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Revised notes Elasticity of Demand

Words that Matter

1. Elasticity of Demand: The degree of responsiveness of demand to the changes in determinants of demand (Price of the commodity, Income of a Consumer, Price of related commodity) is known as elasticity of Demand.

2. Price elasticity of Demand: The degree of responsiveness of quantity demanded to changes in price of commodity is known as price elasticity of Demand.

3. Percentage Method/Flux Method: According to this method, price elasticity of demand is measured by dividing the percentage change in quantity demand by the percentage change in price.

$$ED = \frac{\text{Percentage Change in Quantity demanded}}{\text{Percentage Change in Price}}$$
$$\text{or } ED = \frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

4. Unitary elastic demand: If percentage change in the quantity demanded is equal to percentage change in price of the commodity, then $ED = 1$ and the result is known as unitary elastic demand.

5. More than unitary elastic demand or elastic demand: If percentage change in quantity demanded is more than the percentage change in price of the commodity then, $ED > 1$ and result is known as more than unit elastic demand.

6. Less than unitary elastic demand or inelastic demand: If percentage change in quantity demanded is less than the percentage change in price of the commodity, then $ED < 1$ and the result is known as less than unit elastic demand.

7. Perfectly Elastic Demand: If quantity demand changes and price remains constant, then $ED = \infty$ and the result is known as perfectly elastic demand.

8. Perfectly Inelastic Demand: If price changes, and quantity demand remains constant, then $ED = 0$ and the result is known as perfectly Inelastic Demand.

9. Total expenditure method: It indicates the direction in which total expenditure on a product changes as a result of change in price of the commodity.

10. Geometric method or point method: According to point method, elasticity of demand at any point is measured by dividing the lower segment of demand curve with

the upper segment of the demand curve at that point. It can be calculated by dividing the lower segment by upper segment