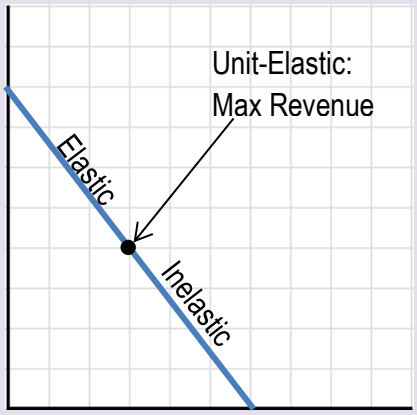
CONCEPT: ELASTICITY SUMMARY

Price Elasticity of Demand	$\frac{\%\Delta Q_d}{\%\Delta P}$	Perfectly Elastic: E = ∞ Elastic: E > 1 Unit-Elastic: E = 1 Inelastic: E < 1 Perfectly Inelastic: E = 0	Absolute Value	Steps for calculating Elasticity (mid-point): 1. Subtract the two *quantities* and subtract the two *prices*. 2. Sum the two *quantities* and sum the two *prices*. 3. Divide your *Quantity Sum* by two. Divide your *Price Sum* by two. 4. Divide your answers from Steps 1 and 3. (Step 1 ÷ Step 3 for both *quantity* and *price*) 5. Divide your answers from Step 4 (*Quantity* ÷ *Price*)
Price Elasticity of Supply	$\frac{\%\Delta Q_s}{\%\Delta P}$			
Income Elasticity of Demand	$\frac{\%\Delta Q_d}{\%\Delta Income}$	Normal Good, Luxury (income elastic): E > 1 Normal Good, Necessity (income inelastic): 0 < E < 1 Inferior Good: E < 0	Keep +/-	Add Step 6: 6. Decide whether *quantity* and *price* increased/decreased (+/-)
Cross-Price Elasticity of Demand	$\frac{\%\Delta Q_d \ of \ Good \ X}{\%\Delta P \ of \ Good \ Y}$	Substitutes: Positive Complements: Negative Zero: Unrelated		

Elasticity along a Straight Demand Curve



Total Revenue (TR) = Price x Quantity

P↑ and TR↑ → inelastic demand
P↑ and TR↓ → elastic demand
P↑ and TR stays the same → unit-elastic demand

PRACTICE: A linear, downward-sloping demand curve is

a) Inelastic
b) Unit Elastic
c) Elastic
d) Inelastic at some points, and elastic at others

PRACTICE: An increase in the supply of a good will increase the total revenue producers receive if:

a) The demand curve is inelastic
b) The demand curve is elastic
c) The supply curve is inelastic
d) The supply curve is elastic

PRACTICE: A life-saving machine without any close substitutes will tend to have:

a) A small price elasticity of demand
b) A large price elasticity of demand
c) A small price elasticity of supply
d) A large price elasticity of supply