

# [Student’s computed as -1.19 in this case.](https://assignbuster.com/students-computed-as-119-in-this-case/)

Student’s NameProfessor’s NameSubjectDate1.  Compute the elasticities for eachindependent variable. Note: Write down all of your calculations. QD = – 5200 – 42(500) +20(600) + 5. 20(5500) + 0. 25(5000) + 0.

20(10000)       = -5200 – 21000 +12000 + 28600 + 1250 +2000     = 17, 650a)      PriceElasticity = (P/Q) (? Q/? P)Ep=       ×       is given in the regression equation = -4. 2                            Ep  =  = – 0. 119b)      Priceelasticity for Leading competitor Product (Epx)                                    Epx =  = 0. 6834c)      Elasticityfor Income per Capita Ey =  = 1. 6200d)     AdvertisingElasticity = Ea =  = 0. 1100 e)      Elasticityin number of microwaves sold Em=  = 0. 0700 2.

Determine the implications for each of the computed elasticities forthe business in terms of short-term and long-term pricing strategies. Provide arationale in which you cite your results. Price Elasticitywas computed as -1.

19 in this case. This implies that a one percent increase in commodity prices causes the quantitydemanded to reduce by 1. 19 % provided that all other factors arekept constant. Hence, the product demand in this caseportrays some degree of elasticity. In the case ofprice elasticity of competitor products, the computation gives 0. 6834. Its interpretation is that provided all other factors are kept constant, a onepercent increase in the competitor’s price results to a 0.

6834%increase in the quantity demanded of the low-calorie frozen microwavable foods. This is also a fairly inelastic relationship between the quantity demanded ofthe microwavable food and the competitor’s price of a similar product. Elasticityin Income per capita was computed as1. 62 andthereby explains that while holding all other variables certeris peribus, a onepercent increase in average area income would lead to an increase in quantitydemanded of microwavable food by 1. 62%. This explicitly shows elasticity and the firm can increase the price of themicrowavable foods with increase income per capita and still retain consumersin the long runThe outcome foradvertisement elasticity is 0.

11. This result suggests that an increment inadvertising expenses by one percent is likely to lead to a 0. 11% increase inthe quantity demanded of the low-calorie frozen microwavable foods certerisperibus. This as such implies that advertising poses an inelastic relationshipwith demand. An increase in advertising does not necessarily warrant for aspontaneous and direct relationship with the increase in price. However, if thefirm should spend even more on advertising, the cost of advertising shouldn’ttrickle down to the consumer as it would drive away the product consumers inthe long term.

Inthe case of the sales of microwave ovens region, elasticity was computed as0. 07. The result explicitly implies that a one percent increase in the numberof ovens leads to a 0.

07% increase in quantity demanded for microwaves. The resultantinference is that demand illustrates a perfectly inelastic relationship.  In turn, the pricing strategy may not necessarilyfocus on the number of ovens as a factor affecting quantity demand to asignificant extent. 3.

Recommend whether you believe that this firm should or should not cutits price to increase its market share. Provide support for your recommendation. From the price elasticity outcome, we note thatprice elasticity is less than 1, (–0. 419). This explains a great confidencethat if the price of the food would be brought down, then it would directlyresult to a decrease in quantity demanded. Hence, the relationshipmay lead to increased market shares for the company.

It points to the need forthe company to cut its price. However, if price elasticity would be greater than one, I would recommend that price bebrought down as this would then result to an increase in quantity demanded anda bigger market share in the long run. (Tragakes, 2009).   4.

Assume that all the factors affecting demand in this model remain thesame, but that the price has changed. Further assume that the price changes are100, 200, 300, 400, 500, 600 cents. Giventhat corresponding changes in price are stated as 100, 200, 300, 400, 500 and600, and that Q = -7909. 89 = 79. 1P, price substitution in the equation (Q =-7909. 89 = 79.

1P) gives: PS 100            QS = -7909. 79 + 79. 1 (100) ………            QS = -7909. 79 + 7910 = 0. 21PS 200            QS = -7909. 79 + 79. 1 (200) ………            QS = -7909.

79 + 15820 = 7909. 99PS 300            QS = -7909. 79 + 79. 1 (300) ………            QS = -7909. 79 + 23730 = 15820. 21PS 400            QS = -7909. 79 + 79. 1 (400)………            QS = -7909.

79 + 31640 = 23730. 21PS 500            QS = -7909. 79 + 79. 1 (500)………            QS = -7909.

79 + 39550 = 31640. 21PS 600            QS = -7909. 79 + 79.

1 (600)………            QS = -7909. 79 + 47460 = 39550. 21 Price Quantity Supplied 100 0.

21 200 7909. 99 300 15820. 21 400 23730. 21 500 31640. 21 600 39550. 21 Determine the equilibrium price and quantity. Thedemand equation keeping all other factors certeris peribus shall be representedas: Q = -5200 -42(P) + 5.

20(5500) + 20(600) +0. 2500(5000) + 0. 20(10, 000)Q = 38, 650 – 42P42P= 38, 650 – Q   Hence   P =  – Hence, P = – 5200/45 +Q/45, as Q = 5200 = 45PA parallelsolution of the supply and demand curves gives, 5200 + 45P = 38, 650 – 42PThus, 87P = 33, 450Hence, P = 384. 48 whileQ = 5200 + 45(384. 48)Q = 22, 501. 60Quantitydemanded shall therefore be 22, 501. 60 when price is at equilibrium. Note thatthe equilibrium price is where demand and supply curves intersect.

Outlinethe significant factors that could cause changes in supply and demand for thelow calorie, frozen microwavable food. Determine the primary manner in which boththe short-term and the long-term changes in market conditions could impact thedemand for, and the supply, of the product. Theequilibrium quantity rates are at 22, 501 units while the equilibrium pricerate is at 384 cents. Also, the equilibrium quantity and price run at a pointwhere the demand and supply intercept. Therefore, from the demand equation, changesin the demand for the product would lead to changes in the income of consumers. Also, practices such as pricing correlated goods and price operations incompetitor products may account for changes in demand. Anotherfactor that may necessitate changing in demand entails the taste and preferenceof the consumers.

Changes in production and technological advancements, thenumbers of product suppliers and raw material and labor availability may alsolead to the change in product supply. 5. Indicate the crucial factors that could cause rightward shifts and leftwardshifts of the demand and supply curves for the low-calorie, frozen microwavablefood. Fromthe demand equation, changes in the demand for the product leads changes in theincome of consumers.

Also, practices such as pricing correlated goods and priceoperations in competitor products may account for changes in demand.        i.                       A rightward shift in demand curve wouldresult from an increase in people’s income (Tragakes, 2009). An increase in income results inhigher purchasing power of consumers therefore increasing the demand for thelow-calorie microwavable food (Mendoza, 2013).       ii.                       The direct relationship between qualityand quantity demanded. If a consumer derives satisfaction from a commodity andwould have preference over a commodity or with regard to the type of market, then demand for quality goods would increase, making the demand curve shift tothe right.

iii.                       The speculation of certain commoditiesmay increase the demand of certain commodities as consumers may be overseeing aperiod of scarcity of the product. This would make a good’s demand shift to theright but only in a short run.

(Samaras1, 2014.) REFERENCES. Mendoza, M. (2013). The Demand Driven and the.

Antonoma : Univasidad Nacional Autonoma de Mexico. Samaras1, M. (2014.). Learn Economics by Going to the Movies.

Journal of Education and Human Development, 463-465. Tragakes, E. (2009). Economics for the IB Diploma. Cambridge: Cambridge University Press.