

Determinants of Elasticity and Examples

Determinants of Elasticity	Examples
<p>Is the product a luxury or a necessity?</p> <ul style="list-style-type: none">• If it is a luxury, the demand for the product is elastic.• If the demand for the product is a necessity, the product is inelastic.	<ul style="list-style-type: none">• Yachts and European vacations are luxuries.• Insulin for a diabetic, gasoline when your tank is empty, and chocolate to someone with a sweet tooth are necessities.
<p>What is the time horizon? Do you need the product immediately?</p> <ul style="list-style-type: none">• If you do, the demand for the product is inelastic. You will pay whatever it takes.• If you can wait, however, the demand for the product is elastic. You can shop around for the best price.	<ul style="list-style-type: none">• Demand for prom dresses in August is elastic, and so is gas if you have a half of a tank and you live in a big city with a lot of stations.• Demand is inelastic for a parent who needs diapers for their baby or an addicted smoker is out of cigarettes.
<p>Does the purchase comprise a large or small part of your income?</p> <ul style="list-style-type: none">• If the amount is large, the demand for the product is elastic.• If the amount is small, the demand for the product is inelastic.	<ul style="list-style-type: none">• A car is expensive and is a large part of a person's income. People therefore shop around and are responsive to a change in price. Therefore, it's elastic.• A product like a single piece of gum or a container of salt costs very little. We will buy these items without regard to price. Therefore, it's inelastic.
<p>Are there close substitutes?</p> <ul style="list-style-type: none">• If yes, the product is elastic.• If not the product is inelastic.	<ul style="list-style-type: none">• Coke vs Pepsi are substitutes to some people. So are pork and chicken. So are cookies and cake.• Products such as insulin and gasoline (both mentioned above) have no adequate close substitutes currently.• One interesting view to consider is that some religions prohibit the eating of certain foods. For example, when pork is on sale for pennies a pound, a person of Jewish

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	<p>faith will not buy the meat regardless of the bargain because it is against their religion.</p>
<p>How big is the market?</p> <ul style="list-style-type: none"> • If the market is big, the demand for the product is elastic. • If not, the demand for the product is inelastic. 	<ul style="list-style-type: none"> • If you need a gallon of milk in a big city, your market is large and you can shop for the best bargain (elastic). • If you need a gallon of milk in a small town with only one grocery store, you will buy the milk regardless of the price (inelastic). • Another example: Hot dogs at a baseball park and popcorn at a movie theater cost more because the market is small.