

Topic: Theory of Consumer Choice

Sub-topic: Elasticity.

in general,  $e = \frac{\% \text{ change in effect}}{\% \text{ change in cause}}$

Price elasticity of demand:

$$\text{absolute value} \rightarrow \left| \frac{\% \Delta \text{ Quantity demanded}}{\% \Delta \text{ price}} \right|$$

Example:  $\frac{q \text{ down } 20\%}{P \text{ up } 10\%}$

elastic  
 $e > 1$

$$e = \left| \frac{20}{10} \right| = 2$$

$\frac{q \text{ up } 10\%}{P \text{ down } 10\%}$

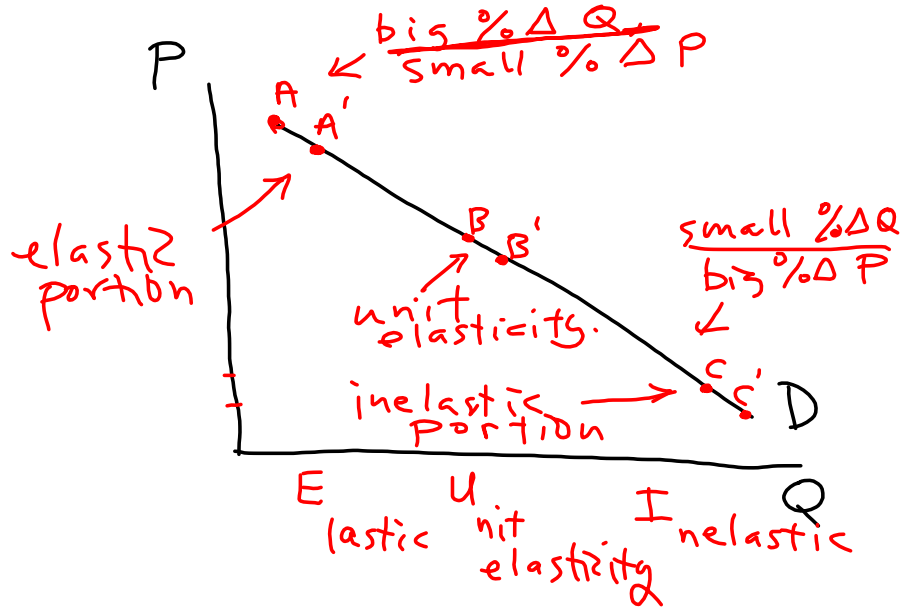
unit  
elasticity

$$e = \left| \frac{10}{10} \right| = 1$$

$\frac{q \text{ down } 10\%}{P \text{ up } 20\%}$

inelastic  
 $e < 1$

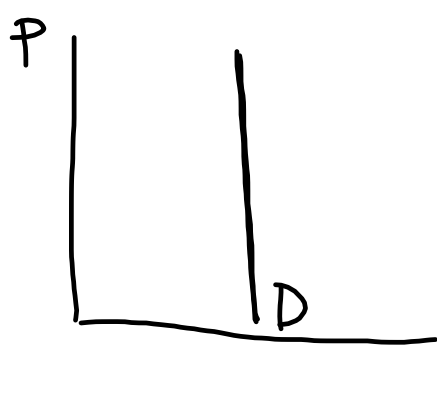
$$e = \left| \frac{10}{20} \right| = 0.5$$



Eat Up Idiots

idealized cases

Perfectly  
Inelastic



Perfectly

Elastic

