## Key Terms

constant unitary elasticity

when a given percent price change in price leads to an equal percentage change in quantity demanded or supplied

cross-price elasticity of demand

the percentage change in the quantity of good A that is demanded as a result of a percentage change in the price of good B

elastic demand

when the elasticity of demand is greater than one, indicating a high responsiveness of quantity demanded or supplied to changes in price

elastic supply

when the elasticity of either supply is greater than one, indicating a high responsiveness of quantity demanded or supplied to changes in price

elasticity

an economics concept that measures responsiveness of one variable to changes in another variable

elasticity of savings

the percentage change in the quantity of savings divided by the percentage change in interest rates

inelastic demand

when the elasticity of demand is less than one, indicating that a 1 percent increase in price paid by the consumer leads to less than a 1 percent change in purchases (and vice versa); this indicates a low responsiveness by consumers to price changes

inelastic supply

when the elasticity of supply is less than one, indicating that a 1 percent increase in price paid to the firm will result in a less than 1 percent increase in production by the firm; this indicates a low responsiveness of the firm to price increases (and vice versa if prices drop)

infinite elasticity

the extremely elastic situation of demand or supply where quantity changes by an infinite amount in response to any change in price; horizontal in appearance

perfect elasticity

see infinite elasticity

perfect inelasticity

see zero elasticity

price elasticity

the relationship between the percent change in price resulting in a corresponding percentage change in the quantity demanded or supplied

price elasticity of demand

percentage change in the quantity *demanded* of a good or service divided the percentage change in price

price elasticity of supply

percentage change in the quantity *supplied* divided by the percentage change in price

tax incidence

manner in which the tax burden is divided between buyers and sellers

unitary elasticity

when the calculated elasticity is equal to one indicating that a change in the price of the good or service results in a proportional change in the quantity demanded or supplied

wage elasticity of labor supply

the percentage change in hours worked divided by the percentage change in wages

zero inelasticity

the highly inelastic case of demand or supply in which a percentage change in price, no matter how large, results in zero change in the quantity; vertical in appearance