Price elasticity

Literature, Russian Literature

Price Elasti Price elasti is a term that defines the level of responsiveness of consumers to changes in price, however negligible this change is. Price elasticity measures how responsive a variable is to price changes. A product is considered elastic if a small price change has a substantial impact on the demanded quantity. On the other hand, a product is said to be inelastic if a huge change in price has little impact on the quantity in demand (Moschandreas, 2000).

Several factors affect price elasticity. The factors with the largest effect on the elasticity of a commodity include the level of income available to spend on the good. The greater the percentage of income the commodity represents, the greater the elasticity because it will attract people's attention as a result of its high cost (Moschandreas, 2000). If a commodity represents a small percentage of the consumer's income, on the other hand, it will have little effect on demand, and is deemed to be inelastic. Therefore, the purchasing power of the consumer affects elasticity a great deal.

Necessity also profoundly affects elasticity. If a product is necessary, that is, if one cannot do without a product, elasticity is reduced because people will still buy the product irrespective of the change in price (Ferrell, 2010).

The availability of alternative goods affects elasticity. If a substitute good is close and readily available to the market, elasticity will be high since people will have the choice to switch to the attractive alternative. This can be necessitated by the slightest of changes in prices, and therefore largely affects elasticity (Ferrell, 2010). Substitute goods availability and reach is a factor that many companies look at in price consideration due to its massive impact on elasticity.

Some factors have the least effect on elasticity. Though relative, the effect that these factors have is thought to be negligible. Time is one such example. Price changes that persist for short time periods affect the demand for a good, and subsequent sales far much less than price changes that hold for a long time. If a price change holds for a long time, elasticity is likely to be high since the customers will have time to find suitable alternatives (Moschandreas, 2000).

Loyalty to a specific brand affects elasticity. This is so because if a consumer is loyal to a brand, elasticity is low as the variables that affect the product will not affect its demand. However, it s worth noting that with time and availability of better alternatives, loyalty eventually gets eroded (Ferrell, 2010). Its impact on elasticity is subjective to the consumer. The above factors all affect price elasticity differently and to different degrees.

References

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