

Suppose the price of Rice rises from Tk. 60 per kg to Tk.80 per kg and as a result the consumers demand for wheat increases from 5 kg to 6 kg. Then find the cross elasticity of demand of Wheat for Rice.

$$\text{Cross elasticity} = \frac{\% \text{ change in demand of wheat}}{\% \text{ change in price of rice}}$$

$$= \frac{(6-5)/5}{(80-60)/60}$$

$$= \frac{1/5}{20/60}$$

$$= \frac{.20}{.33}$$

$$= .60 \text{ or } 60\%$$

So, demand for wheat is inelastic to the price change of rice.