



$$e_{x,y}^d > 1$$

When two goods are  
very close substitutes,  
the size of the  
demand shift is large

$$e_{x,y}^d < 1$$

When two goods are  
not close substitutes,  
the size of the  
demand shift is small

$$e_{x,y}^d \geq 0$$

Cross Price Elasticity for  
complement goods is Negative



$e_{x,y}^d \leq 0$

The **size** of the Cross Price Elasticity tells us **how closely** are goods  
related....

$$e_y^d > 1$$

Two brands of the same good are very closely related, the demand for one will shift a lot when the other becomes more expensive



$$e_{x,y}^d < 1$$

Tea and chocolate are not close substitutes. Demand for chocolate increase when tea becomes more expensive but **not a lot**

$$|e_{x,y}^d| > 1$$

When two goods are

very close

complements, the

size of the demand

shift is large

$$|e_{x,y}^d| < 1$$

When two goods are  
not close

complements, the  
size of the demand  
shift is small

$$|e_{x,y}^d| > 1$$

When the price of video  
game consoles drops  
demand for games  
increase a lot

$$|e_{x,y}^d| < 1$$

When the price of shoes drops, demand for insoles increase but **not a lot**

Cross Price Elasticity for  
Substitute goods is Positive



The **size** of the Cross Price Elasticity tells us **how closely** are goods related....

Cross Price Elasticity for **Substitute** goods is **Positive**

$$+ e_{x,y}^d > 0$$

Cross Price Elasticity for **complement** goods is **Negative**

$$- e_{x,y}^d < 0$$

$$e_y^d > 1$$

Two brands of the same good are very closely related, the **demand for one will shift a lot** when the other becomes more expensive

$$e_{x,y}^d < 1$$

Tea and chocolate are not close substitutes. Demand for chocolate increase when tea becomes more expensive but **not a lot**

$$|e_{x,y}^d| > 1$$

When the price of video game consoles drops demand for games **increase a lot**

$$|e_{x,y}^d| < 1$$

When the price of shoes drops, demand for insoles increase but **not a lot**

**Table 5. Estimated Price Elasticities of Demand for Various Goods and Services**

<b>Goods</b>	<b>Estimated Elasticity of Demand</b>
<i>Inelastic</i>	
Salt	0.1
Matches	0.1
Toothpicks	0.1
Airline travel, short-run	0.1
Gasoline, short-run	0.2
Gasoline, long-run	0.7
Residential natural gas, short-run	0.1
Residential natural gas, long-run	0.5
Coffee	0.25
Fish (cod) consumed at home	0.5
Tobacco products, short-run	0.45
Legal services, short-run	0.4
Physician services	0.6
Taxi, short-run	0.6
Automobiles, long-run	0.2