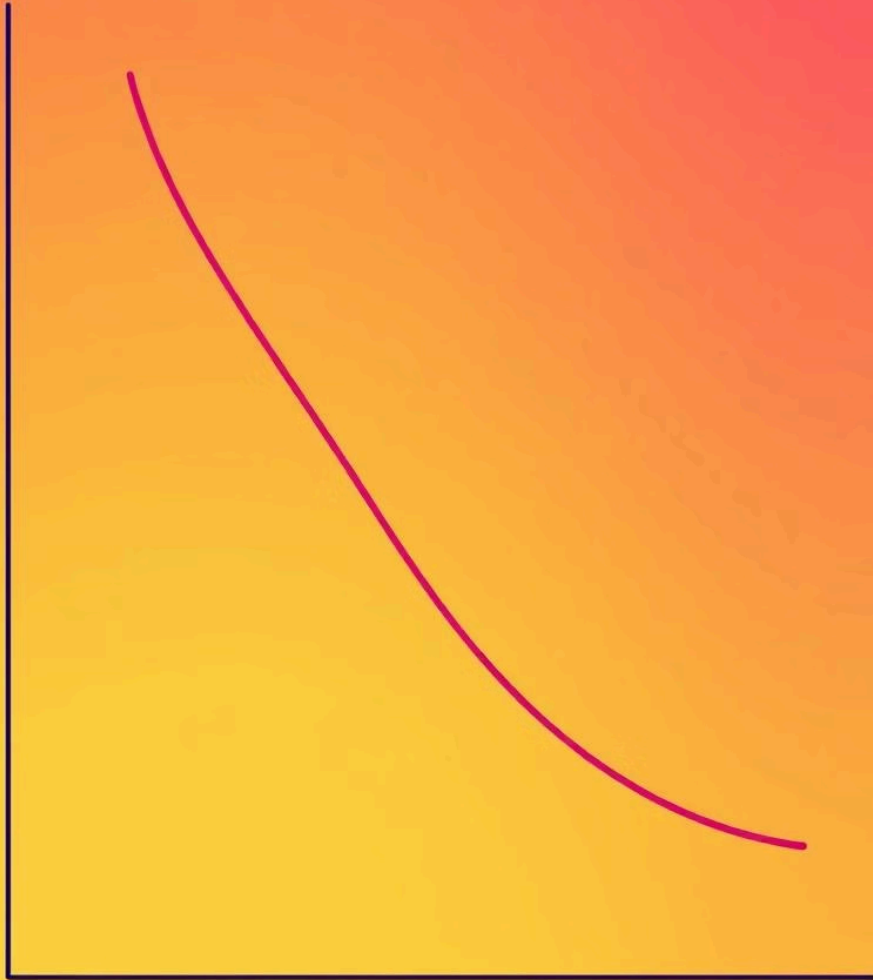


# Elasticity of Demand and Elasticity of Supply



# What is the law of demand?

The law of demand states that if the price of the product increases then the quantity demanded decreases and vice versa.



# Exceptions for the law of demand

While the law of demand generally holds true, there are exceptions.

## Giffen Goods

Inferior goods for which demand increases as prices rise. These goods are often essential and have few substitutes.

## Veblen Goods

Luxury goods that have a higher demand at higher prices, as price is seen as a status symbol.



## What is the law of supply?

Law of supply states that an increase in price of goods result in an increase in their supply

# Defining Elasticity of Demand

Elasticity of demand measures the responsiveness of quantity demanded to changes in price. It is a measure of how much the quantity demanded changes in response to a change in price.

Elastic Demand	Quantity demanded changes significantly as price changes
Inelastic Demand	Quantity demanded changes very little or not at all as price changes
Unit Elastic Demand	Quantity demanded changes proportionally to the price change

## rice Elasticity of Price ELSHANTY





# Factors Affecting Elasticity of Demand

Several factors influence the elasticity of demand for a product.

## Availability of Substitutes

Goods with many substitutes tend to have higher elasticity of demand. Consumers can easily switch to alternatives if the price rises.

## Necessity vs. Luxury

Essential goods, like food and medicine, tend to have lower elasticity of demand. Consumers are less likely to reduce consumption even if prices rise.

## Proportion of Income

Goods that represent a larger proportion of a consumer's income tend to have higher elasticity of demand. Consumers are more sensitive to price changes for these goods.

## Time Horizon

Demand tends to be more elastic over longer time periods. Consumers have more time to adjust their consumption patterns in response to price changes.

# Price elasticity

=

# Price elasticity demand

## Calculating Elasticity of Demand

The elasticity of demand can be calculated using a simple formula.



### Formula

Elasticity of demand = (% change in quantity demanded) / (% change in price)

# Defining Elasticity of Supply

Elasticity of supply measures the responsiveness of quantity supplied to changes in price.

1

## Elastic Supply

Quantity supplied changes significantly as price changes.

2

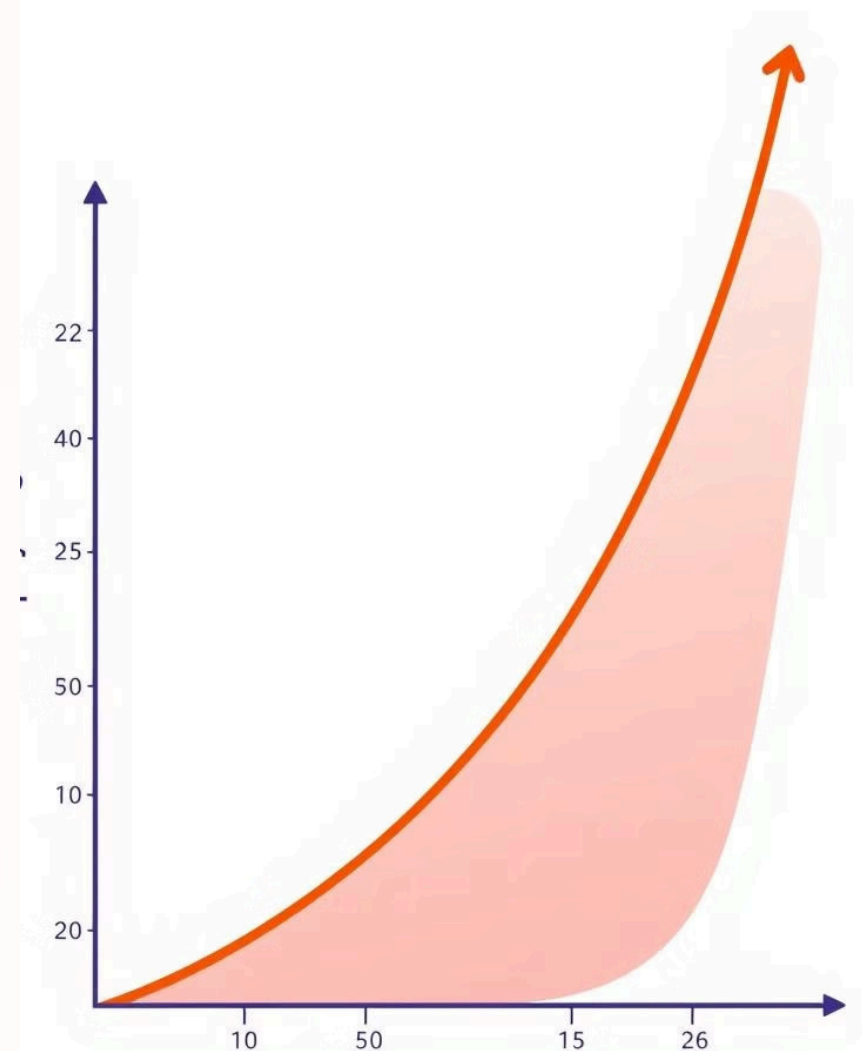
## Inelastic Supply

Quantity supplied changes very little or not at all as price changes.

3

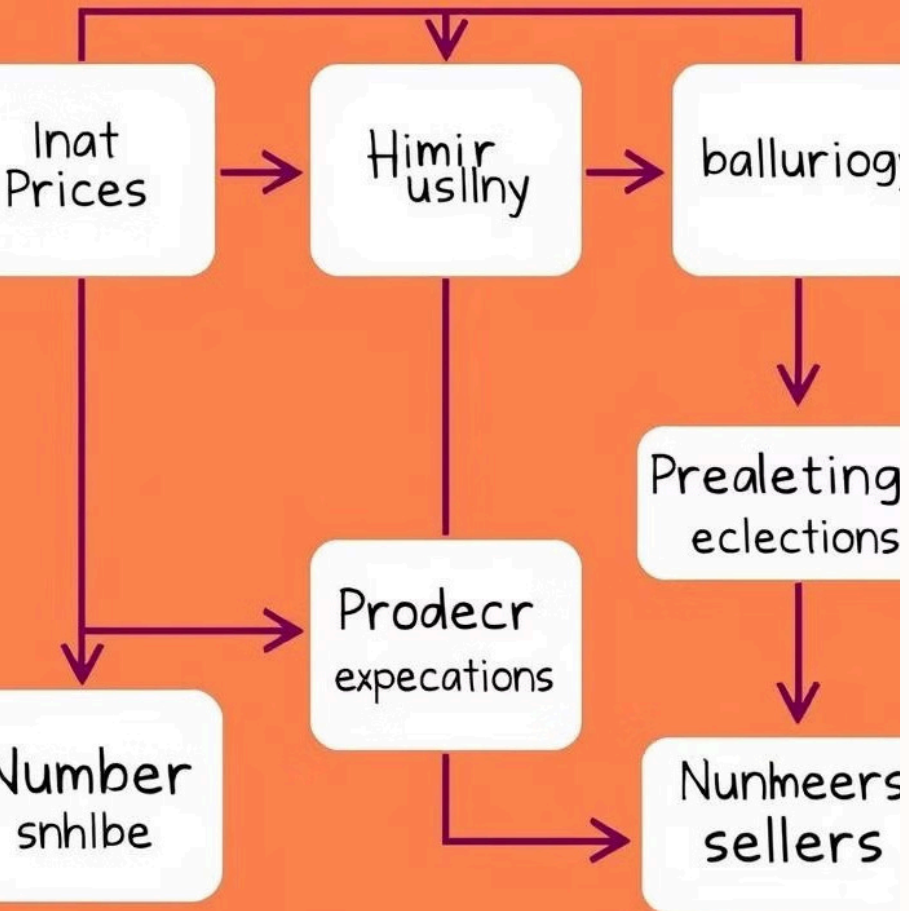
## Unit Elastic Supply

Quantity supplied changes proportionally to the price change.





# The Factors that influence Elasticity of Supply



## Factors Affecting Elasticity of Supply

Several factors influence the elasticity of supply of a product.

1

### Time Horizon

Supply is more elastic in the long run, as producers have more time to adjust production levels in response to price changes.

2

### Availability of Resources

Products with readily available resources tend to have more elastic supply. Producers can easily increase output if prices rise.

3

### Production Capacity

Producers with excess capacity have more elastic supply. They can increase output without significant costs or delays.

4

### Mobility of Resources

Products with resources that can be easily moved or adapted to different uses tend to have more elastic supply.

$$E_s - 1 = \frac{\Delta Q_s}{\Delta P}$$

# Calculating Elasticity of Supply

The elasticity of supply can be calculated using a simple formula.



## Formula

Elasticity of supply = (% change in quantity supplied) / (% change in price)

Thank You