

# VIDYA BHAWAN BALIKA VIDYA PITH

## शक्तिउत्थानआश्रमलखीसरायबिहार

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### Revised notes Elasticity of Demand

**1. Nature of commodity:** Elasticity of demand of a commodity is influenced by its nature.

(a) The demand for necessities of life (commodities satisfying minimum basic needs) is less elastic. They are required for human survival and they have to be purchased

whatever may be the price. Therefore, demand for necessities of life does not fluctuate much with price changes.

(b) Whereas, demand for luxury goods is more elastic than the demand for necessities. When the price of luxuries falls, consumers buy more of them and when the prices rises, demand contracts substantially.

Please remember the term “luxury” is a relative term, as a luxury for a low-income earning worker may be a necessity for rich employer.

**2. Availability of substitutes/Substitute goods:**

(a) If close substitutes for the commodity are available, the demand for the commodity will be elastic. The reason is that even a small rise in its prices will induce the buyers to go for its substitutes. For example, Pepsi and Coke are considered fairly close substitutes. If the price of coke increases, Pepsi becomes relatively cheaper. Consumer will buy more of Pepsi and less of relatively expensive Coke.

(b) However, the demand for a commodity (such as salt) having no close substitutes is inelastic.

**3. Income Level:**

(a) Higher income level groups have less elasticity of demand for any commodity as compared to the people with low incomes. It happens because rich people are not influenced much by changes in the price of goods.

(b) But, poor people are highly affected by increase or decrease in the price of goods. As the result of, demand for lower income group is highly elastic.

**4. Level of price/Own price of a good:**

(a) Higher own price of a good or Costly goods like car, gold etc. have highly elastic demand as their demand is very sensitive to changes in their prices.

(b) However, demand for inexpensive goods like thread, needle etc. is inelastic as change in prices of such goods do not change their demand by a considerable amount.

**5. Postponement of Consumption:**

(a) Commodities like ice cream, soft drinks, etc. whose demand is not urgent, have highly elastic demand as their consumption can be postponed in case of an increase in their prices.

(b) However, commodities with urgent demand like life saving drugs, have inelastic demand because of their immediate requirement.

**6. Number of Uses:**

(a) If the commodity under consideration has many alternative uses, its demand will be highly elastic. For example, electricity.

(b) As against it, if commodity under consideration has only limited uses, its demand will be highly Inelastic.

**7. Share in Total Expenditure:**

(a) If a smaller proportion of consumer's income is spent on a particular commodity, its elasticity is highly inelastic because lesser proportion of consumer income is spent on consumption of these commodities.

Demand for goods like salt, needle, etc. tends to be inelastic as consumers spend a small proportion of their income on such goods. When prices of such goods change, consumers continue to purchase almost the same quantity of these goods.

(b) As against it, if a larger proportion of consumer income is spent on the commodity, elasticity of demand is

highly elastic.

**8. Time Period:** Price elasticity of demand for a commodity also affected by time period.

(a) Demand is inelastic in the short period as consumers find it difficult to change their habits during short period.

(b) As against it, demand is highly elastic during long period as there is availability of close substitutes in long period.

**9. Habits**

(a) The demand for those goods that are habitually consumed is inelastic. The reason is that such commodities become a necessity for the consumer, and even if prices change, consumers continue to purchase and consume the commodity. Examples of habit-forming commodities include alcoholic beverages, tobacco (in its various forms) consumption and even tea and coffee.

(b) As against it, if a person is not habitual, demand is elastic.