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Review of the Article; 'Measuring the price elasticity of import demand in the destination markets of Italian exports' by Felettigh, A. and Federico, S. *NameInstitutionDate* This paper equates the price elasticity of products exported from Italy and other countries in their respective countries of exportation. The results show that price elasticity of imports in Italian destination markets is lower than the price elasticity of imports in other euro-area countries' import markets. It shows that Italy exports its products to lower price elastic markets than France, Germany, and Spain. It was also established that the geographical and sectoral composition of Italian exports does not expose the countries to more elastic demand (Felettigh & Federico, 2010). The aim of this assignment is to relate the above article to the microeconomics course. There are three learning objectives as outlined in the course contents, which can be related to the article. These are; to explain how economists use the scientific method to formulate economic principles, to define price elasticity of demand and how it can be measured, and to explain how purely competitive firms maximize profits or minimize losses. In the article, in order to match the price elasticity of Italian exports and other euro-area countries' exports, the authors used the Broda and Weinstein, and Broda, Greenfield and Weinstein approaches to measure price elasticity. The approach assumed that each country's exports are of different varieties; therefore import markets received different varieties of products. This means that if a country, for example, receives wine from Italy, this Italian wine is of different varieties. It also means that countries receive

different variety products depending on the countries importing, and the market demands (Felettigh & Federico, 2010). This is an example of the use of scientific method to formulate economic principles. The result of the research showed that Italy exported products to market with the low price elasticity of demand. The economic principle that can be derived from this is that markets with low price elasticity of demand are characterized by extensive price control. The authors may not be economists, but the idea of using scientific methods to formulate a principle is clear (Felettigh & Federico, 2010). Felettigh and Federico's article does not define price elasticity, but is given an idea of how one can measure price elasticity under a specific circumstance; comparing price elasticity of demand for a variety of products. The price elasticity of demand for products in destination markets was an effort to explain Italy's performance in the export market over the past decades. According to Felettigh and Federico (2010), features of Italian exports may help explain why some excel so much in their business. For example, it is indicated that Italian exporters benefit from wide-ranging pricing power. Price elasticity of demand of products in the import markets could explain the extensive pricing power. If the price elasticity of demand for products is low, it means the price of the product does not affect its demand. Italian exporters can therefore, control the prices to maximize profits (Felettigh & Federico, 2010). Italian exporters' extensive control over pricing is one of the ways through which they may be maximizing profits (Felettigh & Federico, 2010). Knowledge of price elasticity is necessary for businessmen maximize profits. Just like in the case of Italian exporters, when the price elasticity of demand of a product is low, the businessmen can

control the prices to maximize profits. When the price elasticity is high, it is not easy to increase prices because this can easily affect demand, hence poor sales (Taylor, 2006). It is therefore clear that such knowledge helps achieve one of the course objectives of explaining how competitive firms maximize profits. In this case, the competitive firms are those exporters from different countries, and they are competing in foreign import markets (Felettigh & Federico, 2010). One can also easily understand how the article relates to the whole course from the definition of microeconomics. Arnold defines it as follows; " Microeconomics is a branch of economics that deals with human behaviour and choices as they relate to relatively small units; an individual, a firm, an industry, a single market" (Arnold, 2013, p. 20). This article describes human behaviour and choices in relation to imports from Italy and other countries. It explains how consumers in the import markets behave to products from Italy. As indicated earlier, products from Italy have the lower price elasticity of demand. It shows the choice or preference for certain products. More about the human behaviour in such markets can be studied to find out the reason why Italian products are valued. This also provides more relation to microeconomics since specific focus will be on the value of Italian products on import markets (Felettigh & Federico, 2010).

References

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