

A painter's costs



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The measurement for elasticity of demand is as follows: Solving for the demand elasticity of paint: Simplifying we get: Price elasticity measures how much the quantity demanded of a good changes when its price changes. It can also be termed as the “responsiveness” of a good to changes in price; hence a good is elastic when its quantity demanded responds greatly to price changes. A good has three categories based on the value that is stated above: 1) When a 1 percent rise in price calls forth more than a 1 percent decline in quantity demanded, this is price elastic. 2) When a percentage rise in price results in an exactly compensating decline in quantity demanded, that is, 1 percent increase in price leads to a 1 percent decrease in quantity demanded, this is unit-elastic. 3) When a 1 percent rise in price evokes less than a 1 percent fall in quantity demanded, this is price inelastic. From the value that we have obtained, we then know that paint as a commodity is price elastic. How does this relate to revenue for companies? Total revenue is equal to price times quantity or PXQ . The three cases of elasticity correspond to three different relationships between total revenue and price changes: If a price decrease leads to a decrease in total revenue, it is a case of inelastic demand. If a price decrease leads to an increase in total revenue, it is the case of elastic demand. And if a price decrease leads to no change in total revenue, it may be the case of unit-elastic demand. Since our good is price elastic, it may be wise for firms to lower their prices if they are to expect an increase in total revenue or profits because slashing their prices down, they are hiking their sales up by a larger magnitude. In a sense, we can also categorize goods in terms of “needs” and “wants”: A good is a need if it is inelastic because even though prices increase, the change in demand is so small that the increase in prices will offset the decline in demand in terms of total profit. It

is a want if it is elastic because people would rather not buy that good, or perhaps find a substitute, if that good's price goes up. Thus, firms should sell it at a lower price and the increase in sales will offset the decrease in prices.

To further justify the value we have obtained above, does paint seem like a “need” or a “want”? Painting in many ways can be a want rather than a need especially if one is taking it up as a hobby.