

## Module 47 Interpreting Price Elasticity of Demand

What will happen to a firm's total revenue if price increases? It will depend on whether the good is elastic or inelastic.

### In-class assignment: Ranking Goods by Their Price Elasticity

Put the following six goods in order of most elastic to least elastic.

Salt, Audi A4 car, a doctor's visit, T-Bone steaks, a luxury room at the Four Seasons hotel, Electricity

### Problems

The elasticity of demand for airline travel differs when we look at business travelers versus vacation travelers.

Vacation travelers	Business travelers
P1=\$200	P1=\$200
P2=\$220	P2=\$220
Q1=10,000 tickets	Q1=10,000 tickets
Q2=8,000 tickets	Q2=9,500 tickets

- 1.) Calculate the price elasticity of demand for vacation travelers and for business travelers, using the midpoint formula.
- 2.) If the demand for orange juice is inelastic, will a decrease in the price of orange juice increase or decrease the revenue received by orange juice sellers?
- 3.) The price of organic apples falls, and apple growers find that their revenue increases. Is the demand for organic apples elastic or inelastic?