

## What is elasticity?

### Definitions:

**Price elasticity of demand:** how much **demand** changes with price

**E.g.** A product for which **demand** increases or decreases significantly in relation to a price change is known as “price elastic” product (*for demand*). A product for which **demand** does not increase or decrease significantly in relation to a price change is known as “price inelastic” product (*for demand*).

**Price elasticity of supply:** how much **supply** changes with price

**E.g.** A product for which **supply** increases or decreases significantly in relation to a price change is known as “price elastic” product (*for supply*). A product for which **supply** does not increase or decrease significantly in relation to a price change is known as “price inelastic” product (*for supply*).

**Income elasticity:** how much **demand** changes with income

**E.g.** A product for which demand increases or decreases significantly in relation to a change in income is known as an “income elastic” product. A product for which demand does not increase or decrease significantly in relation to a change in income is known as an “income inelastic” product.

### Questions:

1. Can you identify a product or service that you would expect to be “*price inelastic*” for demand? Explain your reasons for your answer.
2. Can you identify a product or service that you would expect to be “*income elastic*”? Explain your reasons for your answer.
3. Can you identify a product or service that you would expect to be “*price elastic*” for supply? Explain your reasons for your answer.