

Elastic Demand

Often, it is necessary to assess the level of elasticity of demand. Elasticity is the measurement of how changing one variable, like price, affects others, like quantity demanded. In order to calculate it, you can use the price elasticity of demand, or PED. It is the % change of quantity divided by the % change in price.

Because elasticity is almost always negative, values are expressed as positive numbers. If the PED is found to be greater than 1, demand is elastic. If the PED is founded to be between 0 and 1, demand is inelastic. If demand is equal to 1, it is unit-elastic.

Elasticity is a very important concept in economics because different goods and services in the market have different levels of elasticity. The demand for one good/ services may be extremely sensitive to changes in price, which is when demand is

elastic. When demand for a good/service is inelastic, if the price increases very few people would stop purchasing it, or at least the effect is not as great as for more elastic goods/services.

Because price elasticity of demand is the % change in quantity over % change in price, depending on the location of the demand curve, elasticity changes. When comparing two demand curves on the same graph, the flatter curve overall has a more elastic demand. In the case of perfectly elastic demand, the demand curve will be horizontal.

Instructional Audio

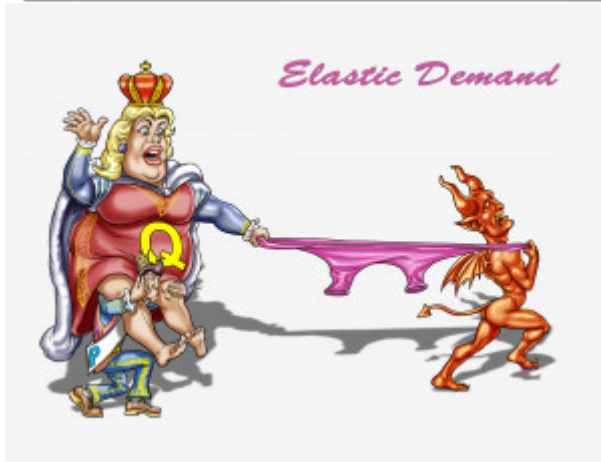
Price elasticity of demand, or PED, is a measure in economics that measures the responsiveness of demand, **the demon**, to changes in price.

It is calculated by taking the **% change in quantity, the queen**, over the **% change in price, the little prince**. Demand is elastic when the PED is greater than 1 in absolute value. This means that the % change of quantity is larger than the % change in price. That's why the queen is so much larger than the prince.

When comparing two demand curves on the same graph, the flatter curve overall has a more elastic demand. In fact, in the case of perfectly elastic demand, the demand curve will be horizontal; just like demon's elastic pants.

CREATIVE AUDIO

This fashion savvy **demon** loves his extensive wardrobe and now hes demanding the return of his **elastic** pants. After all, the **queen** has **changed**, growing rather **large** since he let her borrow them. The demon is worried shell stretch them **flat** out and the pants will no longer hug his **curves**. He feels bad because the **prince** also enjoys wearing these elastic pants, and he has **changed** very **little**. But this **prince** is known for putting the comforts of the **queen** over his own. The demon knows better when the prince says he wont let the queen wear the pants if theyre left with him.



PLAY PICMONIC

Percent change in quantity over change in price

[Queen on top of the prince](#)

This coefficient measures the price elasticity of demand to determine if demand is elastic or inelastic

Quantity demanded

[Queen](#)

The amount of a given good or service.

Price

[Prince](#)

How much a given good or service costs.

Change in quantity larger than change in price

[Fat queen skinny prince](#)

When the demand curve is elastic related to price, a one unit change in price has a greater than one unit impact on quantity.

Flat demand curve

[Elastic pants is stretched sideways by demand demon](#)

Elastic demand curves are flatter than inelastic demand curves.