Lecture 1 Summary (1)

LO. Calculate and interpret price, income, and cross-price elasticities of demand, and describe factors that affect each measure.

Elasticity of demand is measured as a ratio of percentage change in quantity demanded to a percentage change in other variables.

Own-price elasticity

- $\text{Own price elasticity} = \frac{\%\text{ change in quanitity demanded}}{\%\text{ change in own price}}$
- Own-price elasticity of demand is usually negative.
- If |own-price elasticity| > 1, then demand is elastic.
- If |own-price elasticity| < 1, then demand is inelastic.

Income elasticity

- $\text{Income elasticity} = \frac{\%\text{ change in quanitity demanded}}{\%\text{ change in income}}$
- If income elasticity > 0, then the good is a normal good.
- If income elasticity < 0, then the good is an inferior good.

Cross price elasticity

- $\text{Cross price elasticity} = \frac{\%\text{ change in quanitity demanded}}{\%\text{ change in price of related good}}$
- If cross price elasticity > 0, then the related good is a substitute.
- If cross price elasticity < 0, then the related good is a complement.

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