Course: BBA Part I
Paper: IV
Topic: Elasticity of Demand
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Elasticity of Demand

Elasticity

Elasticity is a central concept in economics, and is applied in many situations. Basic demand and supply analysis explains that economic variables, such as price, income and demand, are causally related. Elasticity can provide important information about the strength or weakness of such relationships.

Elasticity refers to the responsiveness of one economic variable, such as quantity demanded, to a change in another variable, such as price.

Types of elasticity

There are four types of elasticity, each one measuring the relationship between two significant economic variables. They are:

Price elasticity of demand (PED), which measures the responsiveness of *quantity demanded* to a change in *price*. PED can be mmeasured over a price range, called arc elasticity, or at one point, called **point elasticity**.

Price elasticity of supply (PES), which measures the responsiveness of *quantity supplied* to a change in *price*.

Cross elasticity of demand (XED), which measures responsiveness of the *quantity demanded* of one good, good X, to a change in the *price* of another good, good Y.

Income elasticity of demand (YED), which measures the responsiveness of *quantity demanded* to a change in consumer *incomes*.