Price elasticity

Economics

Fluctuation in product and service prices is interdependent with current demand and available supply. Too much supply lessens a product's worth, decreasing consumer's interest in the product. In all cases, the degree of intensity to which the price changes affect and react with supply and demand is called the price elasticity (Investopedia, 2008). Elasticity is determined by factors such as consumers' income and their willingness to spend for the goods, time elapsed since price change, and the product or service's necessity (Chen, 2008).

Daily necessities, which people will continue buying despite high prices, are inelastic since price changes do not affect demand. Conversely, luxury goods, which people do not essentially need, are very elastic. Lastly, price elasticity depends on the accessibility of substitute goods (Chen, 2008). Substitute goods are products that serve similar purpose and could be used in place of the original choice product (Piana, 2005).

To be attractive to consumers, a substitute product must satisfy the same needs and be of a good quality, but it must also be a cheaper and easily available alternative. These benefits can cause the consumer to switch from his or her first chosen product to the substitute one. The impact of the available substitute product to price elasticity is strong since regardless of whether the substitute is competing as necessity or luxury, people will always go for products that leave smaller dents in their wallets.

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