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SLB.
PROP.
LUXURY
ADDICTIVE
TABLE

Explain why the ... relatively high (10 pt)

The price elasticity of demand (PED) of a good or service is a measure of the responsiveness of consumer demand to a change in price of the good or service. It is calculated by the % change in quantity demanded of a good or service divided by the % change in price of a good or service. If the PED is less than 1, that means the good is inelastic, or ~~is~~ relatively unresponsive to changes in price. the demand is.

On the other hand, if the PED is greater than 1, that means the good is elastic, or relatively responsive to changes in the good/service's price.

The quantity demanded is or raw material
A primary commodity is a good used to make other goods/services, which comes from the land. Manufactured products are products that use primary commodities and other goods in order to be manufactured. The next diagram explains why the PED of a primary commodity tends to be relatively low, or unresponsive, or inelastic.

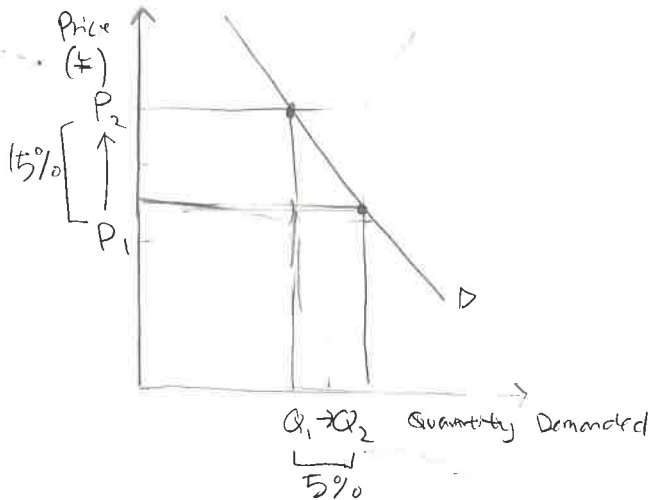


Diagram 1:
Elasticity curve
of water

a primary
commodity

When the price of water increases from P_1 to P_2 as seen on the diagram, the quantity demanded of the water decreases from Q_1 to Q_2 .

While the price rises around 15%, the

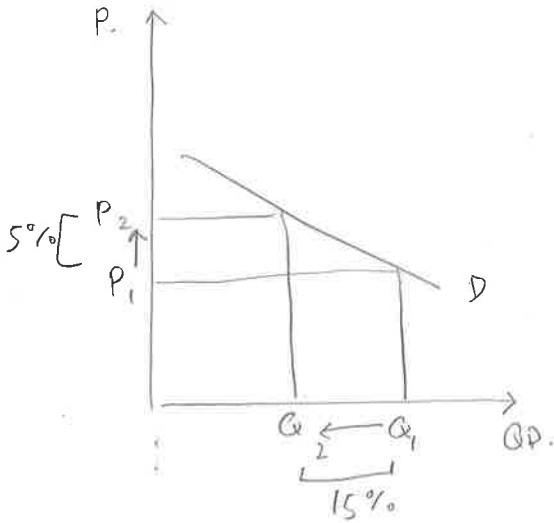
quantity demanded only decreases 5%. Calculating the PED gives a value of $5\% \text{ over } 15\% = 0.33$, meaning water is inelastic. Primary commodities are inelastic because there are relatively little to no substitutes (goods that fulfil the same purpose), so regardless of any change in price people will still need to buy them. This is further emphasized for primary commodities, which are necessities for life, such as water or food or electricity. The next diagram shows why the PED of a manufactured product tends to be relatively high/responsive, or elastic.

Diagram 2:

Elasticity

Curve of

LG TVs.



Like the calculation for Diagram 1, the PED can be calculated for Diagram 2. 15% over 5% gives 3, meaning LG TVs are ~~elastic~~ ~~elastic~~ are elastic. Manufactured commodities tend to be elastic because firstly, they tend to

cost high proportions of workers

incomes. If they are a large proportion of people's incomes, any small change in price as seen in the diagram will greatly change the quantity demanded. Also, they are often linked with many substitutes, meaning that if any competing brand to lower their prices, consumers eager to get the best deal on a TV will quickly buy their TVs. Conversely, if there is a small change in price, the quantity demanded will decrease from $(Q_1 \rightarrow Q_2)$ as they can just buy cheaper substitutes instead.

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