

# Demand features

*Principles of Economics // Fall 2025*

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# Elasticities

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To **quantify** consumer behavior → *elasticity*

The most common elasticity category is the ***price elasticity***.

Suppose a *change in the price* of a good/service:

- *Large change* in the quantity demanded?
- *Small change* in the quantity demanded?

# Elasticities

$$\text{Price elasticity of demand} = \frac{\Delta Q}{\Delta P}$$

Elasticity is all about **proportional changes**.

# Elasticities

*What influences the demand elasticity?*

- **Necessity** or **luxury**?
- Good **substitutes**?
- Can it be **postponed**?

# Prices, elasticity, and consumer responses

**TABLE 1—US Price Elasticity Estimates, by Food and Beverage Category, from 1938–2007**

Food and Beverage Category <sup>a</sup>	Absolute Value of Mean Price Elasticity Estimate (95% CI)	Range	No. of Estimates
Food away from home	0.81 (0.56, 1.07)	0.23–1.76	13
Soft drinks	0.79 (0.33, 1.24)	0.13–3.18	14
Juice	0.76 (0.55, 0.98)	0.33–1.77	14
Beef	0.75 (0.67, 0.83)	0.29–1.42	51
Pork	0.72 (0.66, 0.78)	0.17–1.23	49
Fruit	0.70 (0.41, 0.98)	0.16–3.02	20
Poultry	0.68 (0.44, 0.92)	0.16–2.72	23
Dairy	0.65 (0.46, 0.84)	0.19–1.16	13
Cereals	0.60 (0.43, 0.77)	0.07–1.67	24
Milk	0.59 (0.40, 0.79)	0.02–1.68	26
Vegetables	0.58 (0.44, 0.71)	0.21–1.11	20
Fish	0.50 (0.30, 0.69)	0.05–1.41	18
Fats/oils	0.48 (0.29, 0.66)	0.14–1.00	13
Cheese	0.44 (0.25, 0.63)	0.01–1.95	20
Sweets/sugars	0.34 (0.14, 0.53)	0.05–1.00	13
Eggs	0.27 (0.08, 0.45)	0.06–1.28	14

*Note.* Values were calculated based on the 160 studies reviewed. Absolute values of elasticity estimates are reported. The price elasticity of demand measures the percentage change in purchased quantity or demand with a 1% change in price.

<sup>a</sup>Including restaurant meals and fast food.

From Andreyeva et al. (2010). The Impact of Food Prices on Consumption: A Systematic Review of Research on the Price Elasticity of Demand for Food. *American Journal of Public Health*, 100(2).

# Income elasticity

# Income elasticity

The **income elasticity of demand** is the percentage change in the quantity demanded following a *percentage change in income*.

$$\text{Income elasticity of demand} = \frac{\Delta Q}{\Delta I}$$



# Consumer sentiment

# Consumer sentiment

Consumer confidence worsened slightly in August (ABC News)

# Consumer sentiment

In the US, we have two **surveys** that *track consumer confidence* over time:

- US Consumer Confidence (The Conference Board);
- Index of Consumer Sentiment (University of Michigan).

Next time: The public sector