

## CONCEPT: DETERMINANTS OF PRICE ELASTICITY OF DEMAND

- Different products have different elasticities. What causes these differences?

☐ **Close Substitutes** – a product with close substitutes has \_\_\_\_\_ elastic demand

Less Elastic

More Elastic

No Close Substitutes:	Close substitutes:
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☐ **Necessity vs. Luxury** – Luxury items tend to have \_\_\_\_\_ elastic demand

Necessity:	Luxury:
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☐ **Definition of the Market** – Narrowly defined markets have \_\_\_\_\_ elastic demand

Wide Market Definition:	Narrow Market Definition:
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☐ **Time Horizon** – In the long run, goods tend to have \_\_\_\_\_ elastic demand

Short Run:	Long Run:
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☐ **Share of Consumer's Budget** – Goods using up a large share of a budget have \_\_\_\_\_ elastic demand

Small share of budget:	Large share of budget:
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