Elasticity of Demand

Price Elasticity of Demand is defined as the percentage change in quantity demanded of a good to a percentage change in its price. Alfred Marshall was the first economist to formulate the concept of price elasticity of demand as the ratio of a relative change in quantity demanded to a relative change in price. A relative measure is needed so that changes in different measures can be compared. These relative changes in demand and price are measured by percentage changes.

Factors Affecting Price Elasticity of Demand -

1) **Availability of Close Substitutes**

A good having close substitutes will have an elastic demand and a good with no close substitutes will have an inelastic demand. Example: commodities such as pen, cold drink, car etc. have close substitutes. When the price of these goods rises, the price of their substitutes remaining constant, there is proportionately greater fall in the quantity demanded of these goods. That is, their demand is elastic. Commodities such as prescribed medicines, salt have no close substitutes and hence have an inelastic demand.

2) **Income of the Consumers**

If the income of the consumers is high, the elasticity of demand is less. It is because change in the price will not affect the quantity demanded in a greater proportion. But in low income groups, the elasticity of demand is high.

3) **Luxuries versus Necessities**

The price elasticity of demand is likely to be low for necessities and high for luxuries. A necessity is a good or service that the consumer must have such as food and medicines. Luxuries are goods that are enjoyable but not essential. Example eating in a 5-Star hotel, if the price of necessities rise, the demand will not fall by a greater proportion because their purchase cannot be delayed. That is why; the price elasticity of demand in case of necessity is low.

4) **Number of Uses of the Commodity**

The more the number the number of uses of the commodity can be put to, the more elastic is the demand. If the commodity has few uses it has inelastic demand. Example: goods like milk and electricity can be put to many uses and hence, enjoy elastic demand, i.e., when prices are low, demand increases by a greater proportion as the goods can now be put to less important uses also.

5) **Proportion of Total Expenditure Spent on the Product**

Higher the cost of the good relative to total income of the consumer, more will be the price elasticity of demand. If the price of bread, ink, salt, match box, etc., which is relatively low, doubles it would have almost no effect on the quantity demanded on them. On the other hand, if price of car doubles then the quantity demanded will fall by a greater proportion showing high price elasticity of demand.

6) **Time Period**

If the time period needed to find substitutes of the commodity is more, the price elasticity of demand is more and vice versa. Example: flying by aeroplane has inelastic demand as no substitutes are available in the short run.