

- Analyze elasticity of demand and why it matter to us.

# elasticity

- the ability of an object or material to resume its normal shape after being stretched or compressed: the ability of something to change and adapt.
- Economic definition of elasticity: a measure of consumers responsiveness to an increase or decrease in price of a product
  - How much demand varies based on price
- Elasticity measures consumers' responsiveness to a change in price by how much?

# Two types

- Elastic and inelastic
- Elastic demand: a situation in which the rise or fall in a product's price greatly affects the amount that people are willing to buy.
- Inelastic demand: A situation in which a product's price change has little impact on the quantity demanded by consumers.

# Determinants of Elasticity

- 3 factors that determine the price of a particular item.
  1. Existence of substitutes

2. Percentage of a person's total budget devoted to the purchase of that good

3. The time consumers are given to adjust to a change in price

