ELASTICITY OF DEMAND

[Frequently Asked Questions]

Subject	:	Business Economics
Paper No. **& Title**	:	101 **Microeconomics - I**
Unit No. **& Title**	:	5 **Markets**
Lecture No **& Title**	: :	3 **Elasticity of Demand**

Frequently Asked Questions

Q-1. Define demand and state the law of demand.

A-1. Demand: it is the amount of goods or services the consumers are willing and able to buy given the income and at a price

Law of demand: keeping other factors constant, with the rise in price the quantity demanded for a product falls and vice-versa.

Q-2. Which two effects explain the law of demand?

A-2. The inverse relation between demand and price of a product are; the income effect and the substitution effect.

Q-3. Define elasticity of demand;

A-3. Elasticity of demand is the measure of responsiveness of quantity demanded to the change in its determinants.

Q-4. Name the types of demand elasticity.

A-4. Types of demand elasticity are;

Price elasticity of demand
Income elasticity of demand
Cross elasticity of demand

Q-5. Enlist the types of price elasticity.

A-5. Price elasticity are as follows;

Elastic demand ($e>1$)
Inelastic demand ($e<1$)
Unitary elastic demand ($e=1$)
Perfectly elastic demand ($e=\infty$)
Perfectly inelastic demand ($e=0$)

Q-6. Which methods are commonly used for measuring price elasticity of demand?

A-6. The three methods used for measuring price elasticity are as;

Percentage or ratio method
Total outlay method
Point or geometric method

Q-7. What do you mean by total outlay?

A-7. Total outlay is the product of price per unit and total quantity sold or bought.

Q-8. Define Marginal Revenue.

A-8. Marginal revenue is the increase in the total revenue by selling one additional unit of a product.