

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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