Introduction to Political Economy

THE HISTORY OF ELASTICITY OF DEMAND

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SUMMARY:

- - Price Elasticity of Demand (PED)
- - Income Elasticity of Demand (YED)
- - Cross-Price Elasticity of Demand (XED)
- - Its importance for businesses, governments, and consumers

I. PRICE ELASTICITY OF DEMAND (PED)

- Measures how sensitive demand is to price changes.
- Formula: PED = (% change in quantity demanded) / (% change in price)
- Types:
- - PED > 1: Elastic demand (luxury goods, substitutable products)
- - PED < 1: Inelastic demand (essentials like fuel and medicine)
- - PED = 1: Unitary elastic demand

FACTORS INFLUENCING PED

- - Availability of substitutes: More alternatives lead to higher elasticity.
- - Necessity vs. luxury: Essential goods have inelastic demand.
- - Time frame: Demand is often inelastic in the short term.
- - Proportion of income spent: Expensive goods tend to be more elastic.

II. INCOME ELASTICITY OF DEMAND (YED)

- Measures how demand varies with consumer income.
- Formula: YED = (% change in quantity demanded) / (% change in income)
- Types:
- - YED > 0: Normal goods (e.g., clothing, electronics)
- - YED < 0: Inferior goods (e.g., instant noodles, second-hand clothes)
- - YED > 1: Luxury goods (e.g., high-end cars, vacations)

III. CROSS-PRICE ELASTICITY OF DEMAND (XED)

- Measures how the price of one good affects demand for another.
- Formula: XED = (% change in quantity demanded of one good) / (% change in price of another good)
- Types:
- \- XED > 0: Substitute goods (e.g., coffee and tea)
- \- XED < 0: Complementary goods (e.g., gasoline and cars)
- \- XED = 0: Unrelated goods (e.g., bread and smartphones)

IV. IMPORTANCE OF DEMAND ELASTICITY

- 1. For Businesses:
- - Set optimal pricing strategies
- - Position products effectively

- 2. For Governments:
- - Tax inelastic goods for stable revenue
- - Provide subsidies for elastic goods (e.g., public transport)

- 3. For Consumers:
- - Plan purchases strategically
- - Adapt to price changes wisely

CONCLUSION

Demand elasticity is a key economic concept that explains market reactions.

- Businesses adjust pricing strategies

- Governments design tax and subsidy policies

- Consumers make informed purchasing decisions

Elasticity shapes our everyday interactions with the economy!

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THANK YOU FOR YOUR ATTENTION!