Paragraph about elasticity and inelasticity

Literature, Russian Literature

Elasticity is the degree to which demand for a service or a good varies from its price. What happens most of the times is that when there are price decreases, sales increase and viceversa. This is known as elastic demand. For example, bicycles, sodas, jeans, cars have elastic demand because when they are cheap everyone wants to buy them, but when the price increases, people stop doing so (demand depends on the price). This happens with products such as this because they are not totally essential on people? s lifes (one can live without it); instead of gas (which is a product classified in inelastic demand) because people will always need it.

Elasticity is important because it helps organizations decide on the best course of action regarding the service or the product. Also, it helps the government impose a new tax (when a new tax is imposed, the prices rise). If the demand is very elastic it will considerably fall when the price has risen and the government will not be able to earn expected revenue. Affects monopoly as well, If demand is very elastic, the effect of monopoly on prices is quite limited. In contrast, if the demand is relatively inelastic, monopolies will increase prices by a large margin.

Hence, elasticity helps both companies and government understand is what is being done produces results or not. In order to measure the rate of response of quality demanded due to a price change, there is the Price Elasticity of Demand (PEoD): (% change in quality demanded)/(% change in price). Factors that can influence this calculation include costs of switching between products, and the importance of the good (is it necessary?). Moreover, we have what is known as price elasticity of supply, measuring the relationship between change in quality supplied and a change in price.

The formula for calculating: is (%change in quality supplied)/(%change in price). There are also factors that can influence this calculation, such as spare capacity, stocks, time periods, etc. Therefore, the income elasticity of supply is the response of quantity demanded and supplied due to a change in consumer disposable income. Also, it is very important to have in mind the cross elasticity of supply. This is the acceptance of the supply of good A to the change in price of the good B. For example: a farmer grows potatoes and carrots.

The cross elasticity of supply of carrots against potatoes is how much supply of carrots will change is the price of potatoes changes. Furthermore, inelasticity is a situation where the supply and demand for a good are unaffected when the price of that service or product changes. Even if the price goes higher, the demand will remain the same because people need of thee in order to survive. As I mentioned before, this is the case of gas since people need it, even if they complain about it prices they would, still need to buy it. Other examples of products with inelasticity are bread, medicines, milk and water (most of them are recurring).