

Price Elasticity of Demand

“The responsiveness of demand to a change in price.”

Formula:

Percentage change in quantity demanded

Percentage change in price

Elastic Goods	Inelastic Goods
The percentage change in demand is greater than the percentage change in price.	The percentage change in demand is less than the percentage change in price.
Price has a large effect on the quantity demanded.	Price has a small effect on the quantity demanded.
Likely to have many substitutes.	Likely to have a unique selling point.
The price is likely to make up a large percentage of a person's income.	Could be; highly branded, innovative or habit forming.
Price elasticity of demand will be greater than 1.	Price elasticity of demand will be less than 1.
Increasing the price is likely to result in a fall in total revenue.	Increasing the price is likely to result in a rise in total revenue.
Coke and Pepsi could be seen as perfect substitutes, and are therefore defined as being price elastic.	Petrol does not have any substitutes, so is seen as being price inelastic.