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Read chapter 5 and answer the following questions:

1. Define the following terms:

a. Price elasticity of demand : %change in quality demand of good divided by the % changed in the pice.

b. Price elasticity of supply: % changed in quality supply divide but the change in price.

c. Cross-price elasticity of demand: The affect change of price A that effect the price of B. (when one brand is more in demand for a sweater do itcan effects another's price)

d. Income elasticity of demand: The change in quality demand / change income

e. Elastic demand: The change in demand due to change in small price point

f . Elastic supply: supply and the response to a change in price

2. What is the price elasticity of demand? Can you explain it in your own words? What is the formula for the price elasticity of demand?

I believe price elasticity of demand is the price change of in demand good. The book use this as the formula

Price Elasticity of Demand = % change in quantity / % change in price

This formula has two parts one being % change in quantity = [(Q2 – Q1) / (Q2 + Q1)/2] × 100

And % change in price = [(P2 – P1)/(P2 + P1)/2] × 100

And you will then get answer form both and divide them to get Price Elasticity of Demand

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3. What is the price elasticity of supply? Can you explain it in your own words? What is the formula for the price elasticity of supply?

Is the response good after the price has been changed. The book list the formula as the following ...

Assume that an apartment rents for \$650 per month and at that price the landlord rents 10,000 units are rented as. When the price increases to \$700 per month, the landlord supplies 13,000 units into the market. By what percentage does apartment supply increase? What is the price sensitivity?

First part is

$$\% \text{ change in quantity} = \frac{13,000 - 10,000}{(13,000 + 10,000)/2} \times 100 = \frac{3,000}{11,500} \times 100 = 26.1$$

$$\left\{ \frac{\text{Supply} - \text{price}}{(\text{supply}/\text{price})} \times 2 \right\} 100 = \% \text{ change in quantity}$$

$$\% \text{ change in price} = \left\{ \frac{\$700 - \$650}{(\$700 + \$650)/2} \right\} \times 100$$

$$\% \text{ change in price} = \left\{ \frac{(\text{price increase} - \text{normal price})}{(\text{price increase} + \text{normal price})/2} \right\} 100$$

Price Elasticity of Supply = % change in quantity / % change in price

4. What is the formula for the income elasticity of demand?

$$\text{Income elasticity of demand} = \% \text{ change in quantity demanded} / \% \text{ change in income}$$

5. What is the formula for the cross-price elasticity of demand?

$$\text{Cross-price elasticity of demand} = \% \text{ change in } Q_d \text{ of good A} / \% \text{ change in price of good B}$$