Elasticity of Demand and Supply[1]
Instructional Primer[2]

This primer has yet to be fleshed out but offers a very basic recap of some of the most basic rules and definitions of Elasticity.

Elasticity Recap

Elasticity: the effect of the change in one variable in respect to another variable

$\eta = \frac{\%\,\Delta\, X}{\%\,\Delta\, Y}$ = |-1| ⟶ Unitary Elastic: small change has no effect on Total Revenue

> |-1| ⟶ Elastic: change in price yields negatively correlated change in Total Revenue

< |-1| ⟶ Inelastic: change in price yields positively correlated change in Total Revenue

Simple Formula: $\frac{\frac{Q_2 - Q_1}{Q_1}}{\frac{P_2 - P_1}{P_1}}$ Mid-Point Formula: $\frac{\frac{Q_2 - Q_1}{(Q_2 + Q_1)/2}}{\frac{P_2 - P_1}{(P_2 + P_1)/2}}$

Own Price: $\frac{\%\,\Delta\, Q_1}{\%\,\Delta\, P_1}$ Cross Price: $\frac{\%\,\Delta\, Q_1}{\%\,\Delta\, P_2}$

Demand Elasticity (-) = downward sloping demand curves

Supply Elasticity (+) = upward sloping supply curves

Substitutes $\frac{\%\,\Delta\, Q_1}{\%\,\Delta\, P_2} = \frac{+}{+} \geq 0$ Complements $\frac{\%\,\Delta\, Q_1}{\%\,\Delta\, P_2} = \frac{+}{-} \leq 0$ (in most cases, but not always)

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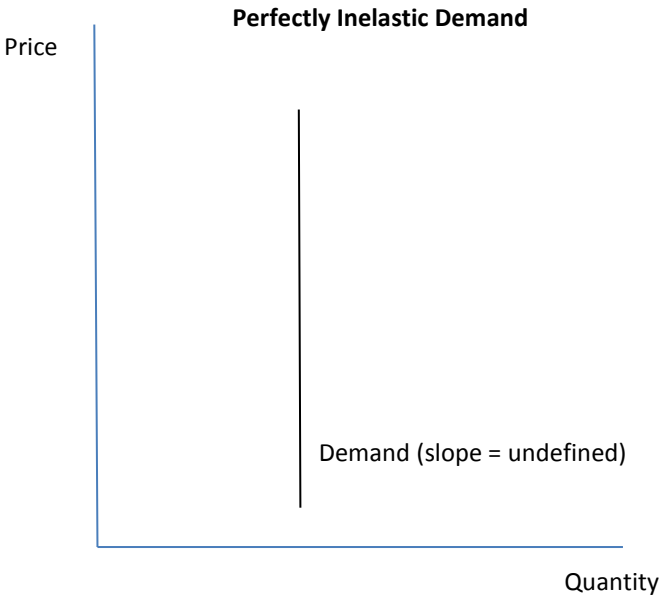
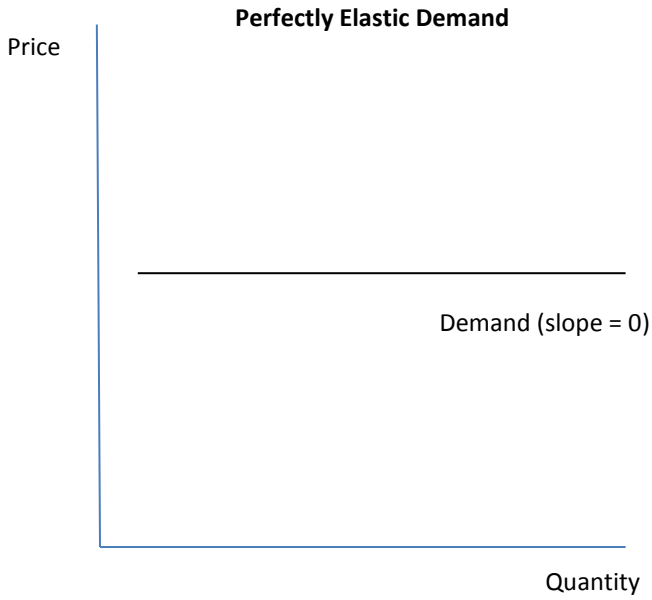
[1] This primer is intended to present an abbreviated discussion of the included economic concepts and is not intended to be a full or complete representation of them or the underlying economic foundations from which they are built.

[2] This primer was developed by Rick Haskell (rick.haskell@utah.edu), Ph.D. Student, Department of Economics, College of Social and Behavioral Sciences, The University of Utah, Salt Lake City, Utah (2013).





Think about the interpretation of the above graphs:

- Perfect inelasticity suggests that regardless of the price, consumers will demand the same quantity of the good. This might be an illustration of the demand for a life-saving good such as insulin.
- Perfect elasticity suggests that the demand for a particular good is extraordinarily sensitive to price, such as a highly discretionary good or a good for which there are available perfect substitutes.