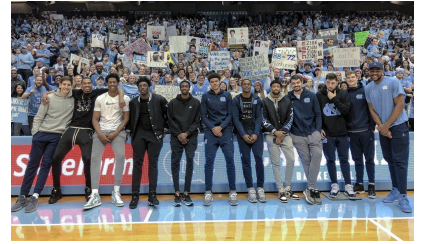


# 9.47- INTERPRETING PRICE ELASTICITY OF DEMAND

**9.47- Demonstrate an ability to calculate and interpret price elasticity of demand.**

# KICKOFF:



- ❖ Go to Google Classroom and complete the assignment **“10/18- KO”**
  - Explain why it is important for producers to understand the Elasticity of Demand of the goods/services they produce.
- ❖ Sit in your same seats from the other day
- ❖ **Roll Call:** One thing you couldn't live without

# ANNOUNCEMENTS:

- ❖ **10/22**– Concept check
  - Not a formal grade!
  - Have module 48 read
- ❖ 90 minute classes and midterms next week
- ❖ Heels play Va Tech tomorrow @ 3:30 in Blacksburg



# CALCULATING PRICE ELASTICITY OF DEMAND

- ❖ Working with the person next to you
- ❖ Some of these are DEFINITELY more difficult than others
- ❖ Work on the ones you can do easily first, then work on the harder ones
- ❖ If you finish early, read module 47 on Google Classroom if you have not already

# 9.47- INTERPRETING PRICE ELASTICITY OF DEMAND

9.47- Demonstrate an ability to calculate and interpret price elasticity of demand.

# INELASTIC, ELASTIC OR UNIT ELASTIC???

- ❖ Elasticity = 1
  - Unit Elastic- % change in  $Q_d$  = % change in price
- ❖ Elasticity > 1
  - Relatively Elastic- % change in  $Q_d$  > % change in  $P$
  - Change in price plays larger role in  $Q_d$
- ❖ Elasticity < 1
  - Relatively Inelastic- % change in  $P$  > % change in  $Q_d$
  - Change in price doesn't change  $Q_d$  much

# CAN YOU BE PERFECT? - COACH GAINES, FRIDAY NIGHT LIGHTS

## ❖ Perfectly Inelastic

- $PED = 0$
- Price plays NO effect on  $Q_d$

## ❖ Perfectly Elastic

- $PED = \text{infinity}$
- As price changes, change in  $Q_d$  is infinite

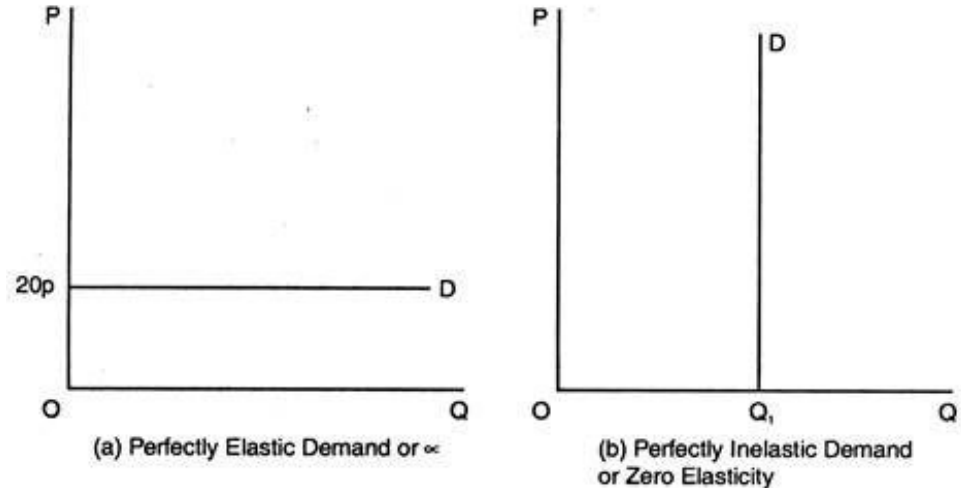
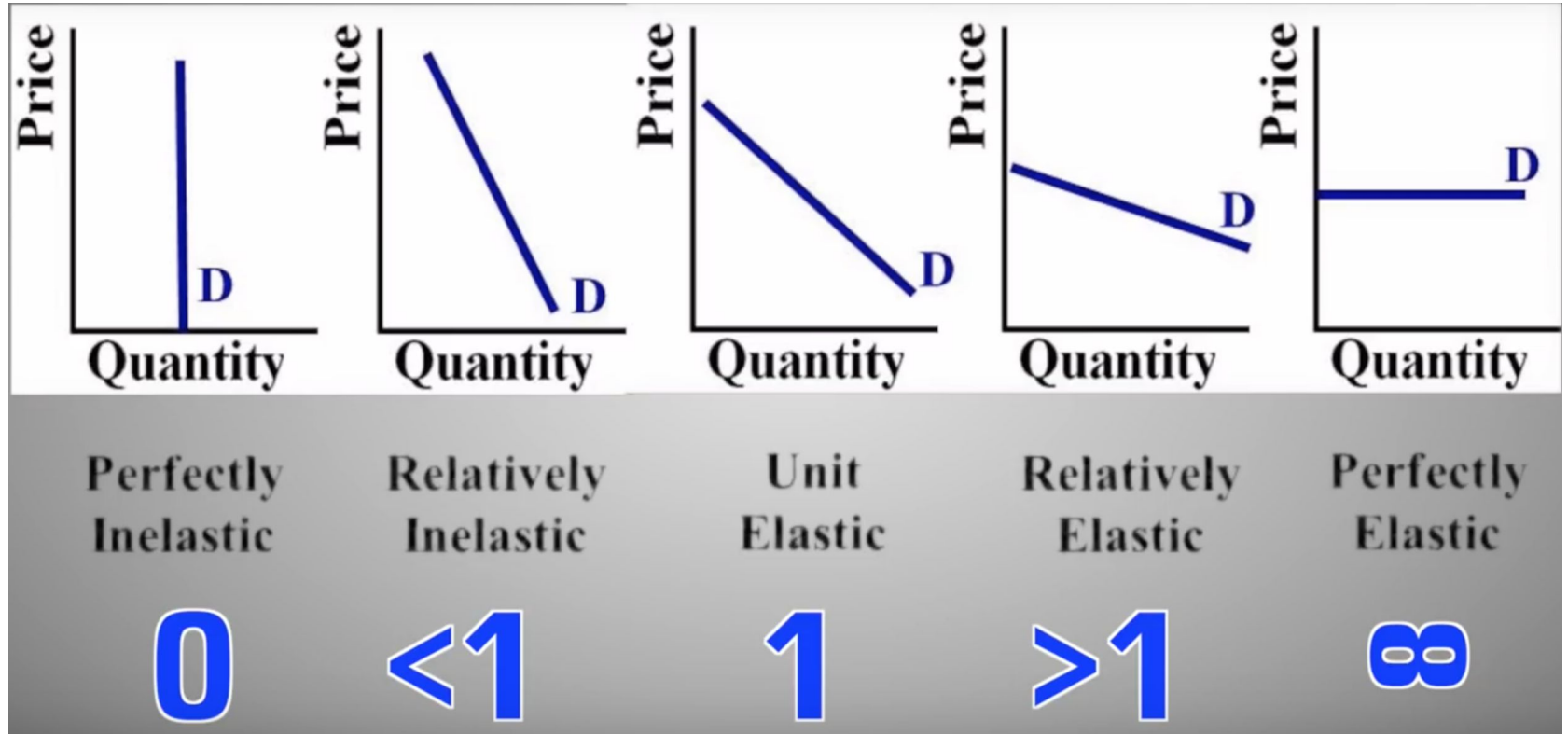


Fig. 3.4

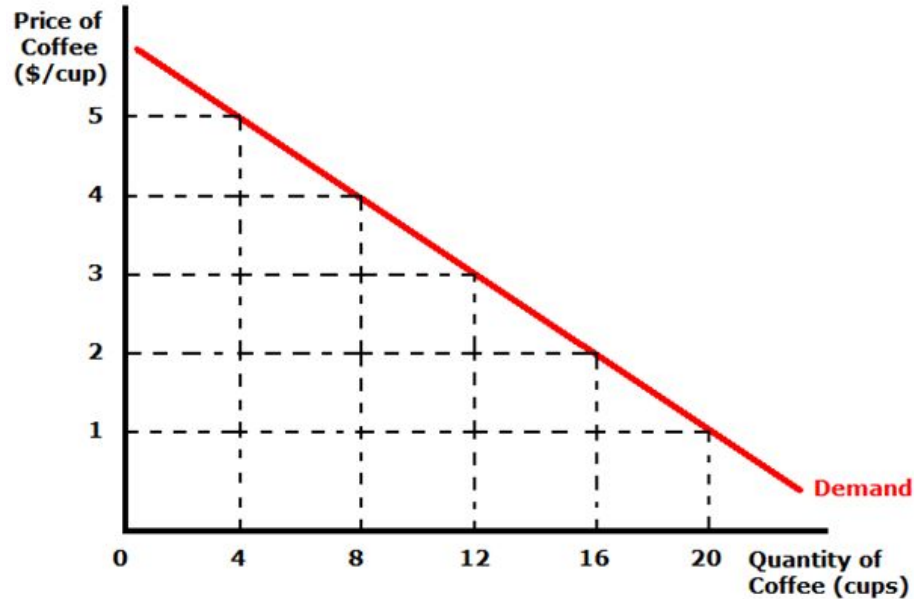
# GRAPH





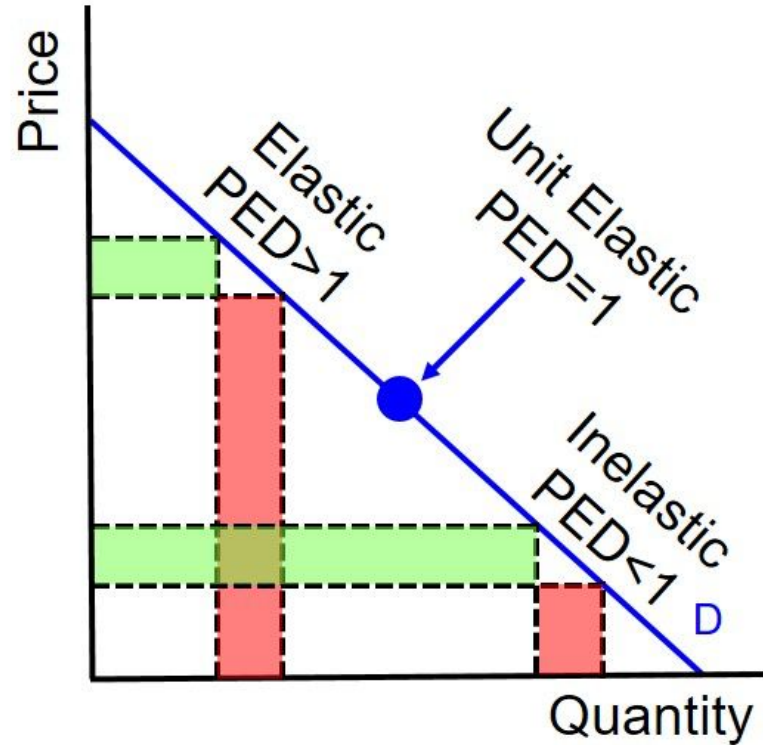
# TOTAL REVENUES

❖ Total Revenue = Price X Quantity



# TOTAL REVENUES- TEST

- ❖ Price increases and TR increases
  - Demand is Inelastic
- ❖ Price increases and TR decreases
  - Demand is Elastic



# QUESTIONS TO DETERMINE ELASTICITY

- ❖ Are (adequate) substitutes available?
  - More substitutes = more elastic
  - Insulin, no close substitutes → inelastic
  - Toyota cars / Hondas → elastic
- ❖ Can we delay the purchase (time)?
  - More urgent need = more inelastic
  - Emergency medical care → inelastic
- ❖ Percentage of income
  - Larger percentage = more elastic
  - Salt prices increase by 40% → inelastic

# BACK TO BIG MACS AND GASOLINE

- ❖ Complete the worksheet on Big Mac and gasoline elasticity and total revenues with your partner



CLOSURE

# GROUPS:

- 1) Abisha, Parker, Michael, Ben
- 2) Samhita, Brianna, Gavin, Ethan
- 3) Jun, Sohum, Sophia, Lilianna
- 4) Anna Grace, Rhea, David, Aneliесе
- 5) Deeksha, Sahith, Lanise, Shagnik
- 6) Aayush, Aaron, Claire, Raghav
- 7) Anshul, Claudio, Murphy, Gerald
- 8) Olivia, John, Diya, Axel