

# Elasticity of Demand

Elasticity is a measure of the sensitivity of one variable to a change in another variable. When speaking of the “elasticity of demand,” most people are speaking of the price elasticity of demand. The price elasticity of demand is the percentage change in quantity demanded for a given change in price.

The price elasticity of demand is usually a negative number. When price goes up, quantity demanded usually falls.

When price elasticity (absolute value) is greater than 1, we say that demand is price elastic. The percentage increase in quantity demanded is greater than the percentage decline in price. When price elasticity (absolute value) is less than 1, we say that demand is price inelastic. The percentage increase in quantity demanded is less than the percentage decline in price.

The elasticity of demand for a good or service is related to the availability of substitutes for that good or service. It is also related to time. Price elasticities tend to increase over time. The more time consumers have to adjust to a price change, the more they will substitute other goods and services.