Inelastic demand essay sample

Inelastic Demand

Inelastic demand is a situation whereby a one per cent change in price of a commodity leads to less than one per cent change in quantity demanded by the consumers. Products that exhibit inelastic demand have an almost constant demand no matter the change in prices.

Figure 1: Diagram illustrating inelastic demand

As shown from diagram above, the price changes from P1 to P2 and quantity fall from Q1 to Q2. The decrease in quantity demanded is not proportional to decrease in quantity demanded. In perfectly inelastic demand, change in prices leads to zero changes in quantity demanded. Inelastic demand of Plastic surgery: discussion questions

When the price of plastic surgery increases, the number of operations decreases

This statement is true. Increase in prices of plastic surgery will lead to decrease in demand for the number of plastic surgeries done. This is because demand is not perfectly inelastic. As shown by diagram, if the demand for plastic surgery was perfectly inelastic, it would be unaffected by change in prices. Since it’s inelastic, the quantity of plastic surgeries done will decrease but not in a proportional amount to rise in prices. The percentage change in the price of plastic surgery is less than the percentage change in quantity demanded

This statementis false. The percentage change in prices is always higher than per cent change in demand for inelastic demand as shown by the slanting of the curve in Figure 1. Higher per cent change in demand as compared to prices depicts elastic demand which the above statement reflects. Changes in the price of plastic surgery do not affect the number of operations

This statement is false. If the number of plastic surgeries were to remain unaffected no matter the price changes, demand would have to be perfectly inelastic. According to Troesken& National Bureau of Economic Research (2010), an increase in prices will lock out to some prospective customers but the majority of those willing to undergo operations will remain unaffected. Lower prices on the other hand will attract a few customers who wished for an operation but were locked out by high prices. Quantity demanded is quite responsive to changes in price

This statement is not true. Inelastic demand means quantities demanded respond conservatively to changes in prices. Majority of people who consume products that exhibit inelastic demand will still maintain their demand no matter the changes in prices. This is especially so for essential or giffen goods and services. For example, if the prices of medical services rose, people are still going to seek treatment because they have to get well no matter the price. Also, giffen goods or goods of ostentation will most likely be unaffected by price changes. The marginal revenue of another operation is negative

This statement is true. For inelastic demand, the marginal revenue obtained from an extra unit sold is always negative. This is because for a firm to generate marginal revenue, it has to sell above market demand (Riggs & Bonk, 2008). The price of the extra units have to be lowered in order to attract more purchases. Since the market demand is almost static, this makes it even more difficult and an extra unit fetches an even lower price. In inelastic demand, the quantities sold are dictated more by market demand than prices. So lowering the prices will have little or no effect. Selling above the market demand calls for radical reduction in prices which translates to losses.

References

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