 **Price sensitivity** refers to how much consumers will change their purchase behavior based on price changes. Companies need to understand how sensitive their customers are to price in order to set prices that will maximize profits. For example, if customers are very price sensitive, a small price increase may lead to a large decrease in demand.

 **Price elasticity of demand (PED)** is a measure of how responsive the quantity demanded of a good or service is to a change in its price. There are three main categories of PED:

* **Elastic demand (PED > 1)**: When demand is elastic, a small change in price will lead to a large change in quantity demanded. For example, if the price of gasoline increases by 10%, the quantity of gasoline demanded may decrease by more than 10%.
* **Inelastic demand (PED < 1)**: When demand is inelastic, a change in price will have a relatively small impact on quantity demanded. For example, if the price of insulin increases by 10%, the quantity of insulin demanded may only decrease by 5%.
* **Unit elastic demand (PED = 1)**: When demand is unit elastic, a change in price will lead to a proportional change in quantity demanded. For example, if the price of a good increases by 10%, the quantity demanded will decrease by 10%