Name:      Facilitator:

Date:       School:

3.03 Notes Guide

**Elasticity of Demand**

**Normal Goods vs. Inferior Goods**

Before we get to elasticity, we need to mention 1.      and 2.      .

Goods can be classified as normal goods or inferior goods. This classification has nothing to do with the quality of a good, but rather with whether we buy more or less of a good depending on our income.

Most goods are normal goods. If we make more money, we will purchase more of that good.

Example: 3.

Other goods, inferior goods, show an opposite trend. When our income decreases, we purchase more of these products because it is more cost effective.

4.       and 5.

**Demand Elasticity**

6.      measures how sensitive consumers are to price change.

Demand is 7.       when a change in price causes a large change in demand.

**Demand Elasticity Continued**

Demand is 8.       when a change in price causes a small change in demand.

Demand is 9.       when a change in price causes a proportional change in demand.

**Determinants of Demand Elasticity**

There are three questions about a product that give us a reasonably good idea as to a product’s demand elasticity.

1. 10.
   * Some purchases cannot be delayed, regardless of price changes.
2. 11.
   * Price changes can cause consumers to substitute one product for a similar product
   * If an item has many close substitutes it tends to have an elastic demand because consumers can switch among substitutes.
3. 12.
   * Demand elasticity can increase when a product commands a large portion of a consumer’s income.

**The Total Expenditures Test**

Price x Quantity = 13.

Understanding the relationship between elasticity and profits can help producers effectively price their products.

**Review What You Learned**

Explain the three determinants of demand elasticity.

14.

Explain why an item that has many close substitutes tends to have an elastic demand.

15.