



Price Elasticity of Demand

Elasticity

- ❖ What do you mean by elasticity?
- ❖ Name me something that has elasticity?



Game Rules

- ❖ **Groups of 4.**
- ❖ **Each group will have a basketball, volleyball and a ruler to measure.**
- ❖ **Think of a way to measure their elasticity.**
- ❖ **Complete Worksheet 1.**



•I have brought several balls here. Do you think their elasticity is the same? How can we test their elasticity?.

•Distributes Worksheet 1 to each group and asks them to complete it themselves. Guide students when necessary.

•Students should be able to come up with a formula to measure the elasticity of the balls. *(The formula should be a ratio with the starting height as a denominator and the re-bouncing height as a numerator. The rationale behind this formula is similar to the one behind the price elasticity of demand.)* Teacher can introduce the definition, meaning and the calculation of price elasticity of demand (PED) after the students have got some ideas of measuring elasticity.

Game Rules

❖ Complete worksheet 2.

❖ Calculate the PED and make suggestion whether the firm should increase/decrease price to raise sales revenue (each group should just calculate the point corresponding to their group number to save time).



•Distribute one Worksheet 2 to each group of students to calculate the PED and make suggestion if the firm should increase/decrease price to raise sales revenue (each group should just calculate the point corresponding to their group number to save time).

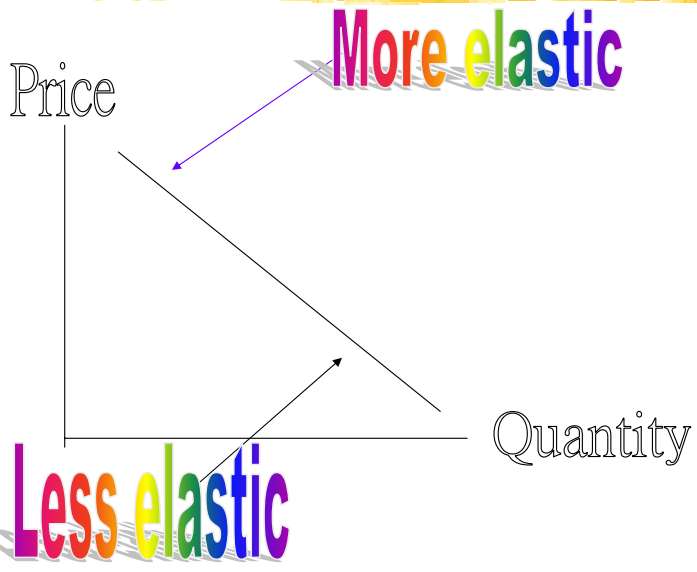
•Projects worksheet 2 and ask a representative from each group to complete it with their findings & plot them on a graph.

•Encourage students to find out, from observing the graph:

a) Different elasticity along a straight demand curve

b) Elasticity is higher at higher prices

c) Price should be lowered with elastic demand in order to maximize the revenue and vice versa.



Definition

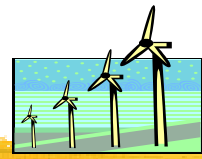
❖ Price Elasticity of Demand

- ❖ the measurement of the **responsiveness** of the **quantity demanded of a good** to a **change in its price**, other thing remains constant.



As an introduction of the concept of elasticity.

Definitions



❖ Elastic demand

❖ the **percentage change in the quantity demanded exceeds** the **percentage change in price**.

❖ Inelastic demand

❖ the **percentage change in the quantity demanded is less** than the **percentage change in price**.

❖ Unitary elastic demand

❖ the **percentage change in quantity demanded is the same** as the **percentage change in price**.