Thursday, 11 April 2024 11:09 AM

chapter: Theory of Demand

Effective Demand
- Desire
- Ability to pay
- willingness to pay.

] Express
Quantity
Time
Price

Factors Affecting Demand

i. Price of commodity (ceteris paribus: other things being constant)

P↑ D↓
P↓ D↑ } Inverse Relationship

ii Price of **Related** commodity.

Substitutes/competeting | complimentary goods

HO Tea O P	Tea O Q	AB Coffee R P	Coffee R Q
10	100	10	100
10	150	20	50
10	50	5	150

P_R↑ D_O↑
P_R↓ D_O↓
Direct Relationship

Pen R P	Pen R Q	Ink O P	Ink O Q
10	100	10	100
20	50	10	50
5	150	10	150

P_R↑ D_O↓
P_R↓ D_O↑
Inverse/Indirect Relationship

iii **Disposable Income** of consumer (Micro level)

Total income − Income Tax

Income↑ Demand↑
Income↓ Demand↓

Exceptions: i. Neccessity ii. inferior Goods

iv. Taste & Preferences
- a) Bandwagon Effect
- b) Demonstration Effect
- c) Snob Effect (consumption)
- d) veblen Effect

v. Consumers **Expectations**
- a) Future prices F_P↑ C_D↑ / F_P↓ C_D↓
- b) Income F_{Inc}↑ C_D↑ / F_{Inc}↓ C_D↓
- c) Supply conditions F_S↑ C_D↓ / F_S↓ C_D↑

vi. Size of population size↑ Demand↑ / size↓ Demand↓

vii composition of population
- Age: Children, Adults, old
- Sex: Male, Female

viii level of National Income (macro)

ix. credit Facility & Interest Rate
- ✓ Demand↑ | × Demand↓
- High Demand↓ | Low Demand↑

x. Government policies
- Taxes
- Subsidies
- Import - Export

xi. weather conditions/ climatic conditions
- summers: ice-cream/ caps/ sunscreen
- winters: sweaters/ cold cream/ Heater
- Rainy: Umbrella/ Raincoats/ Gum Boots

xii level of education

xiii marital status

xiv. Business conditions eg: Rapido / Private taxis @ Airport/ Railways

xv. Advertisement / salesmanship

xvi. Financial status/ socio-economic class/ group membership

xvii social customs & conventions

→ Demand function $Q_D = f(P, P_R, Y \ldots)$

Law of Demand: Other things Being constant (ceteris paribus)

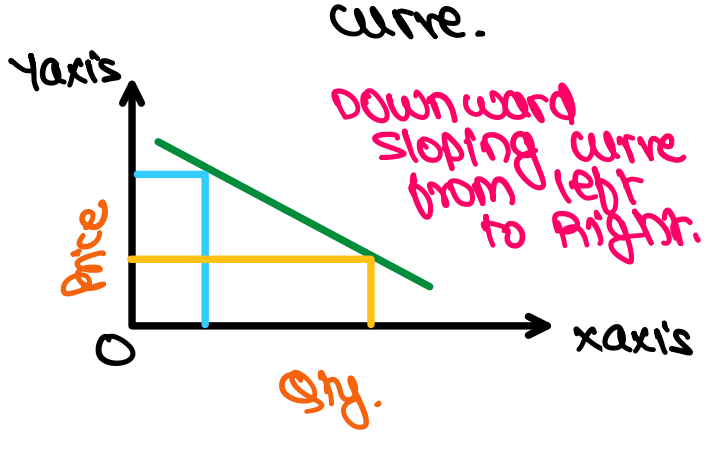
Alfred Marshall
Based on Assumptions

Price↑ Demand↓
Price↓ Demand↑

→ Individual Demand schedule

P	Q
50	1
25	2
10	4
5	5

→ Individual Demand curve.

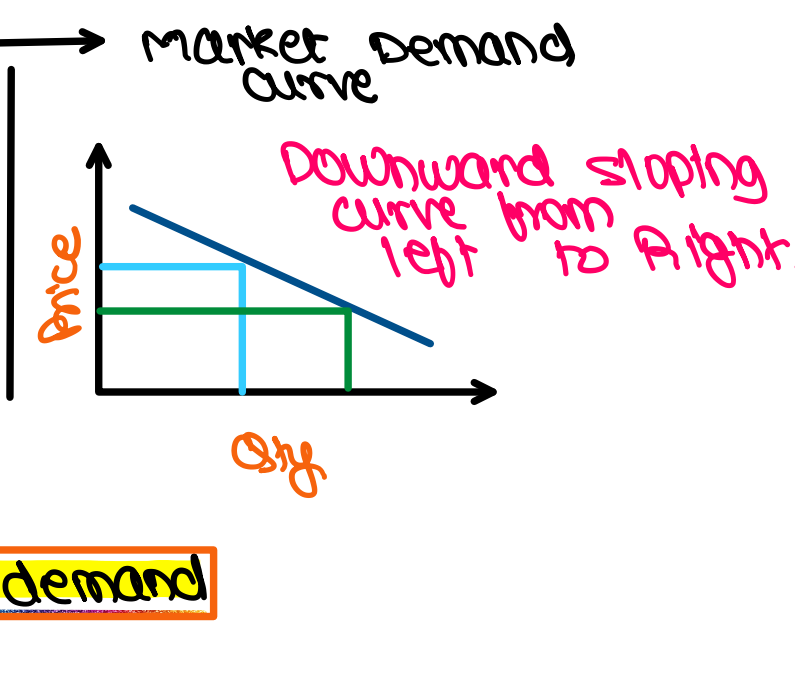


Downward sloping curve from left to Right.

→ Market Demand schedule

P					Total
50	1	0	2	1	4
25	2	1	4	2	9
10	4	2	6	3	15
5	5	3	8	4	20

→ Market Demand curve



Downward sloping curve from left to Right.

Rationale of **law of demand**

a) Price Effect

i. Substitution Effect : Hicks & Allen

Tea O P	Tea O Q	Coffee R P	Coffee R Q
10	100	10	100
20	50	10	150
5	150	10	50

ii Income Effect (only in case of Normal Goods)

① Income = ₹1000
Bottle = ₹1000
∴ cash in hand = 0 & 1 Bottle of water

② Income = ₹1000
Bottle = ₹500
∴ cash in hand = ₹500 & 1 Bottle of water
→ consumer can Buy 1 more Bottle of water.

b) Utility maximising Behaviour (Refer: Theory of consumer Behaviour unit)

c) Arrival of New customers: Fall in price increases Demand from those customers who could not afford it earlier

d) Different uses/ multiple uses
eg: Milk
- i. curd
- ii Drink
- iii Ghee/ Butter
- iv. cheese
- v. Paneer
- vi. Lassi
- vii Tea/ coffee
- viii sweets
- ix. Ice-cream
- x. Fresh cream

₹70/Ltr → ₹35/Ltr
2Ltr → 4Ltr ↑ Multiple uses ✓

eg: Electricity.

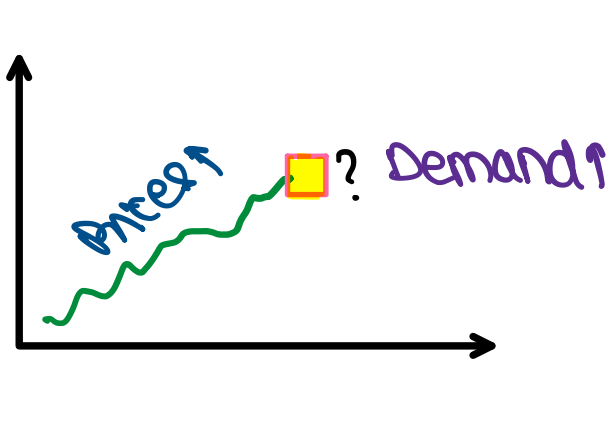
Exceptions to Law of Demand.

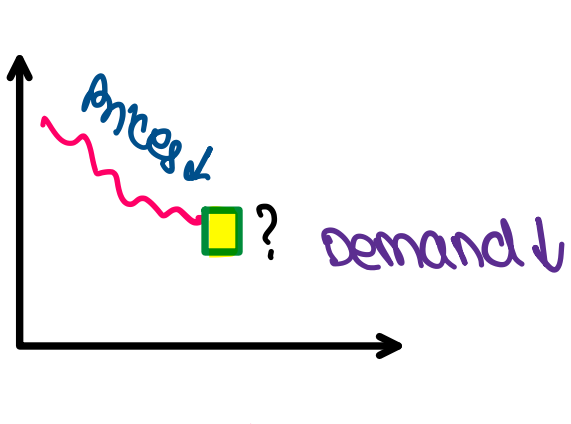
a) Conspicious Goods : Demanded By Rich people
eg: Neetaji : Rolls Royce
Ankitaji : LV.
Anandji : iphone
Swapnilji : Bmw.

b) conspicious Necessities: Due to their constant consumption/usage, even if prices go up their demand does not fall.
eg: mobile, fridge, TV

c) Neccessities of Life: Essential for living.
eg: Food, clothes, shelter, medicine, Education

d)/e) speculative Goods / consumers expectations about price (other goods)
eg: shares, Gold/Silver | eg: Laptop





f) Incomplete Information: Having no/Half knowledge about market prices will lead to Demand at Higher price

g) Irrational Behaviour:

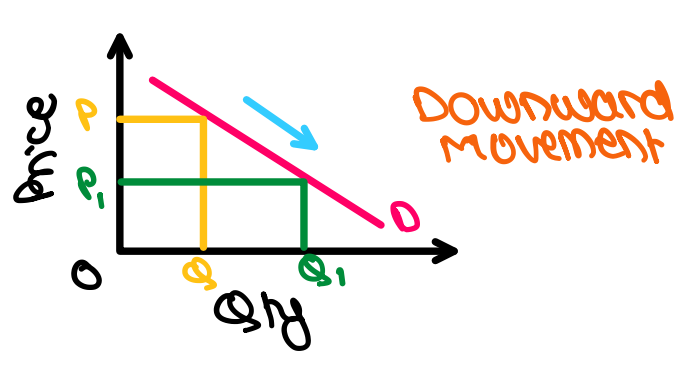
h) Giffen Goods : Sir Robert Giffen (Scotland)
Income = ₹100
Bread = ₹10/ slice
Slices = 6 slice = ~~₹60~~
Meat = ₹40

Bread price↓
Same qty of Bread can be purchased in less Amt
∴ workers preferred to have same qty of Bread & Enjoy meat with Balance money.
∴ P_B↓ Q_B↓ or same
But Q_m↑

Bread price↑
Now with more money they are able to purchase 6 slices of Breads
However, Balance money now left is insufficient to purchase meat.
∴ They will purchase more Bread as even though its prices are rising it is still cheaper than meat.
P_B↑ Q_B↑ & Q_m↓

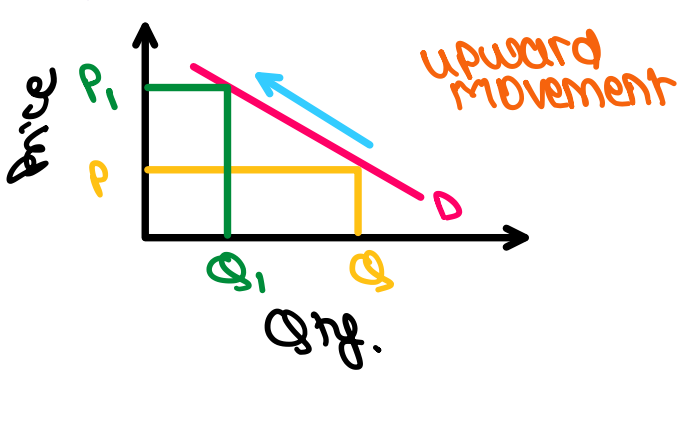
Expansion & contraction of Demand

Expansion: when demand Rises due to fall in price



Downward Movement

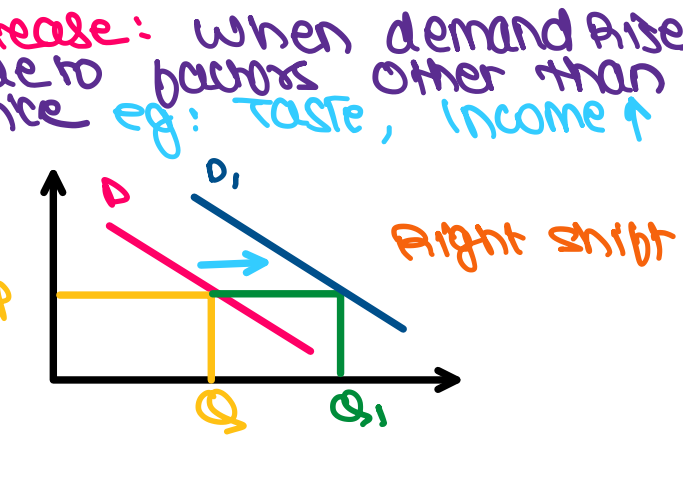
Contraction: when demand falls due to Rise in price



Upward Movement

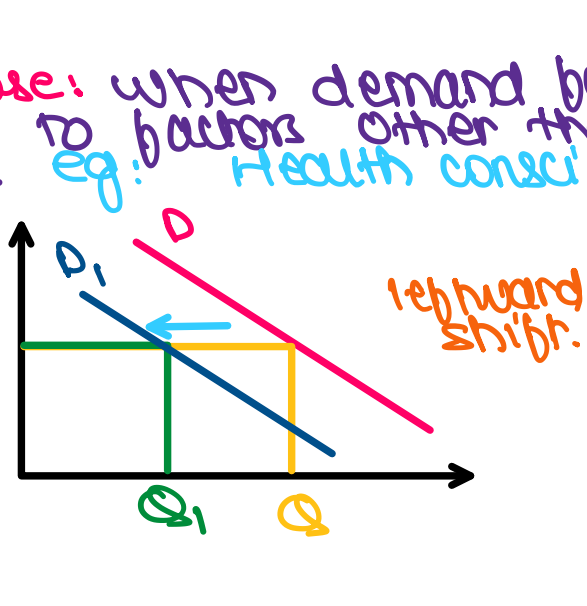
Increase & Decrease of Demand.

Increase: when demand Rises due to factors other than price eg: Taste, Income↑



Right shift

Decrease: when demand falls due to factors other than price eg: Health conscious



leftward shift.

Elasticity: Responsiveness/ sensitivity to change in Demand due to factors affecting Demand

a) Price Elasticity:

Logic: Price k wajeh se Demand affect Hoti Hai.
Price is the Basis Affecting Demand.

Formula: $\frac{D}{P} \rightarrow \frac{\Delta D}{\Delta P} \rightarrow \boxed{\frac{\% \Delta D}{\% \Delta P}}$

$$\boxed{\frac{\frac{\text{New D} - \text{old D}}{\text{old D}} \times 100}{\frac{\text{New P} - \text{old P}}{\text{old P}} \times 100}}$$

Illustration:

① P 10, 5; Q 20, 40

Soln $= \frac{\frac{40-20}{20} \times 100}{\frac{5-10}{10} \times 100} = \frac{\frac{20}{20}}{\frac{-5}{10}} = \frac{1}{-0.5} = -2$

∴ Pe = 2

② P 40, 45; Q 20, 15

Soln $= \frac{\frac{15-20}{20} \times 100}{\frac{45-40}{40} \times 100} = \frac{\frac{-5}{20}}{\frac{5}{40}} = \frac{-0.25}{0.125} = -2$

∴ Pe = 2

③ P 10, 8; Q 100, 105

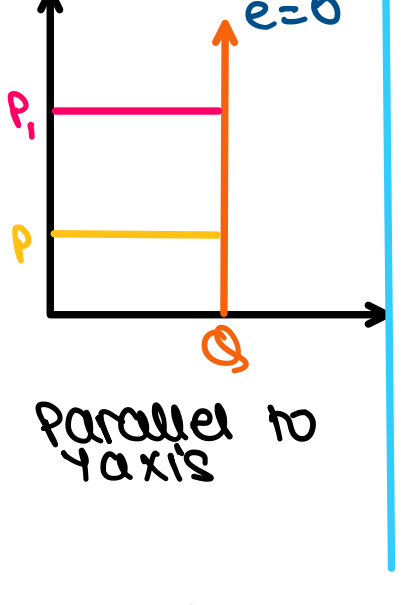
Soln $= \frac{\frac{105-100}{100} \times 100}{\frac{8-10}{10} \times 100} = \frac{\frac{5}{100}}{\frac{-2}{10}} = \frac{0.05}{-0.20} = -0.25$

∴ Pe = 0.25

Points to be Noted
- a) co-efficient of Pe is always −ve
- b) ∴ For the sake of convenience we ignore −ve sign
- c) Until & unless otherwise mentioned we will calculate only price Elasticity.

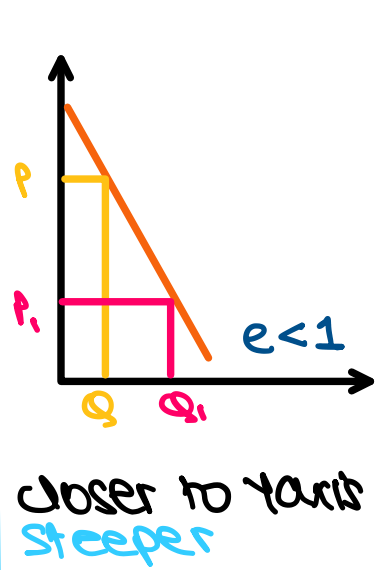
Interpretation

e = 0
Perfectly inelastic.
% ΔD = 0
% ΔP = ✓



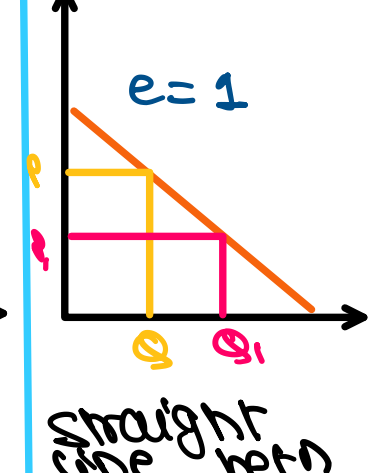
Parallel to Y axis

e < 1
Relatively inelastic
% ΔD < % ΔP



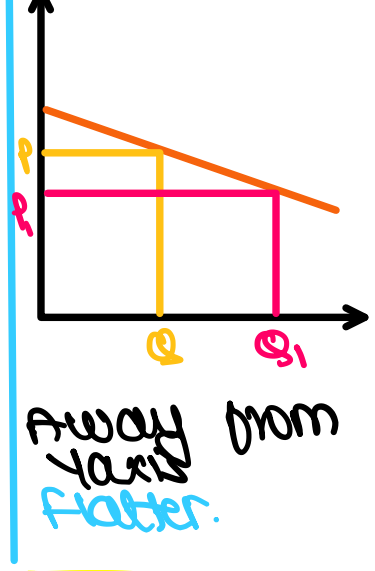
closer to Y axis
Steeper

e = 1
unitary Elastic
% ΔD = % ΔP



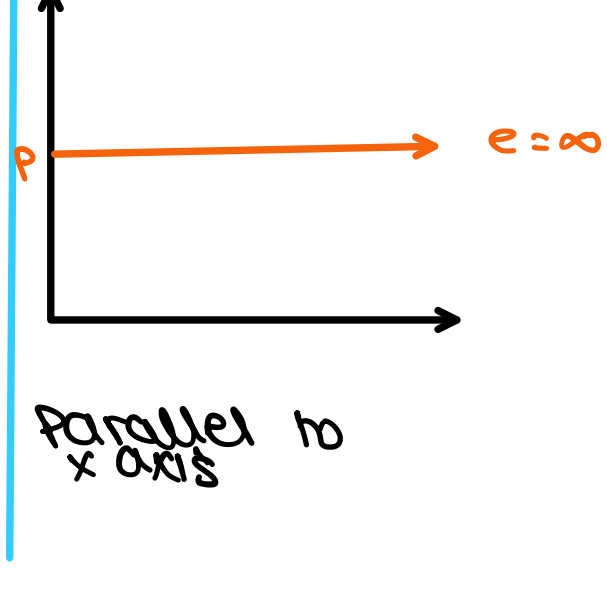
straight line betn X & Y Axis
Also called Rectangular - Hyperbola

e > 1
Relatively Elastic
% ΔD > % ΔP



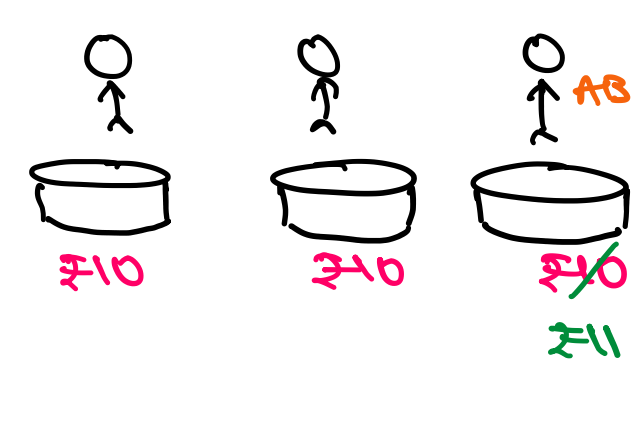
Away from Y axis
Flatter.

e = ∞
Perfectly Elastic
% ΔD = ∞
% ΔP = slight



Parallel to X axis

SPPC



Point Elasticity : when the change in price is too small

eg: car = ₹500,000
New price = ₹500,100 } ΔP = 100

Formula: $$\boxed{\frac{\frac{\text{New D} - \text{old D}}{\text{old D}} \times 100}{\frac{\text{New P} - \text{old P}}{\text{old P}} \times 100}}$$

Mid-point Elasticity/ Arc Elasticity : when change in price is too large

Illustration:

Situation 1: P 10, 30; Q 100, 50

Soln $= \frac{\frac{50-100}{100} \times 100}{\frac{30-10}{10} \times 100} = \frac{\frac{-50}{100}}{\frac{20}{10}} = \frac{-0.5}{2} = -0.25$

∴ $\boxed{Pe = 0.25}$ Relatively inelastic

Situation 2: P 30, 10; Q 50, 100

Soln $= \frac{\frac{100-50}{50} \times 100}{\frac{10-30}{30} \times 100} = \frac{\frac{50}{50}}{\frac{-20}{30}} = \frac{1}{-0.6667} = -1.5$

∴ $\boxed{Pe = 1.5}$ Relatively elastic.

Formula: $$\boxed{\frac{\frac{\text{New D} - \text{old D}}{\frac{\text{New D} + \text{old D}}{2}} \times 100}{\frac{\text{New P} - \text{old P}}{\frac{\text{New P} + \text{old P}}{2}} \times 100}}$$

Illustration

P 10, 30; Q 100, 50

Soln $= \frac{\frac{50-100}{\frac{50+100}{2}} \times 100}{\frac{30-10}{\frac{30+10}{2}} \times 100} = \frac{\frac{-50}{75}}{\frac{20}{20}} = -0.667$

∴ $\boxed{Pe = 0.667}$

P 30, 10; Q 50, 100

Soln $= \frac{\frac{100-50}{\frac{100+50}{2}} \times 100}{\frac{10-30}{\frac{10+30}{2}} \times 100} = \frac{\frac{50}{75}}{\frac{-20}{20}} = -0.667$

∴ $\boxed{Pe = 0.667}$

Total outlay Method / Total Expenditure Method

Illustration1:

Situation	Price	Qty	Total outlay	Elasticity
A	5 4	20 30	100 120	e > 1 Relatively Elastic
B	5 4	20 25	100 100	e = 1 unitary Elastic
C	5 4	20 22	100 88	e < 1 Relatively inelastic

Illustration2:

Situation	Price	Qty	Total outlay	Elasticity
A	1 2	6 5	6 10	e < 1 Relatively inelastic
B	3 4	4 3	12 12	e = 1 unitary elastic
C	5 6	2 1	10 6	e > 1 Relatively Elastic.

Summary
- i. Based on Analysis of Expenditure pattern
- ii This Method has No formula
- iii P↑ E↓ R↓ / P↓ E↑ R↑ } e > 1
- iv. P↑ E↑ R↑ / P↓ E↓ R↓ } e < 1
- v. P↑ / P↓ - Exp is same - Rev same } e = 1

→ Determinants of price Elasticity of Demand

a) Substitutes
- ✓ e>1 | × e<1
- i. close substitutes → e>1
- ii. Perfect substitutes → e = ∞
- iii. Totally unrelated → e = 0
- iv. product (car)
  - Based on Brands: Tata - Maruti - Mahindra → e>1
  - Single Group → e<1

b) Position of commodity in consumers Budget
- less e<1 | More e>1

c) Nature of Need that commodity satisfies
- Neccessity e<1 | comfort, Luxury e>1

d) Number of uses
- single use e<1 | multiple use e>1

e) Time Period
- short Run e<1 | Long Run e>1

f) Consumer Habits
- Habitual e<1

g) Tied Demand : complimentary goods e<1

h) Price Range
- Cheap e<1 | Medium e>1 | Expensive e<1

i) Minor complimentory e<1

Cross Elasticity.

logic: Price of Related Goods k wajen se Demand of original commodity change Hoti Hai

→ Price of Related Goods is the Basis affecting demand of original Goods

formula: $\frac{D_O}{P_R} \rightarrow \frac{\Delta D_O}{\Delta P_R} \rightarrow \boxed{\frac{\% \Delta D_O}{\% \Delta P_R}}$

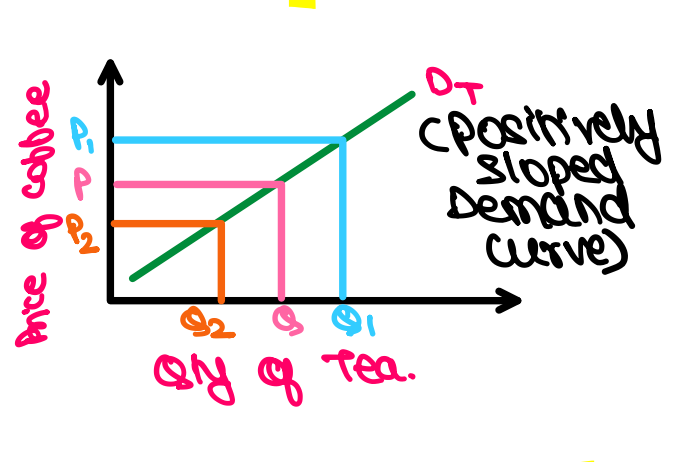
$$\boxed{\frac{\frac{\text{New} D_O - \text{old} D_O}{\text{old} D_O} \times 100}{\frac{\text{New} P_R - \text{old} P_R}{\text{old} P_R} \times 100}}$$

Substitutes

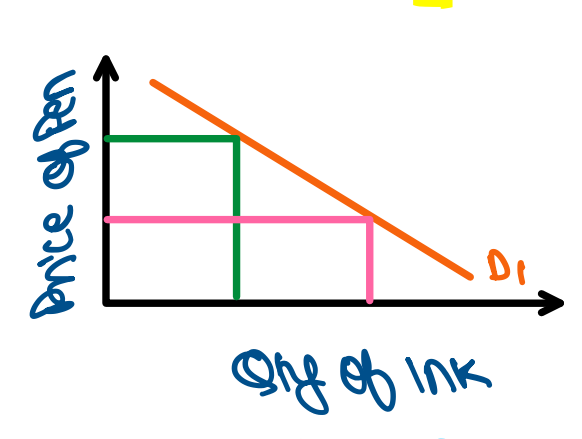
$$\frac{\frac{\text{New} D_O - \text{old} D_O}{\text{old} D_O} \times 100}{\frac{\text{New} P_S - \text{old} P_S}{\text{old} P_S} \times 100}$$

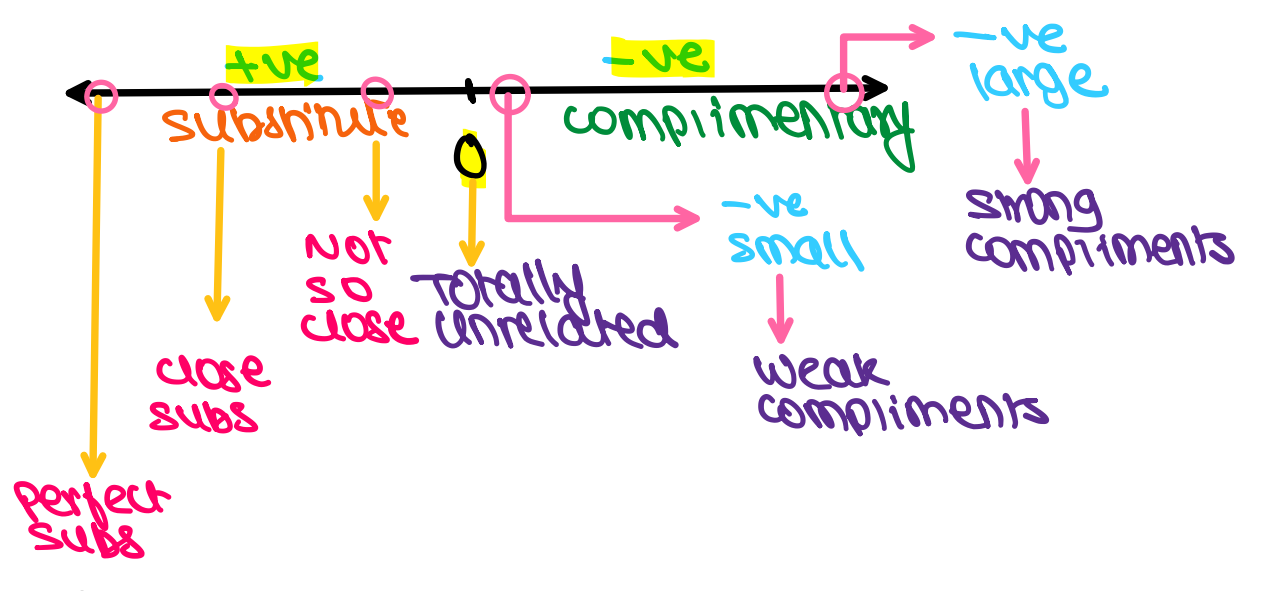
complimentary.

$$\frac{\frac{\text{New} D_O - \text{old} D_O}{\text{old} D_O} \times 100}{\frac{\text{New} P_C - \text{old} P_C}{\text{old} P_C} \times 100}$$



(Positively sloped Demand curve)





Income Elasticity.

logic : Income k wajen se demand affect Hoti Hai
Income is the Basis affecting demand.

Formula: $\frac{D}{I} \rightarrow \frac{\Delta D}{\Delta I} \rightarrow \boxed{\frac{\% \Delta D}{\% \Delta Inc}}$

$$\boxed{\frac{\frac{\text{New D} - \text{old D}}{\text{old D}} \times 100}{\frac{\text{New I} - \text{old I}}{\text{old I}} \times 100}}$$

Advertise Expenditure Elasticity

logic: AE k wajen se demand affect Hoti Hai.
AE is the Basis affecting demand.

Formula: $$\boxed{\frac{\frac{\text{New D} - \text{old D}}{\text{old D}} \times 100}{\frac{\text{New AE} - \text{old AE}}{\text{old AE}} \times 100}}$$

Chapter 2 Unit 2 : Theory of Consumer Behaviour

Human wants : Unlimited }
Resources : Limited } ∴ Not all Human wants can be satisfied

↓

Consumer will Buy only those Goods/ Services which has its "want satisfying power"

↓

Utility

≠ Satisfaction ≠ usefulness ≠ Pleasure

concept of utility is ethically Neutral.

Theories

Marginal utility Analysis	Indifference curve Analysis
Alfred Marshall	Hicks & Allen
· Cardinal Approach	· Ordinal Approach

☞ Marginal utility Analysis

Assumptions

a) Consumer is Rational : Maximise his satisfaction
b) Utility can be measured : Cardinal Approach
c) Money is used as a measuring Rod
d) Constancy of Marginal utility (MU) of money.
e) Independent Hypothesis of utility

Qty	utility	TU	MU
1	50	50	50
2	40	90	40
3	20	110	20
4	–	110	–
5	−20	90	−20

MU → extra Benefit Derived By consumption of 1 extra unit

Marginal utility (i) $TU_n - TU_{n-1}$

eg Find MU @3 → $TU_3 - TU_{3-1}$
→ $TU_3 - TU_2 = 110 - 90 = 20$

(ii) or $\frac{\Delta TU}{\Delta N}$

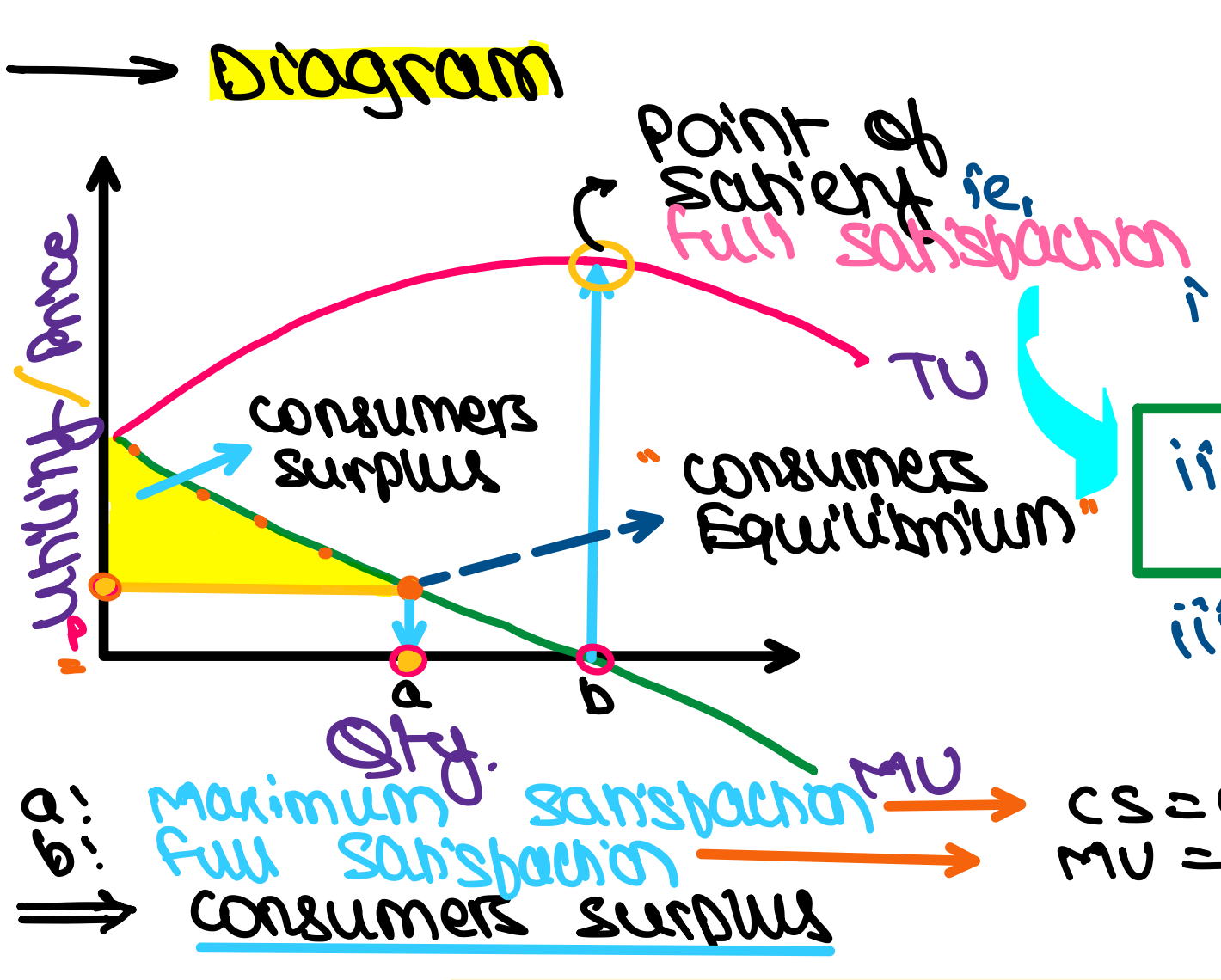
eg: units TU
1 50
3 80
Find MU $\frac{30}{2} = 15$

Total utility = ΣMU

Law of Diminishing Marginal utility

Assumptions	**Exceptions**
(i) Continuous consumption	a) Padhai : Education
(ii) Homogenous Goods	b) Paisa : Money
(iii) Reasonable size	c) Daaru : Drunkard
(iv.) No change in Taste & preference	d) H : Hobbies
	e) M : Music
	f) M : Miser
	g) Prestigeous Goods

→ **Diagram**



Relationship between TU & MU
i. TU is Rising
MU is Falling
ii TU is Maximum
MU is zero
iii MU is Negative
TU is Falling

a: Maximum satisfaction → CS = 0
b: Full satisfaction → MU = 0

⟹ Consumers surplus

What the consumer is willing to pay (−) What the consumer Actually pays
↓ ↓
MU (−) MP

Qty	MP	MU	
1	40	100	60
2	40	80	40
3	40	60	20
4	40	40	–
5	40	20	−20

60, 40, 20 → Consumers surplus
– → Consumers Equilibrium

⟹ Consumers Equilibrium → Maximum satisfaction.

Market Price = Marginal utility.

∴ when Consumers Surplus = 0 Consumer has Reached its equilibrium point.

Illustration

Qty	MU	MP	MP	MP
1	100	50	100	10
2	75	50	100	10
3	50	50	100	10
4	25	50	100	10
5	10	50	100	10

MP ↑ Qty ↓
MP ↓ Qty ↑

∴ Law of DMU forms the Basis for the Law of Demand

→ Practical Applications of Consumers surplus

a) Large surplus - Repeated Purchase
b) Price Discrimination
c) Large scale investment Decisions
d) Raising product Prices
e) Finance Minister

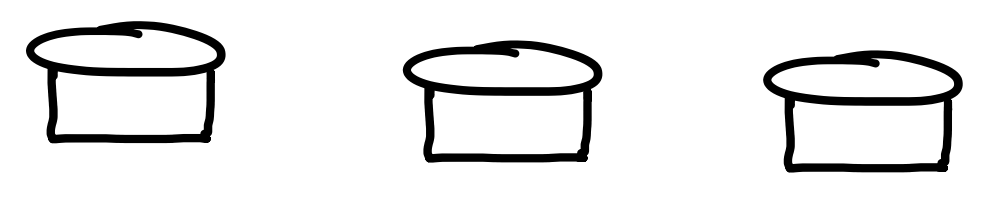
→ Limitations of Consumers surplus

a) It cannot be measured precisely (accurately)
b) Neccessities → Consumers surplus → infinite
c) Consumers surplus is affected by availability of substitutes

	Tea	Coffee
MU	15	15
MP	10	15
CS	5	–

d) MU of money is assumed to be constant: Unrealistic Assumption
e) No scale in case of prestigeous Goods or Goods having prestigeous value
f) Utility is measured in Terms of money: Not possible

☞ Indifference curve Analysis (Hicks & Allen)



	Water	Lemon-ade	Coconut water
Ranking:	III	I	II

↳ Ordinal Approach

Assumptions:

i. Consumer is Rational
ii Consumer has knowledge about market conditions
iii Consumer is capable of Ranking different combinations
iv. Consistent consumption Pattern

A > B B > C
A > C

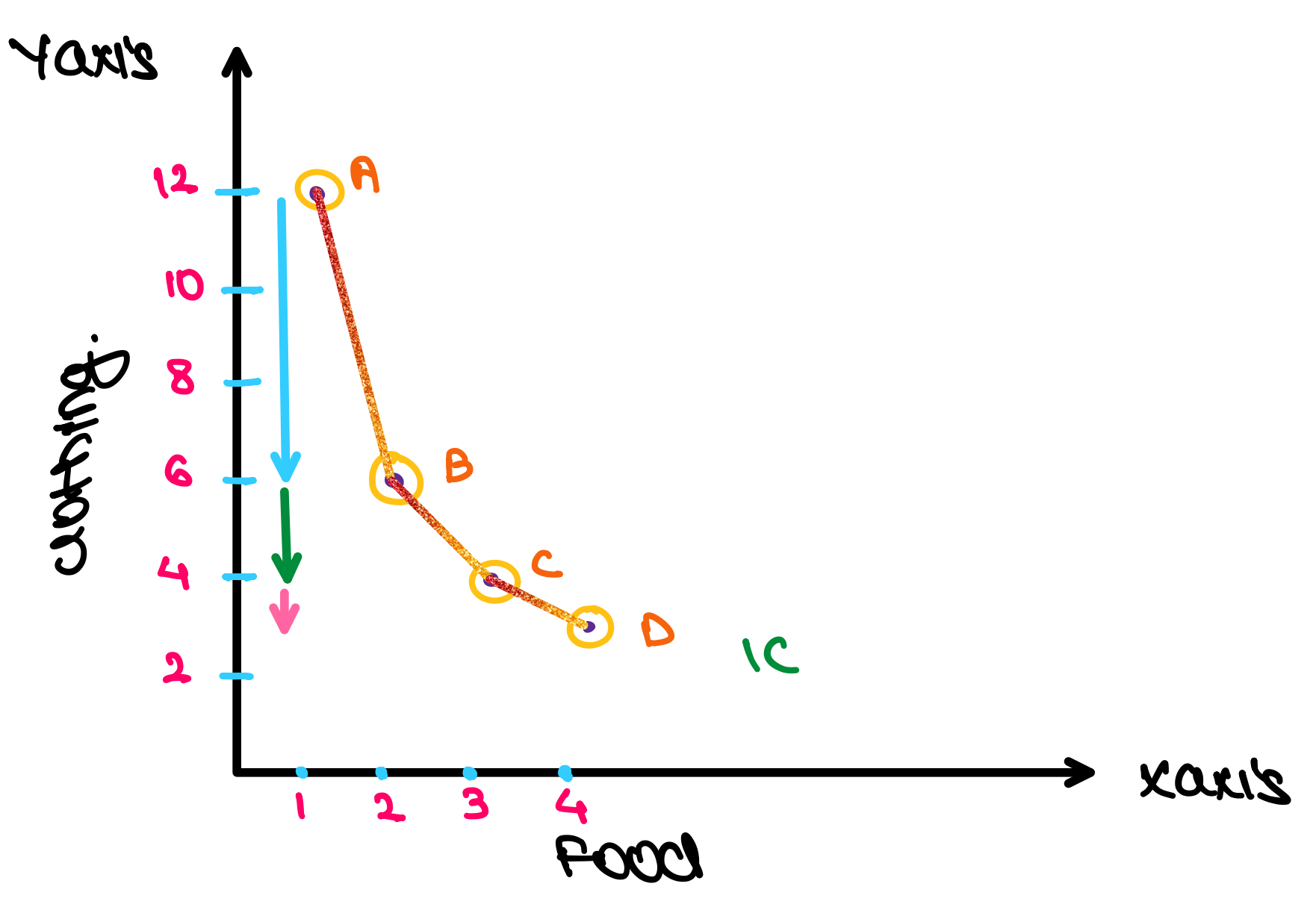
v. Combination which has Higher No of Goods will give Greater satisfaction

eg: Combn	Food	Clothing.
A	1	12
B	2	12
C	3	12

→ Indifference curve

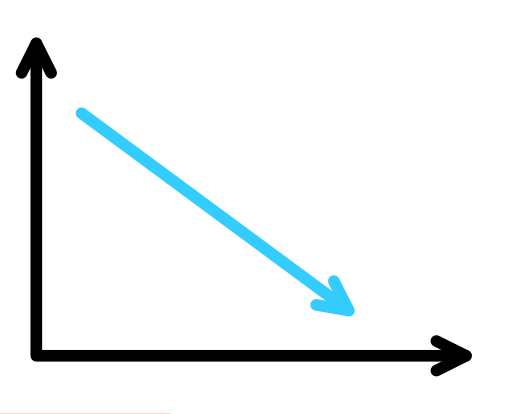
a) Is a curve
b) combination 2 Goods
c) That gives same level of satisfaction

Combination	Food (X)	Clothing (Y)	MRS Marginal Rate of Substitution
A	1	12	–
B	2	6	6
C	3	4	2
D	4	3	1



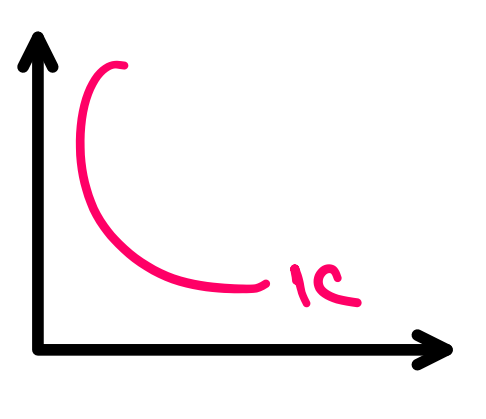
→ Properties of Indifference curve

a) Slope of IC is downward sloping from left to Right



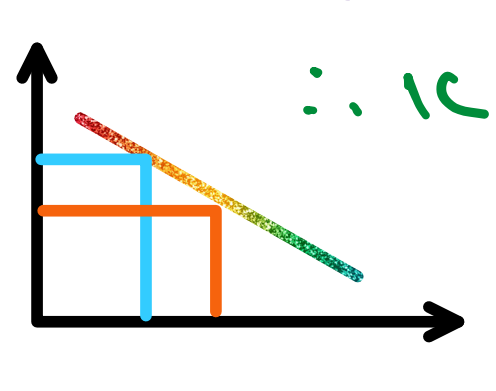
Reason
as to gain one extra unit of 'x' we need to substitute for 'Y'

b) Curve of IC is convex to origin



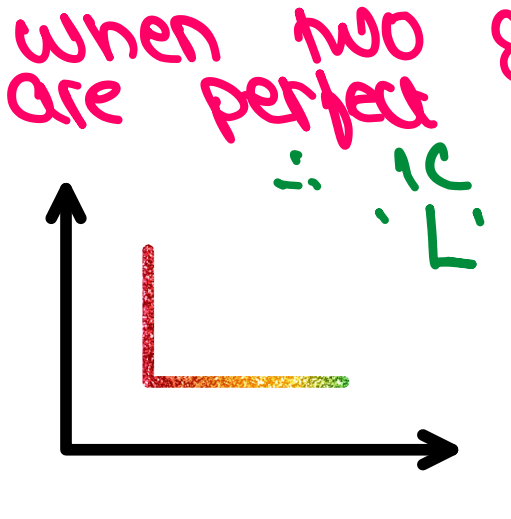
Reason: Because of Decreasing MRS

* What if MRS is constant
when goods are substitutes MRS is constant

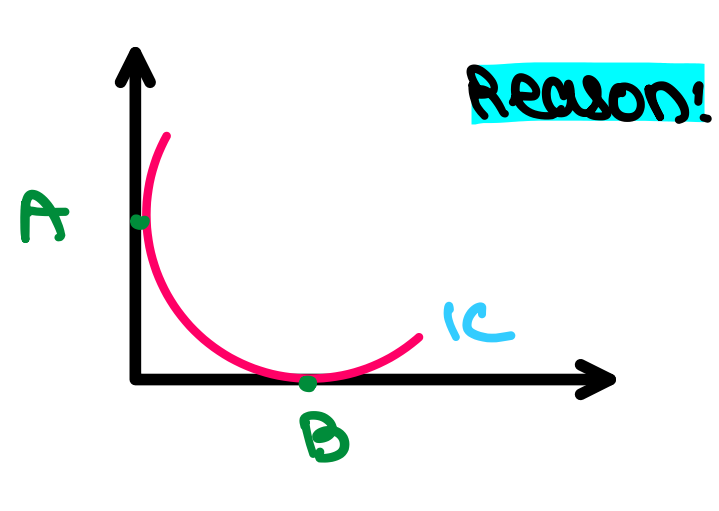


∴ IC will be straight line

* What will IC be when two goods are perfect compliments
∴ IC will be 'L' shaped.

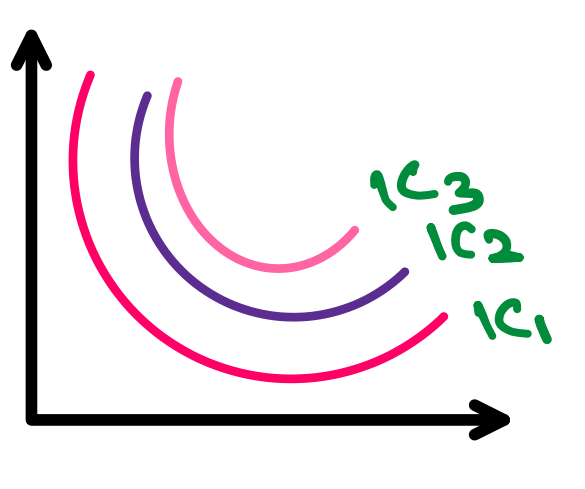


c) IC will Never touch either of axes



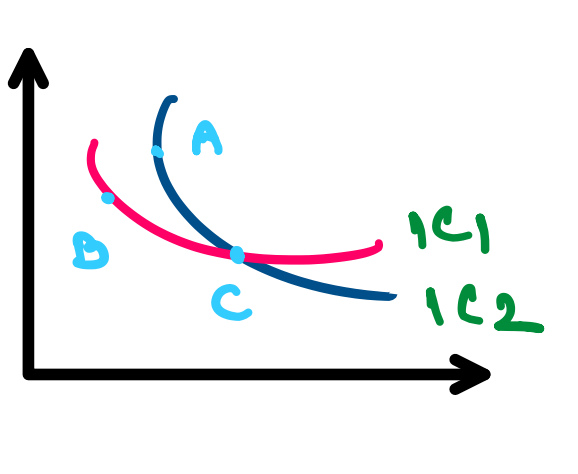
Reason: combination is of 2 Goods

d) Higher IC will give Higher level of satisfaction



Reason: Higher IC has more No. of Goods in its combination
∴ It Results into Higher level of satisfaction.

e) Two IC will Never Intersect with each other

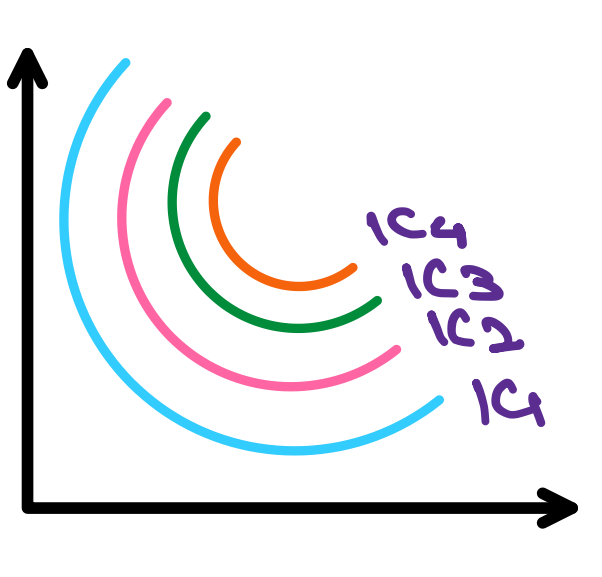


Reason: Consistent consumption Pattern

B = C IC1
A = C IC2

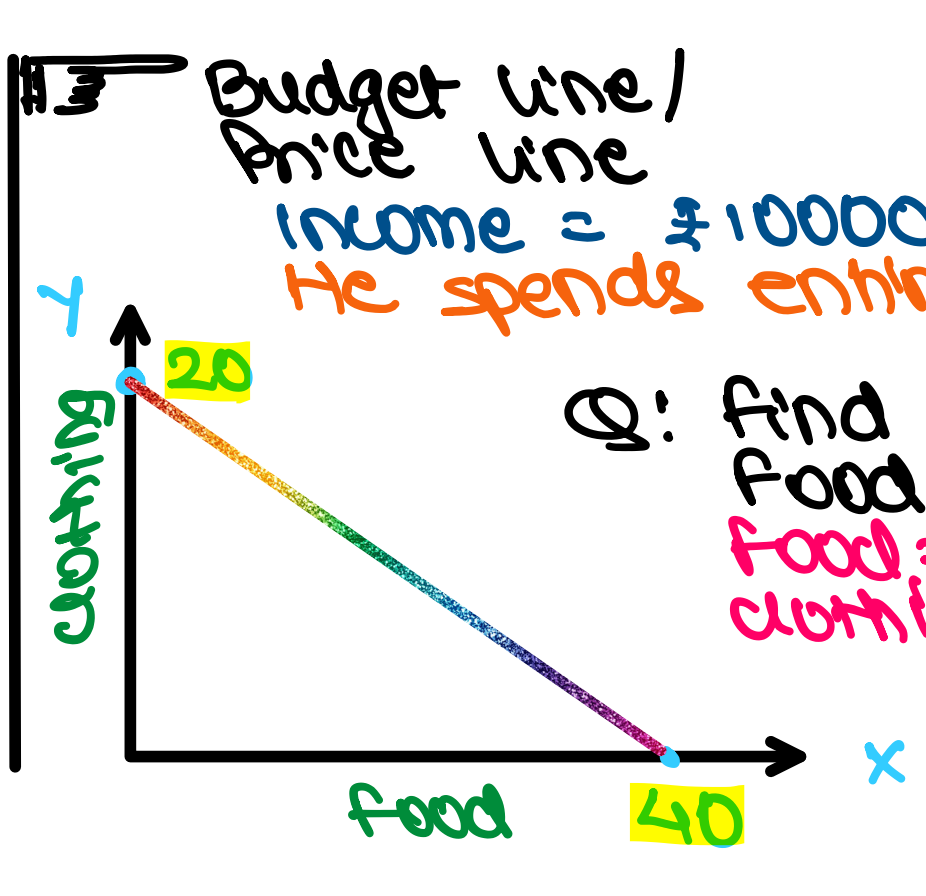
A ≠ B

☞ Indifference Curve map : collection of indifference curves



☞ Budget line/ Price line

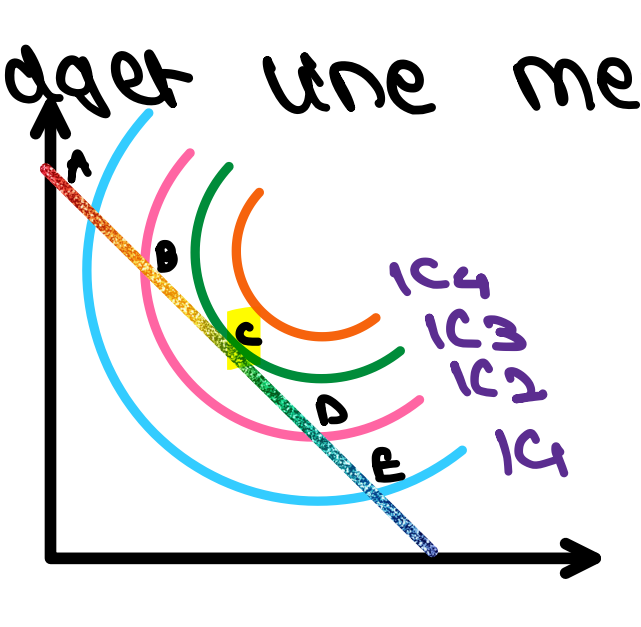
Income = ₹10000
He spends entire ₹10000



Q: Find Price of Food & Clothing.
Food = ₹250 → 10000/40 = ₹250
Clothing = ₹500 → 10000/20 = ₹500

☞ Consumers Equilibrium

When Budget line meet IC @ Tangency.



☞ Law of Equi-marginal utility.

	Burger	Vadapav	Samosa.
Utility	100	50	25
Market Price	50	25	10

Equilibrium pt.

$$\boxed{\frac{MU_B}{P_B} = \frac{MU_V}{P_V}} \neq \frac{MU_S}{P_S}$$

$$\frac{100}{50} = \frac{50}{25}$$

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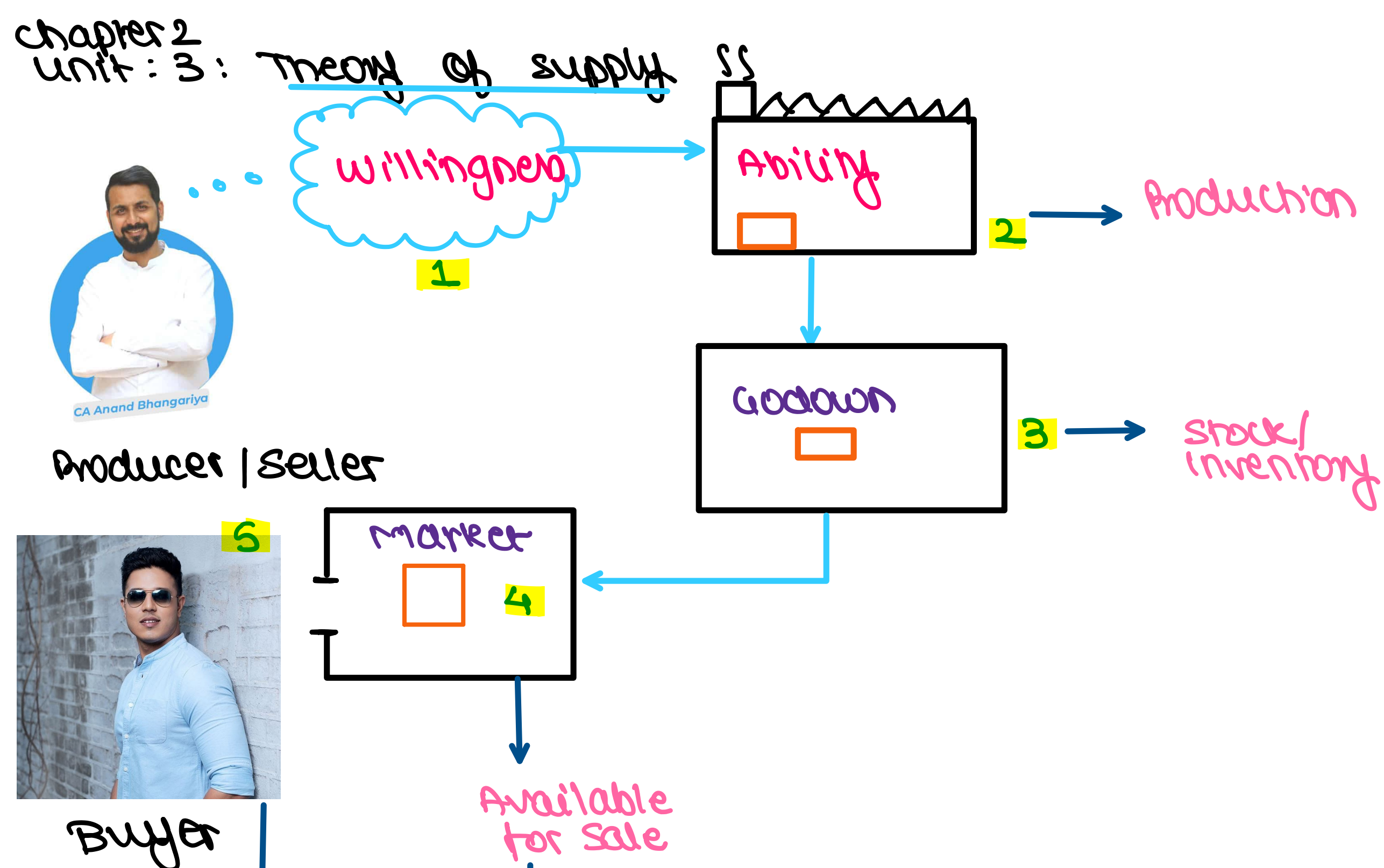
Chapter 2
Unit 3: Theory of supply SS



Important points to be noted

i. Sale is not a criteria to define supply
ii whatever is supplied may or may not be sold.
iii a) stock is a part of supply
OR
b) supply is a part of stock

Determinants of supply

a) Price of goods
Ceteris paribus:
other things being constant
Price↑ supply↑
Price↓ supply↓

b) Price of Related Goods
Wheat O
Price R
Price R↑ supply O↓ supply R↑
Price R↓ supply O↑ supply R↓

c) Prices of factors of production / cost of production
Land (Rent) Labour (wages) capital (interest) Entr (profit)
cost of production
cost↑ supply↓
cost↓ supply↑

d) state of Technology.
i. Latest Tech supply↑
Outdated Tech supply↓
ii Technology ✓
cost↓ supply↑
iii spare capacity ✓ supply↑

e) Government policies
Restrictions R↑ S↓
R↓ S↑
Taxes T↑ S↓
T↓ S↑
Subsidy S↑ S↑
S↓ S↓

f) Nature of competition & size of Industry.
competition↑ supply↑
Monopoly supply↓
No. of sellers
sellers↑ supply↑
sellers↓ supply↓

g) Expectations about prices
Fp: Future Expectations about Prices
{ Fp↑ supply Today↓ supply future↑
{ Fp↓ supply Today↑ supply future↓

h) Other factors
i. Industrial policies: Licensing.
soft supply↑ Hard supply↓
ii Foreign Policy: Export Import
Domestic Market supply↓ supply↑
iii Targets/Goals of firm T↑ S↑
T↓ S↓
iv. Infrastructural facilities
v. Natural factors Weather
Favourable supply↑
Unfavourable supply↓
vi. man-made factors strike

Law of supply

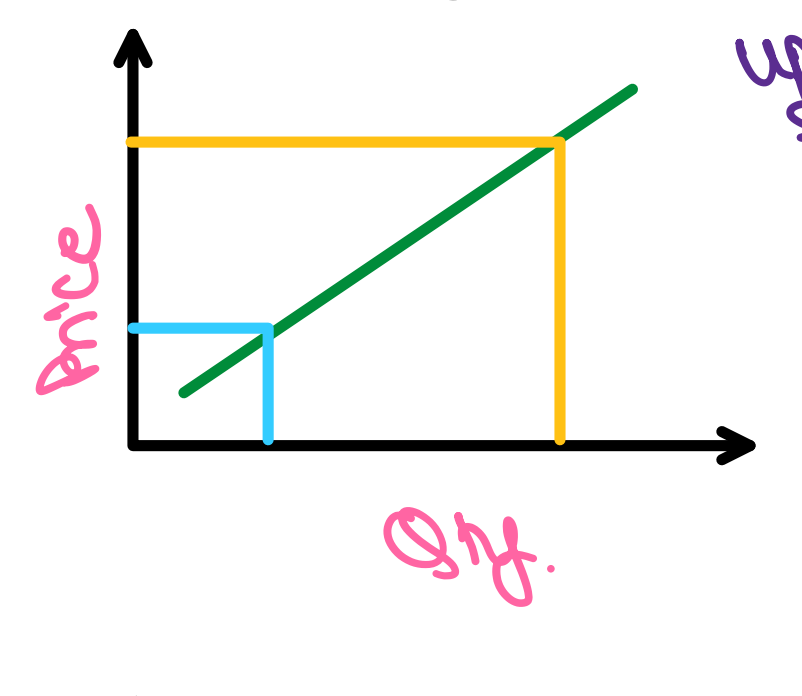
Other things being constant
(ceteris paribus)
Price↑ supply↑
Price↓ supply↓

Exceptions
i. supply of labour
ii Agriculture products
iii Perishable goods
iv. Handicraft goods
v. Need for cash

Supply schedule

P	Q
1	10
2	20
3	30
4	40
5	50

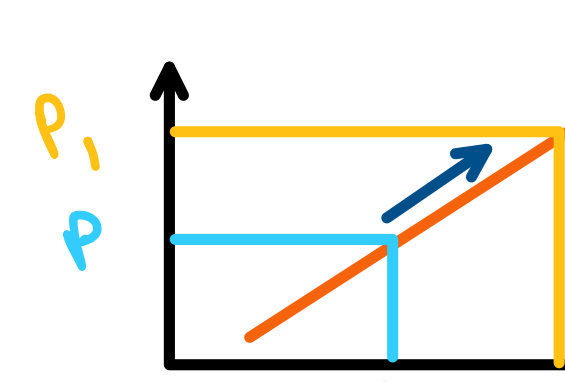
Supply curve



upward sloping curve from left to Right.
(positive slope)

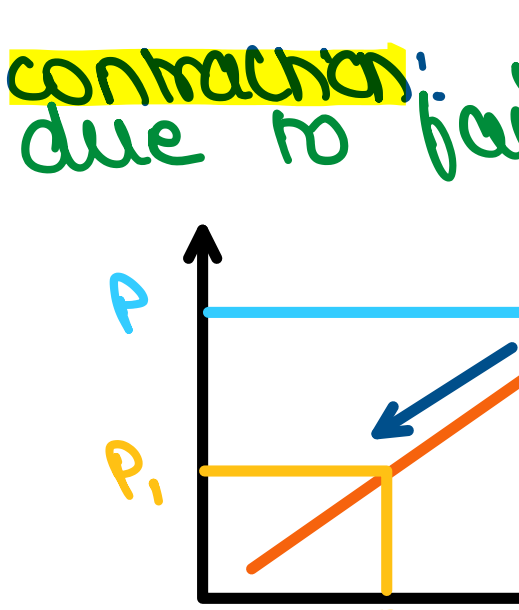
Expansion & contraction of supply v/s Increase & Decrease supply.

When there is change in supply due to price
Expansion: when supply rises due to rise in price



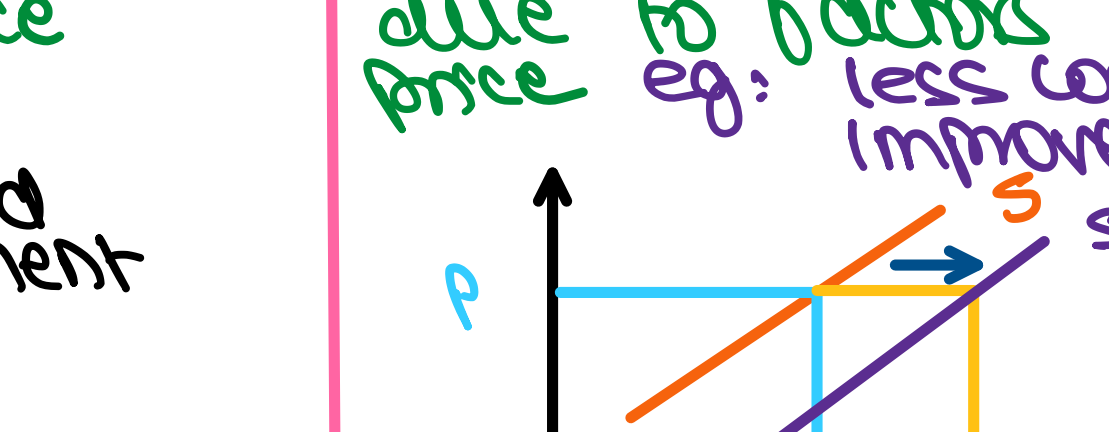
upward movement

contraction: when supply falls due to fall in price



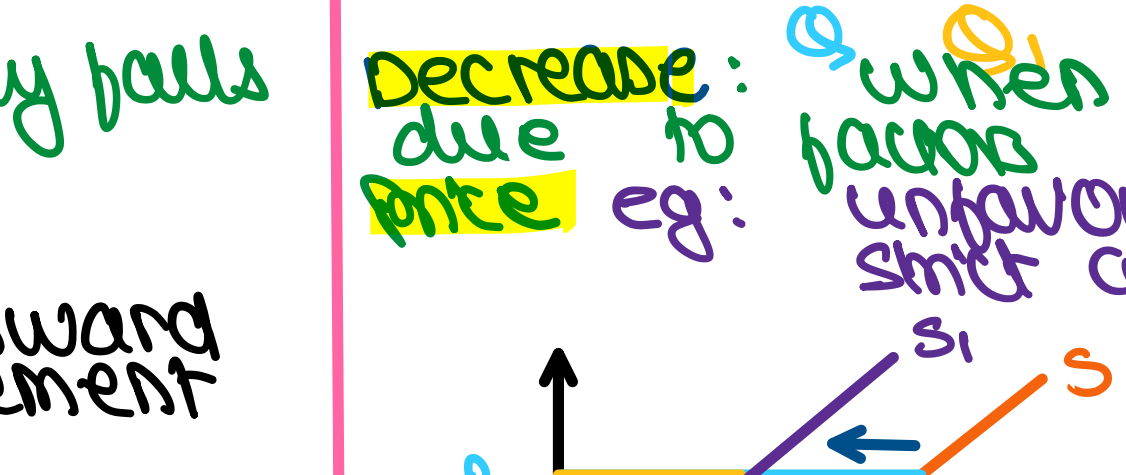
Downward movement

when there is change in supply due to factors other than price
Increase: when supply rises due to factors other than price eg: less cost of production, improved tech



Rightward shift

Decrease: when supply falls due to factors other than price eg: unfavourable climate, strict govt. lic. Req.



Leftward shift

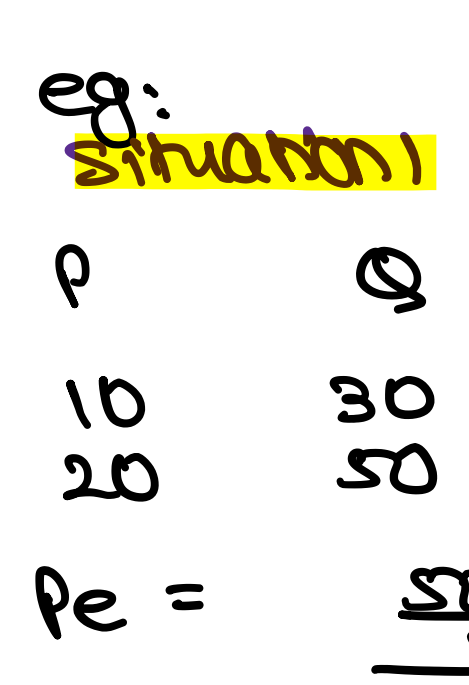
⟹ Elasticity of supply: sensitivity / Responsiveness / Reaction in supply due to factors affecting supply.

Price Elasticity → Price k wajeh se supply affect hota hai.
Price is the factors affecting supply

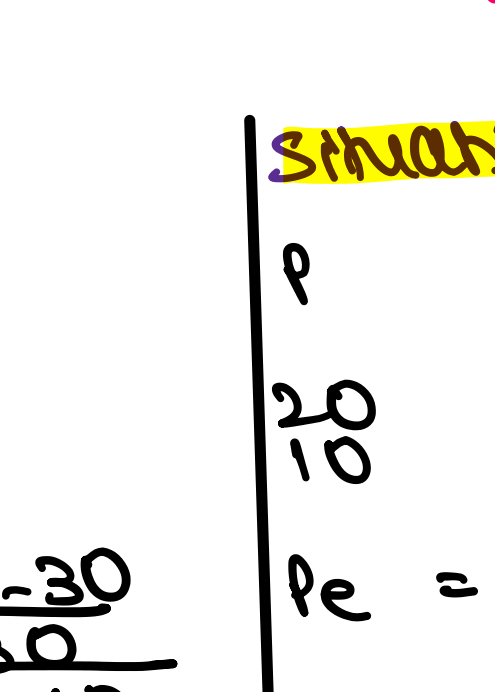
Formula: $\frac{S}{P} \rightarrow \frac{\Delta S}{\Delta P} \rightarrow \boxed{\frac{\%\Delta S}{\%\Delta P}}$

$$\boxed{\frac{\frac{\text{New S} - \text{Old S}}{\text{Old S}} \times 100}{\frac{\text{New P} - \text{Old P}}{\text{Old P}} \times 100}}$$

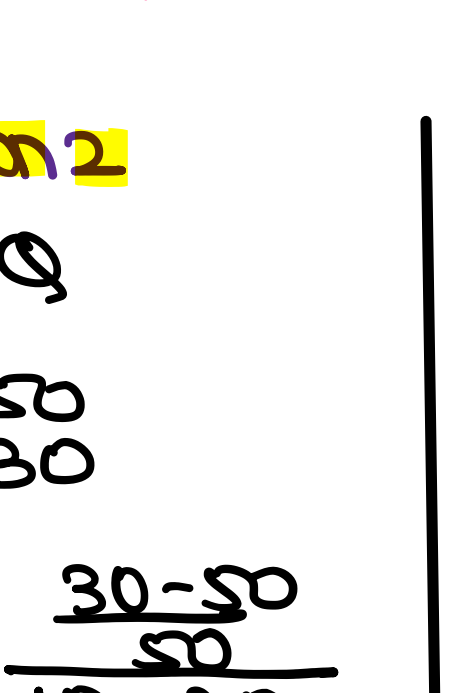
e = 0 → Perfectly Inelastic. $\%\Delta S = 0$, $\%\Delta P = ✓$
e < 1 → Relatively Inelastic $\%\Delta S < \%\Delta P$
e = 1 → Unit Elastic $\%\Delta S = \%\Delta P$
e > 1 → Relatively elastic $\%\Delta S > \%\Delta P$
e = ∞ → Perfectly Elastic $\%\Delta S = \infty$, $\%\Delta P$ = slight



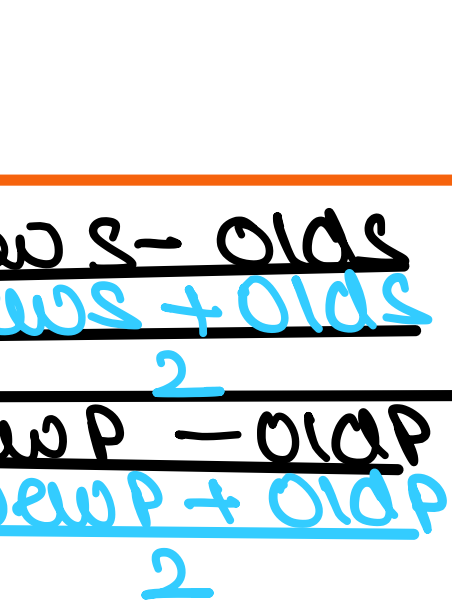
Parallel to Y axis



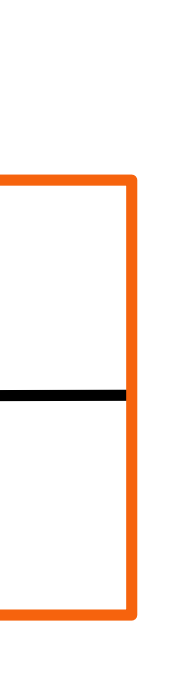
closer to Y axis



Straight Line Between X & Y axis.



Away from Y axis.



Parallel to X axis.

Arc Elasticity / Mid-point elasticity: when the Price change is large @ that time we use arc / mid point elasticity.

eg:

Situation 1

P	Q
10	30
20	50

$Pe = \frac{\frac{50-30}{30}}{\frac{20-10}{10}} = \frac{\frac{20}{30}}{\frac{10}{10}}$

$Pe = \boxed{0.67}$

Situation 2

P	Q
20	50
10	30

$Pe = \frac{\frac{30-50}{50}}{\frac{10-20}{20}} = \frac{\frac{-20}{50}}{\frac{-10}{20}}$

$Pe = \boxed{0.80}$

$$\boxed{\frac{\frac{\text{New S} - \text{Old S}}{\frac{\text{New S} + \text{Old S}}{2}}}{\frac{\text{New P} - \text{Old P}}{\frac{\text{New P} + \text{Old P}}{2}}}}$$

$\frac{\frac{50-30}{\frac{50+30}{2}}}{\frac{20-10}{\frac{20+10}{2}}} = \frac{20}{40} \Big/ \frac{10}{15}$

$Pe = 0.75$

$\frac{\frac{30-50}{\frac{30+50}{2}}}{\frac{10-20}{\frac{10+20}{2}}} = \frac{-20}{40} \Big/ \frac{-10}{15}$

$Pe = 0.75$

Determinants of Price Elasticity

a) cost of production
Price Rises → cost of production Rises substantially e<1
Price Rises → cost of production is constant / Rises negligible e>1

b) Process of production & Time Taken → for Production
simple less e>1
complex more e<1

c) Time Period
short Run e<1
Long Run e>1
Time to produce
less time e>1
more time e<1

d) Large No. of sellers
High competition
Fewer Barriers } e>1

e) spare capacity
✓ e>1
✗ e<1

f) Key Raw material
· easily Available
· cheap
e>1
· Difficult
· Expensive
e<1

g) Adequate stocks (RM, FG)
Available e>1
[w/o loosing value : e>1
[looses value : e<1
Unavailable e<1

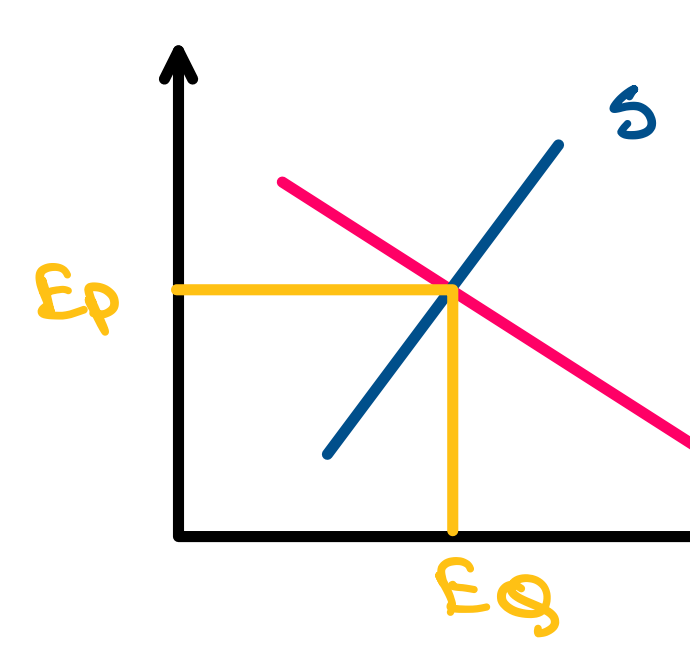
h) Factor substitution
· Easy
· less Training
· low skill
e>1
· Difficult
· more Training
· High skill
e<1

short supply
longer Delivery period
e<1
Abundant supply
shorter Delivery period
e>1

i) Capital / Labour
Mobile e>1
Immobile e<1

j) Price Expectations
High → current supply e<1
low → current supply e>1

Determination of Equilibrium Price

consumer P↑ Qd↓
P↓ Qd↑
seller P↑ Qs↑
P↓ Qs↓