



PRESIDENCY COLLEGE
(Autonomous)



*Reaccredited by
NAAC with A+*

Microeconomics

Elasticity of Demand



Presidency
Group

OVER
40
YEARS
OF ACADEMIC
WISDOM

PRESIDENCY COLLEGE

(AUTONOMOUS)

AFFILIATED TO BENGALURU CITY UNIVERSITY, APPROVED BY AICTE, DELHI & RECOGNISED BY THE GOVT. OF KARNATAKA

RE-ACCREDITED BY NAAC WITH 'A+' GRADE



Elasticity of Demand

Price Elasticity of Demand:

Percentage change in Quantity to Percentage change in price

Income Elasticity of Demand:

Percentage change in Quantity to Percentage change in Income

Cross Elasticity of Demand:

Percentage change in Quantity to Percentage change in Qty of related product





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Price Elasticity of Demand

- 1) Perfectly elastic demand,
- 2) Perfectly inelastic demand,
- 3) Relatively elastic demand,
- 4) Relatively inelastic demand, and
- 5) Unitary elastic demand.

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Income Elasticity of Demand

- 1) As Income Increases, there is increase in Qd. (+ve)
- 2) As Income Increases, there is decrease in Qd. (-ve)
- 3) As Income Increases, there is No change in Qd. (Zero)

E_y – Positive, Zero, Negative

“All other things remaining the same, there is an inverse relationship between the price of a commodity and its quantity demanded”



Cross Elasticity of Demand

$$E_y^x = \frac{\text{Percentage Change in Quantity of X}}{\text{Percentage Change in Price of Y}}$$

$$= \frac{\frac{\Delta Q_x}{Q_x}}{\frac{\Delta P_y}{P_y}} = \frac{\Delta Q_x}{Q_x} \times \frac{P_y}{\Delta P_y} = \frac{\Delta Q_x}{\Delta P_y} \times \frac{P_y}{Q_x}$$



Cross Elasticity of Demand

- 1) As Price Increases, there is increase in Qd of related product. (+ve)
- 2) As Price Decreases, there is Increase in Qd of related product . (-ve)
- 3) As Price Increases, there is no effect in Qd of related product. (Zero)

