

Student's computed  
as  $-1.19$  in this case.



**ASSIGN  
BUSTER**

Student's Name Professor's Name Subject Date 1. Compute the elasticities for each independent variable. Note: Write down all of your calculations.  $QD = -5200 - 42(500) + 20(600) + 5.20(5500) + 0.25(5000) + 0.20(10000)$

$$= -5200 - 21000 + 12000 + 28600 + 1250 + 2000 = 17,650$$

a) Price Elasticity =  $(P/Q) (dQ/dP)$  is given in the regression equation = -4.2       $E_p = -0.119$  b)

Price elasticity for Leading competitor Product ( $E_{px}$ )

$$E_{px} = 0.6834$$
 c) Elasticity for Income per Capita  $E_y = 1.62$  d)

Advertising Elasticity =  $E_a = 0.11$  e) Elasticity in number of microwaves sold  $E_m = 0.07$  2.

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

19 in this case. This implies that a one percent increase in commodity prices causes the quantity demanded to reduce by 1.19% provided that all other factors are kept constant. Hence, the product demand in this case portrays some degree of elasticity. In the case of price elasticity of competitor products, the computation gives 0.6834. Its interpretation is that provided all other factors are kept constant, a one percent 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 of the microwavable food and the competitor's price of a similar product. Elasticity in Income per capita was computed as 1.62

6834% increase in the quantity demanded of the low-calorie frozen microwavable foods. This is also a fairly inelastic relationship between the quantity demanded of the microwavable food and the competitor's price of a similar product. Elasticity in Income per capita was computed as 1.62

and thereby explains that while holding all other variables *ceteris paribus*, a one percent increase in average area income would lead to an increase in quantity demanded of microwavable food by 1.62%. This explicitly shows elasticity and the firm can increase the price of the microwavable foods with increase income per capita and still retain consumers in the long run. The outcome for advertisement elasticity is 0.

11. This result suggests that an increment in advertising expenses by one percent is likely to lead to a 0.11% increase in the quantity demanded of the low-calorie frozen microwavable foods *ceteris paribus*. This as such implies that advertising poses an inelastic relationship with demand. An increase in advertising does not necessarily warrant for a spontaneous and direct relationship with the increase in price. However, if the firm should spend even more on advertising, the cost of advertising shouldn't trickle down to the consumer as it would drive away the product consumers in the long term.

In the case of the sales of microwave ovens region, elasticity was computed as 0.07. The result explicitly implies that a one percent increase in the number of ovens leads to a 0.

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

Recommend whether you believe that this firm should or should not cut its price to increase its market share. Provide support for your recommendation. From the price elasticity outcome, we note that price elasticity is less than 1, <https://assignbuster.com/students-computed-as-119-in-this-case/>

(-0.419). This explains a great confidence that if the price of the food would be brought down, then it would directly result to a decrease in quantity demanded. Hence, the relationship may lead to increased market shares for the company.

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

Assume that all the factors affecting demand in this model remain the same, but that the price has changed. Further assume that the price changes are 100, 200, 300, 400, 500, 600 cents. Given that corresponding changes in price are stated as 100, 200, 300, 400, 500 and 600, and that  $Q = -7909.89 + 79.1P$ , price substitution in the equation ( $Q = -7909.89 + 79.1P$ ),

1P) gives: PS 100                       $QS = -7909.79 + 79.1(100) \dots\dots\dots$                        $QS = -7909.79 + 7910 = 0.21$   
 PS 200                       $QS = -7909.79 + 79.1(200) \dots\dots\dots$   
 $QS = -7909.79 + 15820 = 7909.99$

PS 300                       $QS = -7909.79 + 79.1(300) \dots\dots\dots$   
 $QS = -7909.79 + 23730 = 15820.21$   
 PS 400                       $QS = -7909.79 + 79.1(400) \dots\dots\dots$   
 $QS = -7909.79 + 31640 = 23730.21$

PS 500                       $QS = -7909.79 + 79.1(500) \dots\dots\dots$   
 $QS = -7909.79 + 39550 = 31640.21$

PS 600                       $QS = -7909.79 + 79.1(600) \dots\dots\dots$   
 $QS = -7909.79 + 47550 = 39550.21$

1 (600).....  $Q_S = -7909.79 + 47460 = 39550.21$  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. The demand equation keeping all other factors ceteris paribus shall be represented as:  $Q = -5200 - 42(P) + 5$ .

$20(5500) + 20(600) + 0.2500(5000) + 0.20(10,000)Q = 38,650 - 42P$   
 $42P = 38,650 - Q$  Hence  $P = -5200/45 + Q/45$ , as  $Q = 5200 = 45P$   
parallel solution of the supply and demand curves gives,  $5200 + 45P = 38,650 - 42P$   
Thus,  $87P = 33,450$  Hence,  $P = 384.48$  while  $Q = 5200 + 45(384.48)$   
 $Q = 22,501.60$  Quantity demanded shall therefore be 22,501.60 when price is at equilibrium. Note that the equilibrium price is where demand and supply curves intersect.

Outline the significant factors that could cause changes in supply and demand for the low calorie, frozen microwavable food. Determine the primary manner in which both the short-term and the long-term changes in market conditions could impact the demand for, and the supply, of the product. The equilibrium quantity rates are at 22,501 units while the equilibrium price rate is at 384 cents. Also, the equilibrium quantity and price run at a point where the demand and supply intercept. Therefore, from the demand equation, changes in the demand for the product would lead to changes in the income of consumers. Also, practices such as pricing correlated goods and price operations in competitor products may account for changes in

demand. Another factor that may necessitate changing in demand entails the taste and preference of the consumers.

Changes in production and technological advancements, the numbers of product suppliers and raw material and labor availability may also lead to the change in product supply. 5. Indicate the crucial factors that could cause rightward shifts and leftward shifts of the demand and supply curves for the low-calorie, frozen microwavable food. From the demand equation, changes in the demand for the product leads changes in the income of consumers.

Also, practices such as pricing correlated goods and price operations in competitor products may account for changes in demand.

i. A rightward shift in demand curve would result from an increase in people's income (Tragakes, 2009). An increase in income results in higher purchasing power of consumers therefore increasing the demand for the low-calorie microwavable food (Mendoza, 2013).

ii. The direct relationship between quality and quantity demanded. If a consumer derives satisfaction from a commodity and would 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 to the right.

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

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

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