JAGATPUR P.G. COLLEGE, VARANASI

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NAME OF THE PAPER	**:**	**IV- Business Economics**
NAME OF TOPIC	**:**	**Elasticity of Demand, Kinds of Elasticity of Demand, Methods of Measurement of Elasticity of Demand**

Key Words : Price Elasticity of Demand, Income Elasticity of Demand & Cross Elasticity of Demand and total Expenditure Methods, Proportionate Methods & Point Methods

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We have studied in the previous chapter that the law of Demand gives us an idea about the direction of change in Demand for a commodity as a result of change in its price. It simply states that when price falls demand extends and when price rises Demand decreases. It does not explain how much the demand will change. It is the concept of price elasticity of demand which measures how much the quantity demanded of a good changes when its price changes.

It is clear from the foregoing that elasticity of Demand can be mainly of three types:

i. Price Elasticity of Demand
ii. Income Elasticity of Demand
iii. Cross Elasticity of Demand

Price elasticity of Demand is commonly called the "Elasticity of Demand.' The Elasticity of is a measure of the degree of responsiveness of quantity demand of a good to a change in its market price. The Price Elasticity of can by defined by Mrs. John Rabinson. The Elasticity of Demand a any price or at any output is the proportional change to amount purchased in response to a small change in price.

As a Formula, The Price Elasticity of Demand

$$\text{Ed} = \frac{Percentage\ \ changes\ in\ quantity\ \ Demanded}{Percentage\ Changes\ in\ Price}$$

The kinds of price elasticity of demand is as under :

i. Perfectly Inelastic Demand
ii. Perfectly elstic Demand
iii. Eleastic Demand
iv. More Elastic Demand
v. Less unit Elastic Demand

Methods of Measurement of Price Elasticity of Demand

For methods have been discussed by the economists to measure Price Elasticity:

i. Total expenditure method
ii. Proportionate Method
iii. Point Method
iv. Arc Method

II. Income Elasticity of Demand

The Change in Demand because of change in income of the consumer. It is not necessary that there should be a changes in price and then only there shall be a change in Demand for a commodity quits often it is seen that an increase or decrease in income brings about a change in demand for the commodity.

Types of Income Elasticity

There are three types of Income Elasticity of Demand :

i. Zero Income Elasticity of Demand

ii. Negative Income Elasticity of Demand

iii. Positive Income Elasticity of Demand

III. Cross Elasticity of Demand

It is the ratio of proportionate change in the quantity demanded of y to a given proportionate change in the price of the related commodity x.

In the words of Ferguson, "The cross elasticity of Demand is the proportional change in the quantity Demanded of Goods x divided by the proportional change in the price of the related goods y.

Importance of Elasticity of Demand

Marshall's greatest contribution to economics has been is concept of elasticity. We can study the importance of elasticity of Demand under following headings:

1. For the Businessman
2. For monopolist
3. For Finance Minister
4. For Determination of Prices of Joint Products
5. For Determining Reward of factors of Production
6. For taking over Public Utility services
7. For Pricing Policy for Public Utilities
8. Terms of Trade Between two countries
9. Determination of Rates of Foreign Exchange

10. for Price Control Policy
11. For Tariff Policy
12. Incidence of taxation

Related questions :

1. Discuss the concept of Elasticity of Demand.
2. What is price elasticity of Demand?
3. What is Income Elasticity of Demand?
4. Explain the methods of Measurement of price elasticity of Demand.

References :

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2. J.P. Mishra – Business Economics

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