

8 Elasticity – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)
Elasticity	_____
elastic	_____
inelastic	_____
PED	_____
YED	_____
XED	_____

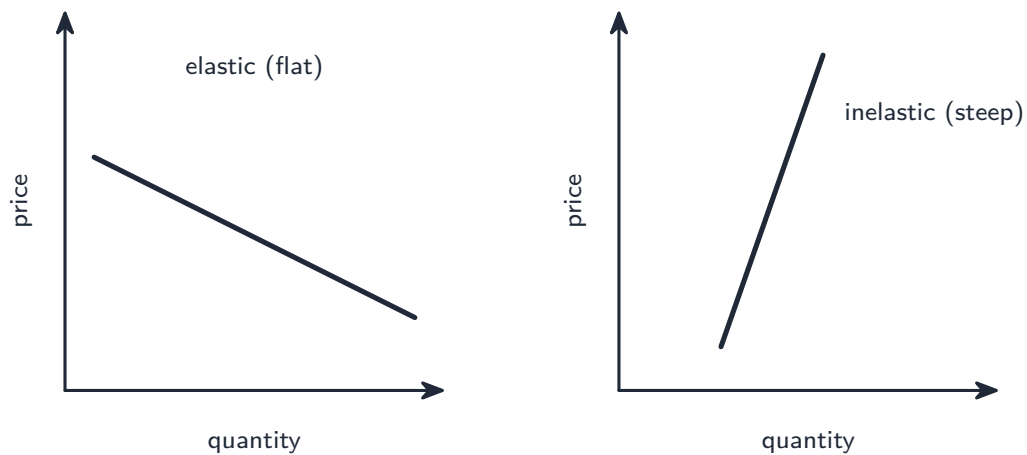
Recall

Elasticity measures how much demand reacts to a change. It helps a firm set prices and plan.

New ideas

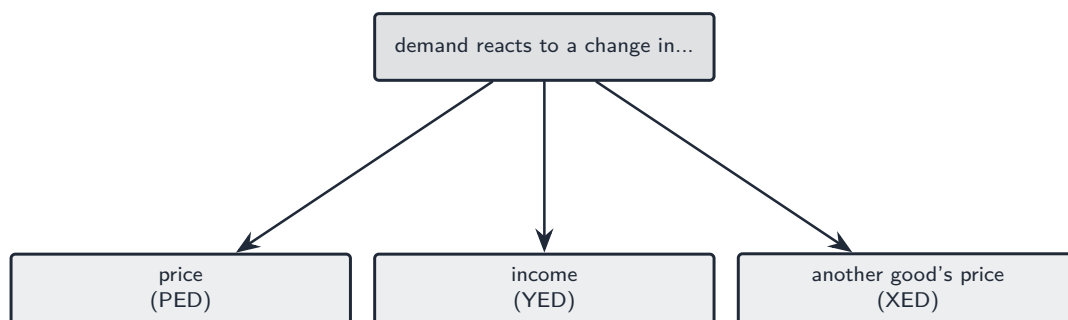
Read these first, then do the Practice.

■ 1 Elastic vs inelastic



- **elastic** demand reacts a lot to a price change (the curve is flat);
- **inelastic** demand reacts only a little (the curve is steep).

■ 2 Three elasticities



Demand can react to a change in:

- **price** (price elasticity of demand, **PED**);
- **income** (income elasticity of demand, **YED**);
- another good's price (cross elasticity of demand, **XED**).

Watch out: elastic = demand reacts *a lot* (flat curve); inelastic = reacts *little* (steep curve). PED reacts to *price*, YED to *income*, XED to *another good's price*.

Practice

Try these in order.

8.6 What does *elasticity* measure? [1]

8.7 Demand barely changes when the price rises. Is it elastic or inelastic? [1]

8.8 Which elasticity is about a change in *price*? [1]

8.9 What does *YED* react to? [1]

8.10 A firm sells a product with very inelastic demand. Would a small price rise lose many customers? [1]

8.11 Challenge. In a recession, incomes fall. A firm sells a luxury product with a high positive income elasticity (*YED*). Predict what happens to its sales, and explain. [2]
