

# [Introduction help of diagrams and examples. secondly,](https://assignbuster.com/introduction-help-of-diagrams-and-examples-secondly/)

[Economics](https://assignbuster.com/essay-subjects/economics/), [Budget](https://assignbuster.com/essay-subjects/economics/budget/)

Introduction This report will examine two questions, what are the different types ofelasticity and their definitions with the help of diagrams and examples. Secondly, it will also describe and explain in detail the two market structuretypes.  Elasticity Ineconomics, elasticity is used to determine how changes in product demand andsupply relate to changes in consumer income or the producer’s price (JenniferFrancis, 2017).

To calculate this change, we can use the certain formula: Elasticity =% Change in Quantity / % Change in Price  Inthis report, the two elasticities that have been chosen are price elasticity ofdemand (the responsiveness of quantity demanded to a changein price) for example, luxury goods: jewelry, delicacies; goods, the value of whichis palpable for the family budget: furniture, household appliances andincome elasticity of demand (the responsiveness of quantity demanded to achange in income).   Incomeelasticity of demand(YED)Elasticities can be used to summarize relationships between any pair ofvariables. An important example is the income elasticity of demand, thepercentage change in quantity demanded with respect to a percentage change inincome (Morgan, 2006). Income elasticity of demand is a measure of how much demand for a good/servicechanges relative to a change in income, with all other factors remaining thesame. Therefore, it accesses howmuch the quantity required varies with respect to the modification in income. Governments and firms use YED to assist them in making the choice of what goodsto manufacture and how a modification in overall revenue in the economy affectsthe need for their commodities, whether it’s inelastic or elastic.

When the demand for goods rise at the same time the consumer income growsis the definition of normal goods. As against this, inferior goods are the goodswhich encounter a fall in demand as the income of consumption rises. (Surbhi S, 2016). A normal good has a positiveincome elasticity of demand. Normal goods denote the products which arerequired in growing quantities as the income of a customer increases and indeclining amount as the income of a purchaser declines, but the price does notchange (Surbhi S, 2016).

However, the degree of the upturn in demand will beless than the growth in income. Examples that fall into this category arefurniture and automobiles. An inferior good has a negative incomeelasticity of demand. An inferior good occurs when the demand for the productdrops when income increases. Therefore, the requirement for inferior goods iscontrariwise connected to the income of the customer. (Morgan, 2006). Inferiorgoods or low-quality products are items with better options.

For example, inthe case of public transport, when a rider’s salary increases he may choose tostop taking the bus and purchase a car which his increased income allows him tobuy.