

## Chapter 4 – Elasticity of Demand

### Question 1

#### What is the Elasticity of Demand?

**Ans:** Elasticity of Demand refers to the percentage change in demand for a commodity with respect to the percentage change in demand for a commodity with respect to the percentage change in any of the factors affecting demand for that commodity.

### Question 2

#### How is the Elasticity of Demand calculated?

**Ans:** Percentage change in demand for X/Percentage change in a factor affecting the demand for X

### Question 3

#### What are the 5 Degrees of Elasticity of Demand?

**Ans:** 5 types of price elasticities of demand are:

- Perfectly elastic demand
- Perfectly inelastic demand
- Highly elastic demand
- Less elastic demand
- Unitary elastic demand

### Question 4

#### What are the factors that affect the price elasticity of demand?

**Ans:** Factors affecting the price elasticity of demand are:

- Nature of commodity
- Availability of substitutes
- Income level
- Level of price
- Number of uses
- Time period
- Habits

### Question 5

**The demand for a good falls to 240 units in response to the rise in price by ₹.2. If the original demand was 300 units at the price of ₹.20, calculate the price elasticity of demand.**

New Quantity ( $Q_1$ ) = 240 Units	Rise in Price ( $\Delta P$ ) = ₹2
Original Quantity (Q) = 300 Units	Original Price = ₹ 20
Change in Quantity ( $\Delta Q$ ) = -60 Units	New Price ( $P_1$ ) = ₹ 22
Elasticity of demand $E_d = ?$	

*Price elasticity of Demand*  $E_d = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{-60}{2} \times \frac{20}{300} = (-) 2$

**Solution:**

$E_d = (-) 2$  (Demand is highly elastic as  $E_d > 1$ )

**State whether the following statements are true or false.**

**Question 6**

**A commodity with a large number of close substitutes shows high elasticity of demand.**

**Ans:** True

**Question 7**

**In the case of the horizontal straight line demand curve, demand does not change even with the change in price.**

**Ans:** False