

Example of essay on elasticity as a tool for analysis of economics

[Business](#), [Marketing](#)



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According to BBC news (2012), it is important for firms planning the volume and production of oil to know the demands determinant for oil products. It is also important for the consumer to know the available offer of oil products in the market. There are three determinants of demand in the market, mainly the price of oil, balancing or substitutable price for goods and income potential consumers. On the other hand, subsidies, taxes and resources for production of oil are the key determinants of value supply. Besides interest being direction, it is also the magnitude of demand and change supply. There is a way of changing the value while changing the oil product prices. For instance, when an enterprise decides to increase the oil price, it is normally counting on growth sales.

Facing demand curves is inevitable to businesses but they on the odd occasion know how they look like. Many are the times when it calls for the business to know the structure of a demand curve if it is to make good decisions. For instance, what will happen to motor way petrol station's revenues if it decides to raise its prices by ten percent? The answer will mainly depend on consumers' reaction and response. Will there be little or a lot cut back in their purchases.

How the motorists react to price increment slots in the trade and industry idea of price elasticity. The primary objective of this essay is to delineate the perception of price elasticity of demand. Three aspects will focus this, the first one being the definition of demand's price elasticity, second, inelastic versus elastic as well as the explanation of factors heartwarming demand's price elasticity, this essay will also touch lightly on health care market's price elasticity of demand.

With all other factors held constant, the demand's price elasticity measures the quantity receptiveness demanded to revolutionize in price. Therefore, the price elasticity of demand is the degree of proportionate quantity change in demand and proportionate price alteration. Average rates for price and quantity come into use to maintain the elasticity. This is regardless of whether calculations are from low prices to high prices or vice versa. Average price eliminates irregularity as the basis of percentage in both cases. Coefficient of two in terms of elasticity shows how the response of consumers is a big issue to price change. The demand becomes inelastic whenever the coefficient of elasticity is less than one. Economists also say that, when the coefficient elasticity is greater than one, then the demand is elastic. It is a two way and one increase lead to the other and it is relative to decrease.

Influence factors

Various factors influence oil demand's price elasticity and they are as follows: Substitutes availability. This is where the number of substitute products has a great impact on elasticity and the great elasticity is a result

of great number of substitute products. The greater the number equals to great elasticity. The second factor is necessity or luxury degree. In the recent past, survey show that luxury products have superior elasticity to necessities. Products with a low necessity degree form habit and they can transform to necessities for some consumers.

The third demand influence factor is proportion of income required by the item. All the products that call for a greater fraction of consumer's income always have greater elasticity of demand. The income portions increase the demand elasticity and consumers are they key beneficiaries and at the same time determinants. Time period considered is the fourth influence factor.

This is where elasticity becomes bigger over a period because consumers adjust their behaviors towards the changes in price with time. It is obviously difficult to adjust at the beginning but with time, the consumers get comfortable after budget adjustments and demand gets to normal trends.

This is similar to the fifth factor, which is permanent or temporary change in price. In this factor, a sale for one day has a different response as compared to the permanent decrease in price keeping the magnitude constant. The last but not least factor is price points. To illustrate this, a decrease of price from \$2.00 to \$1.99 may increase the quantity demand than a decrease from \$1.99 to \$1.98. You notice that the decrease is the same but different reactions and demand.

A good example to help illustrate price elasticity of demand is health care market. There are choices made concerning medical care and many opt to see the doctor only when they feel sick.

Conclusion

In conclusion, demand's elasticity of oil is a measure of reactions of oil demand to changes in one of its determinants. Measures of elasticity are useful characteristics because they help in comparison of demand response across oil products, individuals and countries. The demand of oil can be either elastic or inelastic depending on the determinants that are the consumers or products. Health care market is a good example and is good for illustration. Benefits of preventive care have a great impact in the long term.

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