

Electric Elasticity

Introduction Calculations:

Suppose Moonbucks, a national coffee-house franchise, finally moves into the little town of Middleofnowhere. Moonbucks is the only supplier of coffee in town and faces the following demand schedule each week. Write the correct answer in the blanks or underline the correct answer in the parentheses.

| Price (per cup) | Quantity Demanded (in cups) |
|-----------------|-----------------------------|
| \$6 | 80 |
| 5 | 100 |
| 4 | 120 |
| 3 | 140 |
| 2 | 160 |
| 1 | 180 |
| 0 | 200 |

What is the arc/midpoint price elasticity of demand when the price changes from \$1 to \$2? _____

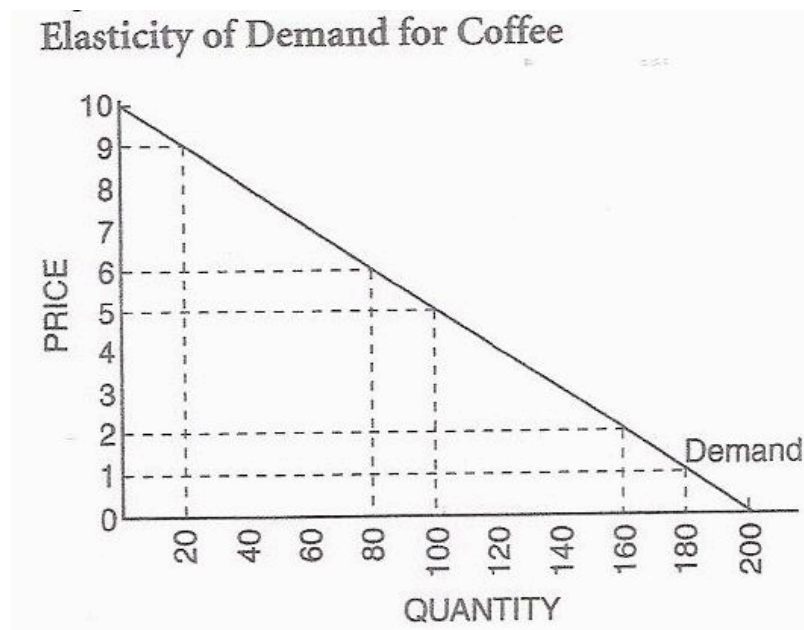
So over this range of prices, demand is (elastic / unit elastic / inelastic).

What is the arc/midpoint price elasticity of demand when the price changes from \$5 to \$6? _____

So over this range of prices, demand is (elastic / unit elastic / inelastic).

Note: Because the relationship between quantity demanded and price is inverse, the price elasticity of demand will always be negative. However, since we know the demand curve is negatively sloped, we used the absolute value of the elasticity or just make it positive.

Now, consider the graph below of the table on the previous page.



Using the arc/midpoint method, calculate the price elasticity of demand for the prices \$9 to \$6.

Using the arc/midpoint method, calculate the price elasticity of demand for the prices \$5 to \$1.

Using the arc/midpoint method, calculate the price elasticity of demand for the prices \$6 to \$2.

Individual Presentation

If a firm wants to estimate the value of the price elasticity of their product, then they need to judge it against the following criteria:

- Proportion of income spent on the good: the lower the proportion of income spent, the more inelastic the good tends to be.
- The number of substitutes: the more substitutes a good has the easier it is for consumers to switch to another product if the price goes up.
- Other factors included in the text and class notes.

In the following table, tell if each product is elastic or inelastic and give a reason or reasons why that is the case.

| Product | Elastic or Inelastic | Reasons |
|---------------------------|-----------------------------|----------------|
| A box of matches | | |
| A luxury holiday | | |
| Baked Beans | | |
| Computers - home users | | |
| Computer - business users | | |
| Cigarettes | | |
| Rubberbands | | |