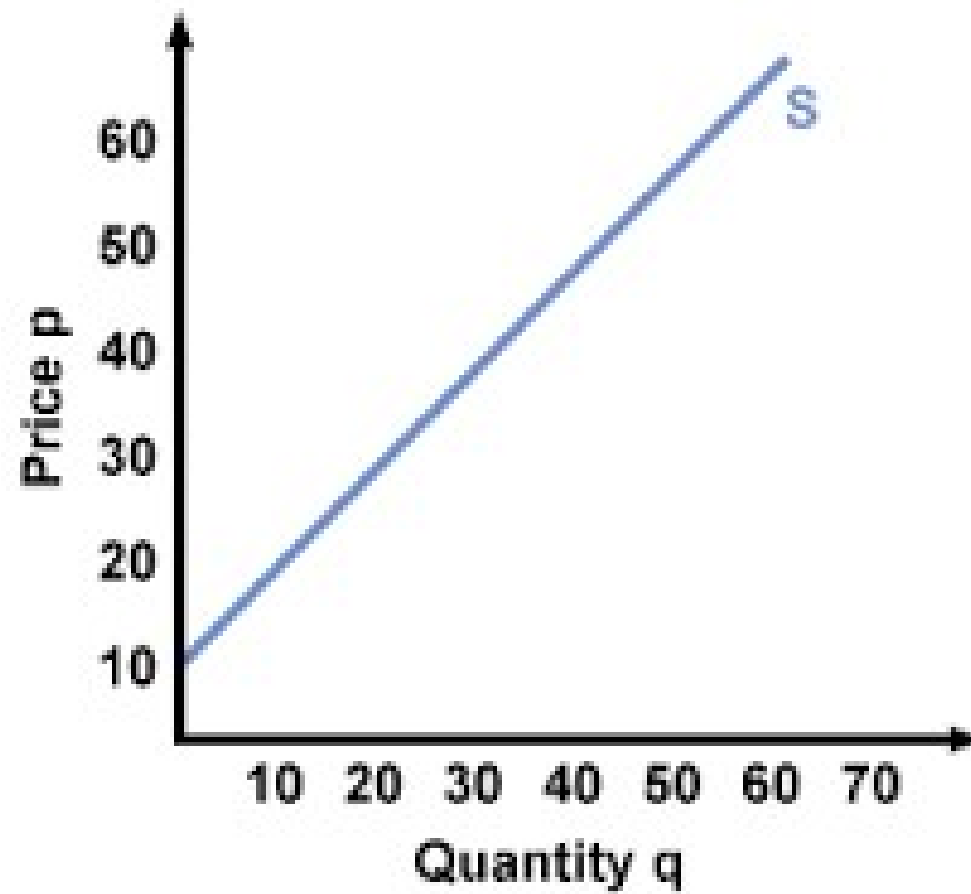
Other things remaining same:

Price \uparrow Supply \uparrow

Price \downarrow Supply \downarrow

Price and Supply hence have a direct relationship represented by upward sloping curve.

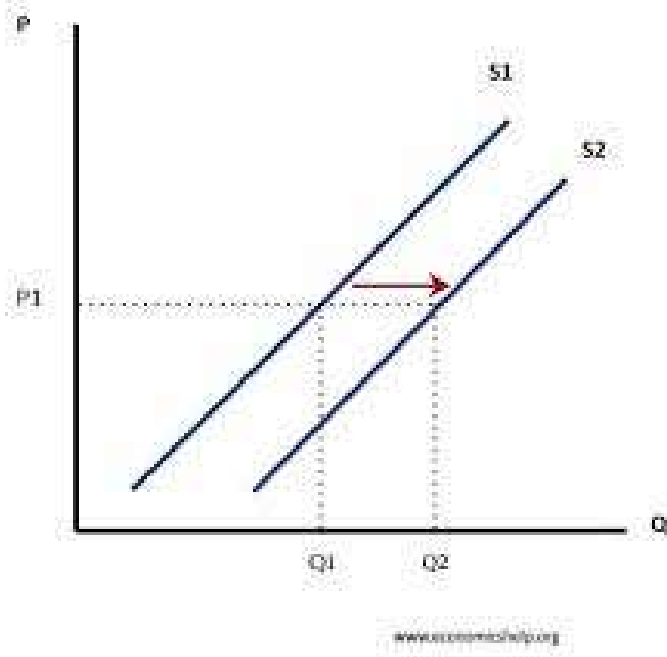
Supply Curve



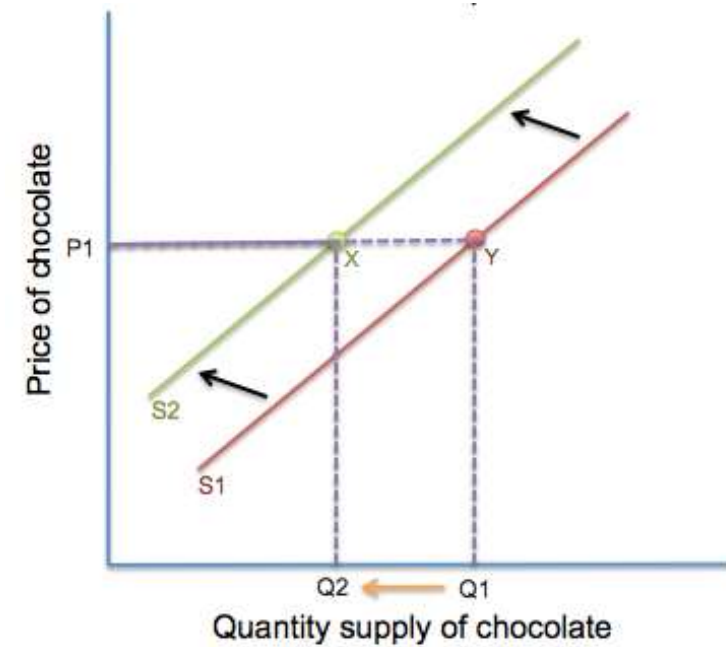
Shift in Supply Curve

- Shifts in the supply curve occur **only due to** changes in the Quantity Supplied for **changes in factors other than price**
- If the Quantity Supplied changes due to price, it is called as 'Movement along the supply curve'.
- If the Quantity Supplied changes due to other factors, it is called as 'Shift in the supply Curve'

Shift in Supply Curve



Supply Curve Shifting to Right



Supply Curve Shifting to Left

Factors affecting Supply

- Price
- Price of Inputs
- Price of substitutes
- No. of suppliers in the market
- Technology
- Expected Future Price
- Govt. Policies
- Natural Calamities