

# Price elasticity essay



**ASSIGN  
BUSTER**

\*\*\* 1st November 2012 Examine whether the price elasticity of demand for rice is likely to be elastic or inelastic. Price elasticity of demand is the measure of how much of the quantity demanded changes in regards to a change in price. The PED is measured by the following formula:  $\frac{\% \text{ Change in Quantity Demanded of the product}}{\% \text{ Change in Price}}$ . If the PED is less than 1, the good is inelastic- indicating that there is a smaller change in quantity demand compared to the price change. When the PED is greater than 1, the good is elastic- meaning the quantity demanded will change significantly compared to a small price change.

The price elasticity for rice could vary throughout several regions- but it can be argued that it is mainly inelastic because of the necessity of the product and the value the product holds in many households. However, in many regions, rice has proved to be elastic because of the number of close substitutes it has. The percentage change in price is greater than the percentage change in quantity demanded The percentage change in price is greater than the percentage change in quantity demanded To begin with, the price elasticity of demand for rice can be deemed inelastic.

Clearly, various households consume rice on a regular basis. Research shows that rice is a staple good, or a main element in one's diet, in " 34 of the world's countries. " With such a culture and mindset, households would be unwilling to alter their demand for rice. Since rice is so commonly consumed, it is considered a necessity amongst households. Families of East-Asian descent, especially, are the largest consumers of rice- and eat rice in every meal. For instance, the price of a rice pack could be increased to \$2. 50 from \$2. 00; the change in price will be 25%.

For a necessity product, the low reluctance of changing to another product would result in a smaller percentage change in demand- forcing the PED to be less than 1 and for rice to be inelastic. Although the necessity of rice does change from consumer to consumer and nation to nation, in a growing population in the East, rice has become more of a necessity than any other staplefood. Since rice is engrained into cultural roots so deeply, a long-term substitute cannot be found- making the good inelastic in the short run and long run.

In addition, the price elasticity can directly depend on the development of a nation. If the country is developed, and per capita incomes are high, rice will be inelastic. Since the price of rice takes up a very small proportion of thefamilyincome, the household is unlikely to change to an alternative- enforcing a lower percentage change in quantity demanded than percentage change in price. On the other hand, if the country's economic development is low, or a low GDP per capita, the price of rice may have a significant portion of the average man's income.

As a consequence of a price change, then, the consumer will look for substitutes and alternatives for rice, as he or she will not be willing to pay that extra amount. In Bangladesh, for example, where rice is considered a staple food, the per capita income is \$750USD. A bag of rice costing \$24USD would be 3.2% of an average Bangladeshi man's salary- in contrast to an American who earns \$48,450USD would spend 0.05% of his salary in purchasing the same bag of rice. To summarize, a nation's per capita income has a direct impact on whether or not a good such as rice is elastic or inelastic.

As the price may decrease for rice, the quantity demanded might increase more significantly as buyers of the substitutes may start buying the product that has cut of its price. As the price may decrease for rice, the quantity demanded might increase more significantly as buyers of the substitutes may start buying the product that has cut of its price. However, rice can be considered elastic due to several reasons. Firstly, one particular brand of rice would have countless substitutes. There are bags of rice that are different in quality, different in quantity, different in flavor, different in place of growth, etc.

When exposed to a change of price, a consumer will inevitably gain the inclination to substitute his or her initial product with an alternative that is priced lower to what the new price is of the previous good. Since the substitutes of rice are very similar to rice itself, if not the same product itself, people will be willing to change from one brand to another. The more substitutes there are for rice, in other words, the more elastic the PED will be, as the percentage change in quantity demanded will be greater than the percentage change in price.

Quantity demanded, in other words, will decrease drastically if there are many substitutes, as consumers will shift from rice to the substitute product there is. If the price reduces, as well, many consumers will shift from the substitutes and consume the product that has cut of its price. In conclusion, although many substitutes can be found for rice, populations around the world eat rice incessantly. Since this continuous consumption has led to rice becoming a necessity, in most parts of the world a change in price will not affect the change in quantity demanded- making rice mostly inelastic.