

PRINCIPLES OF ECONOMICS

Lecture 16 INCOME ELASTICITY OF DEMAND
September, 2015



TOPICS TO BE DISCUSSED

1. Elasticity of Supply:

- Meaning and measurement
- Degrees of elasticity of supply:
 - Elastic
 - Inelastic
 - Unitary elastic

ELASTICITY OF SUPPLY

- Elasticity of Supply is a measure of the degree of responsiveness of supply to changes in its determinants.
- Greater the elasticity, the greater will be the responsiveness.

Example: If the firm decides to increase price of Laptop by 5%, What will happen to the supply of Laptop?

- Will Increase or Decrease?
- By how much %?

MEASUREMENT OF ELASTICITY OF SUPPLY

$E_s =$

%Change in Quantity Supplied of X

%Change in Price of X

Change in Quantity (ΔQ_x)

Quantity (Q_x)

$E_s =$

Change in Price (ΔP_x)

Price (P_x)

MEASUREMENT OF ELASTICITY OF SUPPLY

$$E_s = \frac{P_x}{Q_{S_x}} \times \frac{\Delta Q_{S_x}}{\Delta P_x}$$

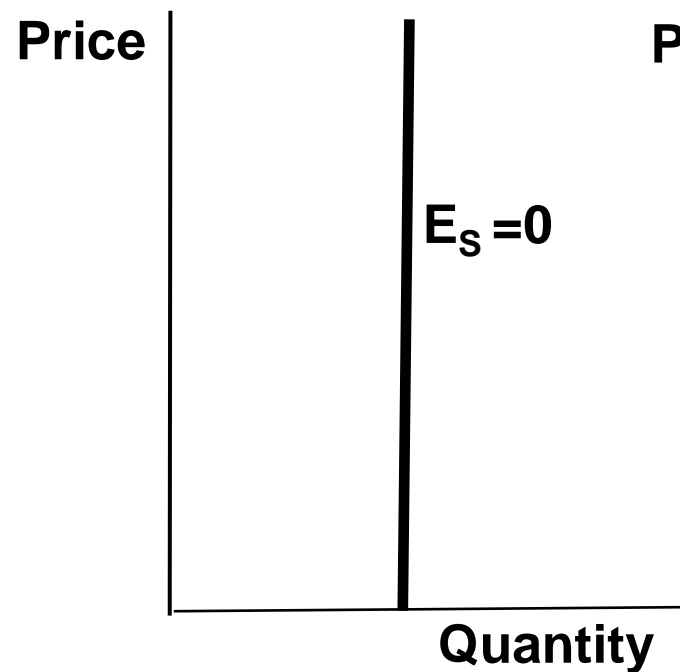
DEGREES OF ELASTICITY OF SUPPLY

- **Perfectly Elastic Supply**
- **Unit/Unitary Elastic Supply**
- **Perfectly Inelastic Supply**

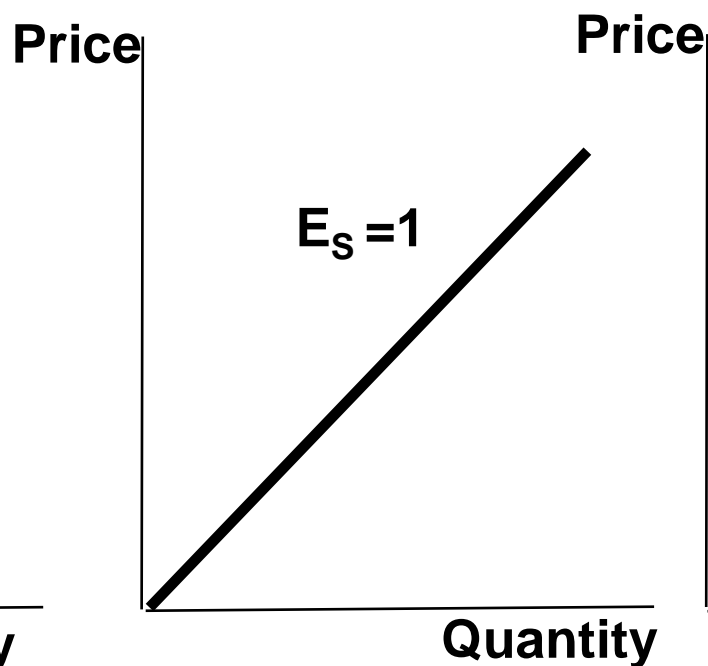
DEGREES OF ELASTICITY OF SUPPLY

- **Perfectly Elastic Supply-** small change in price, infinite change in quantity supplied
- **Unit/Unitary Elastic Supply-** change in price leading to equally proportionate change in quantity supplied
- **Perfectly Inelastic Supply-** change in price, no change in quantity supplied

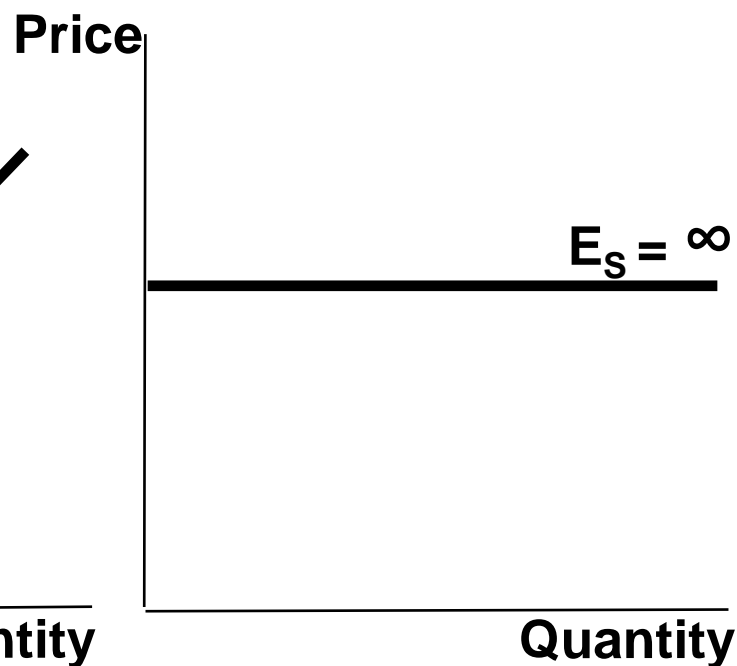
DEGREES OF ELASTICITY OF SUPPLY



Inelastic Supply



Unit Elastic Supply



Elastic Supply

Thank You 😊