

## ch - 3 ELASTICITY OF DEMAND AND ITS MEASUREMENT

Q. Definition of elasticity of demand :-

Elasticity of demand or price elasticity of demand is the ratio of proportionate change in the quantity demanded of a commodity to a given proportionate change in its price. It is the ratio of relative change in quantity to a relative change in price.

According to Marshall the elasticity (or responsiveness) of demand in a market is great or small according to the amount demanded increase much or little for a given fall in price, or diminishes much or little for a given rise in price.

Elasticity of demand = 
$$\frac{\text{Proportionate change in Quantity demanded}}{\text{Proportionate change in price}}$$

$$e_d = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

Q. Degrees of Price Elasticity of Demand

Price elasticity of demand is generally elastic

Ex

1.3 - 7 - 2020

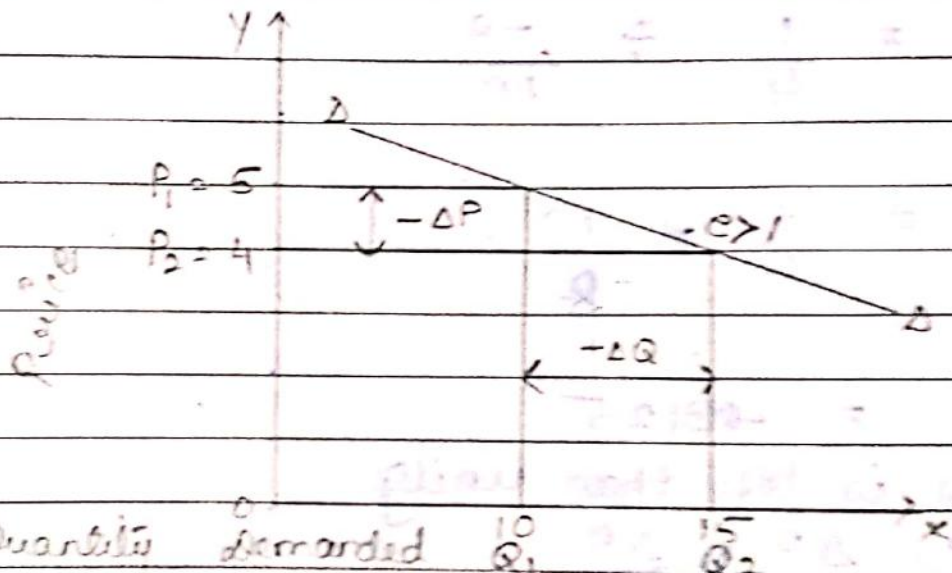
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under the following five heads:—

(1) Relative elastic demand  $\rightarrow$  It refers to a situation where a small proportionate change in the price of a commodity is accompanied by a larger proportioned change in its quantity demanded. Elasticity of demand here is said to be greater than ~~the~~ unity.

$$\frac{\Delta Q}{Q} > \frac{\Delta P}{P}$$



(2) Relatively Inelastic demand  $\rightarrow$  when a large change in price does not bring so much change in the demand, the demand is said to be relatively inelastic.

Proportionate change in Price	$\frac{\Delta P}{P}$	$>$	$\frac{\Delta Q}{Q}$	Proportionate change in quantity demanded
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