

Module 46 Income Effects, Substitution Effects, and Elasticity

Discussion Questions

- 1.) Let's assume that we both have the same hair stylist or barber. What would you do if he/she raised the price of a hair cut by \$10.00?

If you decide to change hair stylists, then you are demonstrating “responsiveness” to a price change which is the definition of elastic demand. If you would not change hair stylists, your response is less sensitive to a price change which is the definition of inelastic demand.

- 2.) Parking space on campus is limited. Is your demand for a guaranteed space on campus sensitive to price or not? Would you pay “anything” for it?

- 3.) Is the demand for college textbooks very responsive to price increases? How many substitutes are available? Have you checked online for textbooks?

Inelastic Demand	Elastic Demand
Eggs=0.1	Housing=1.2
Beef=0.4	Restaurant Meals=2.3
Stationary=0.5	Airline Travel=2.4
Gasoline=0.5	Foreign Travel=4.1

Problems

If the price of a good rises by 1%, and quantity demanded falls by 3%, what is the price elasticity of demand equal to for this good? Is the good inelastic, elastic, or unit-elastic?

One study found that the price elasticity of demand for soda is -0.78, while the price elasticity of demand for Coca-Cola is -1.22. Coca-Cola is a type of soda, so why isn't its price elasticity the same as the price elasticity for soda as a product?