



Elasticity and Its Applications

5

Figure 1 The Price Elasticity of Demand (1)

(a) Perfectly inelastic demand: Elasticity equals 0

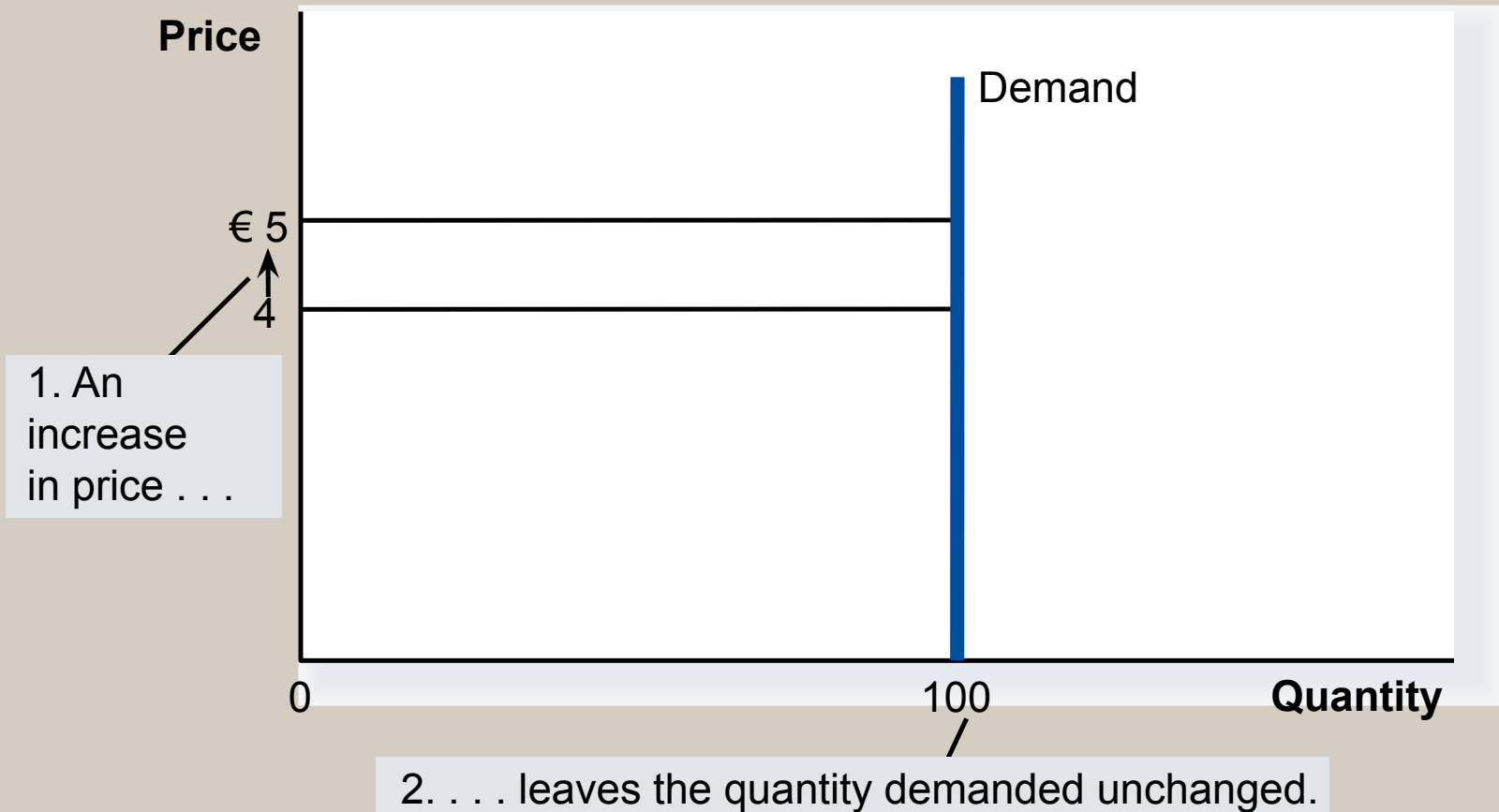


Figure 1 The Price Elasticity of Demand (2)

(b) Inelastic demand: Elasticity is less than 1

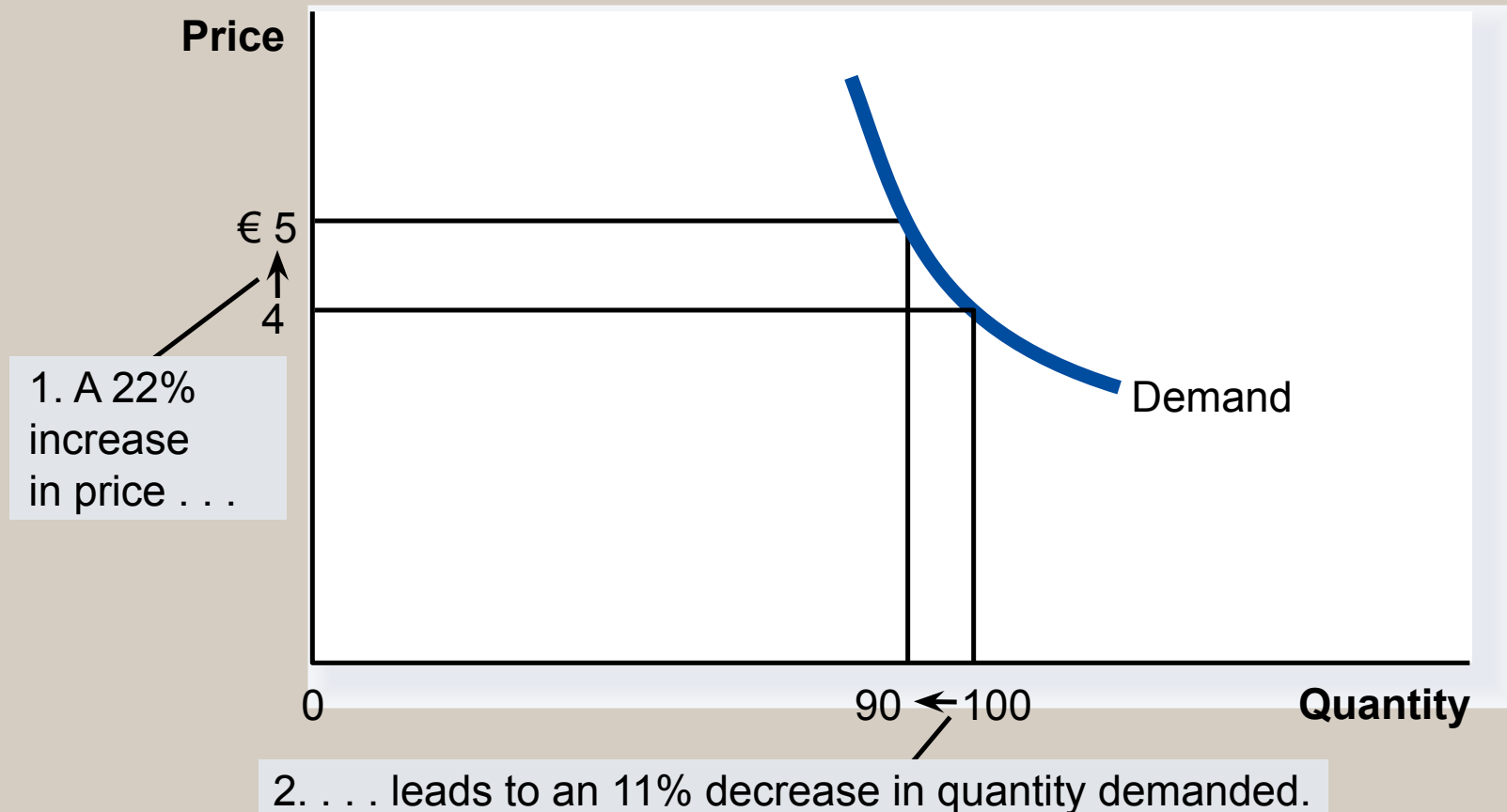


Figure 1 The Price Elasticity of Demand (3)

(c) Unit elastic demand: Elasticity equals 1

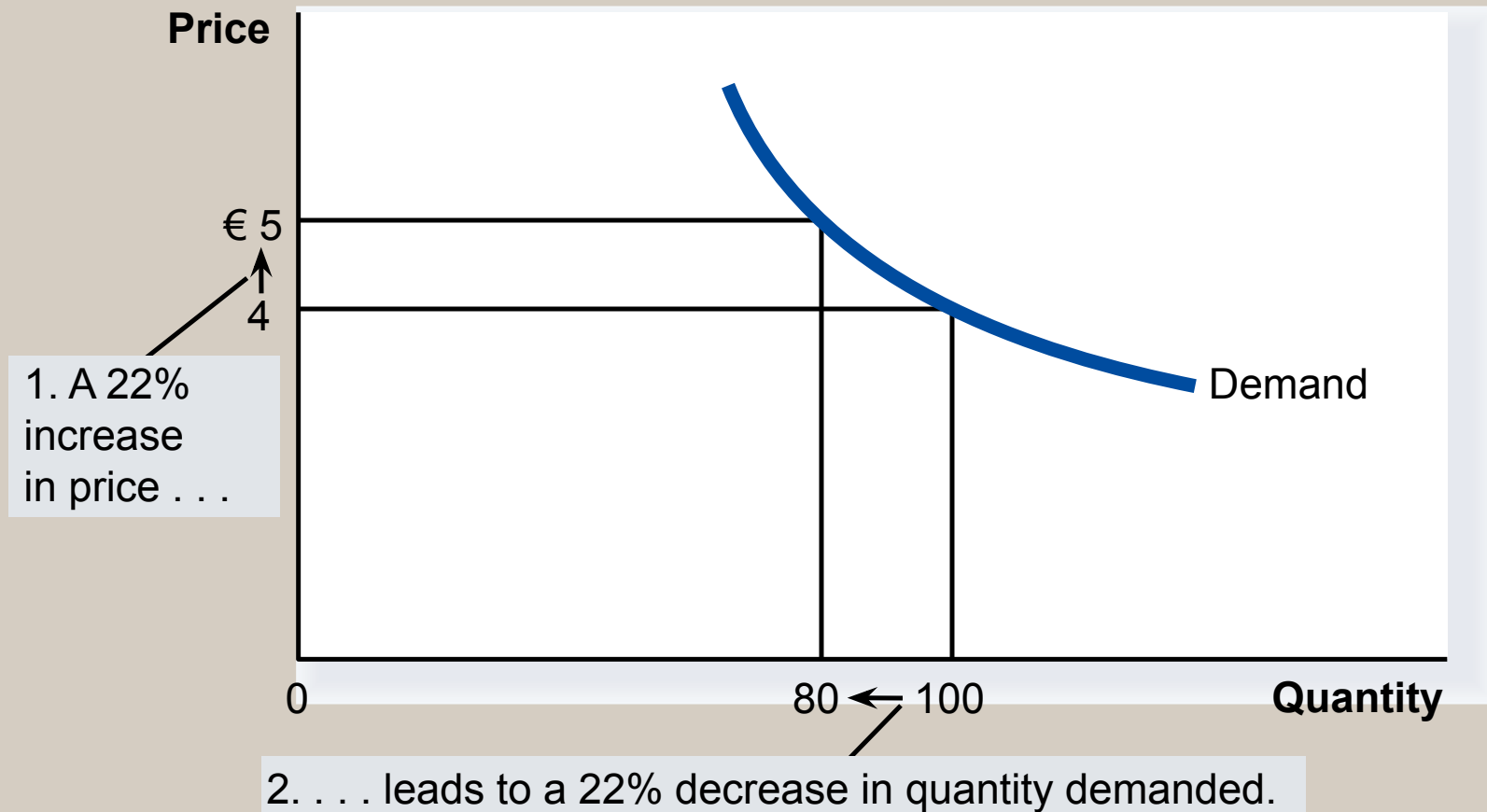


Figure 1 The Price Elasticity of Demand (3)

(d) Elastic demand: Elasticity is greater than 1

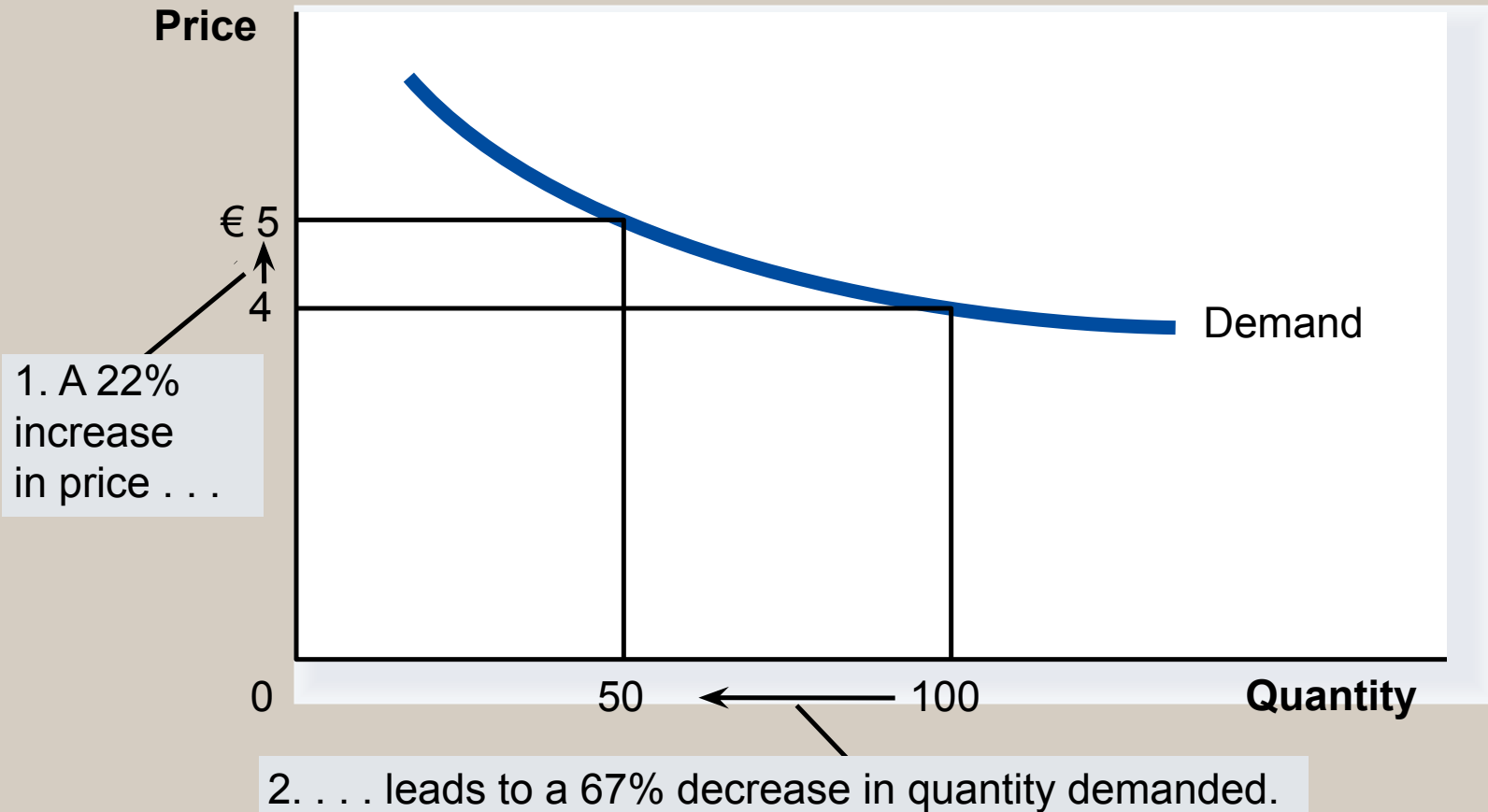
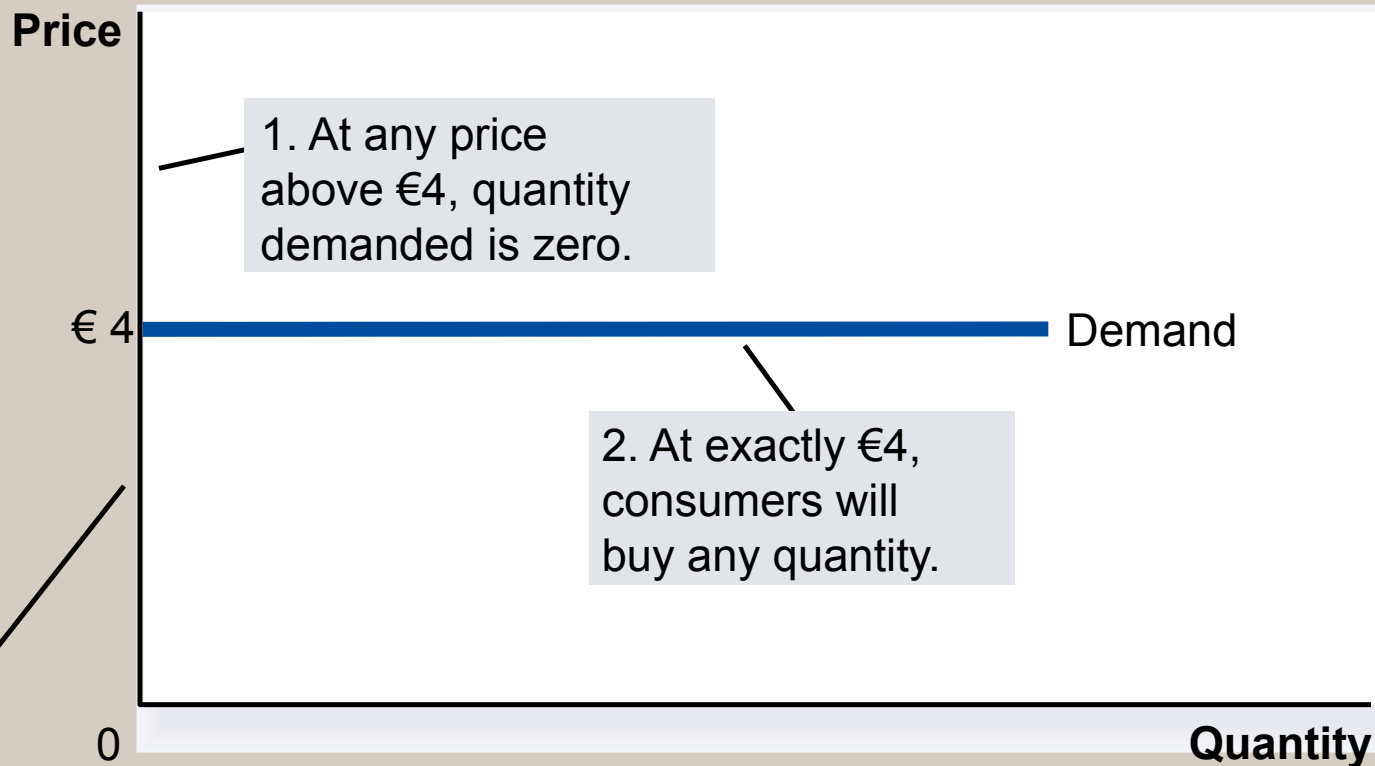


Figure 1 The Price Elasticity of Demand (4)

(e) Perfectly elastic demand: Elasticity equals infinity



3. At a price below €4, quantity demanded is infinite.

Figure 2 Total Expenditure

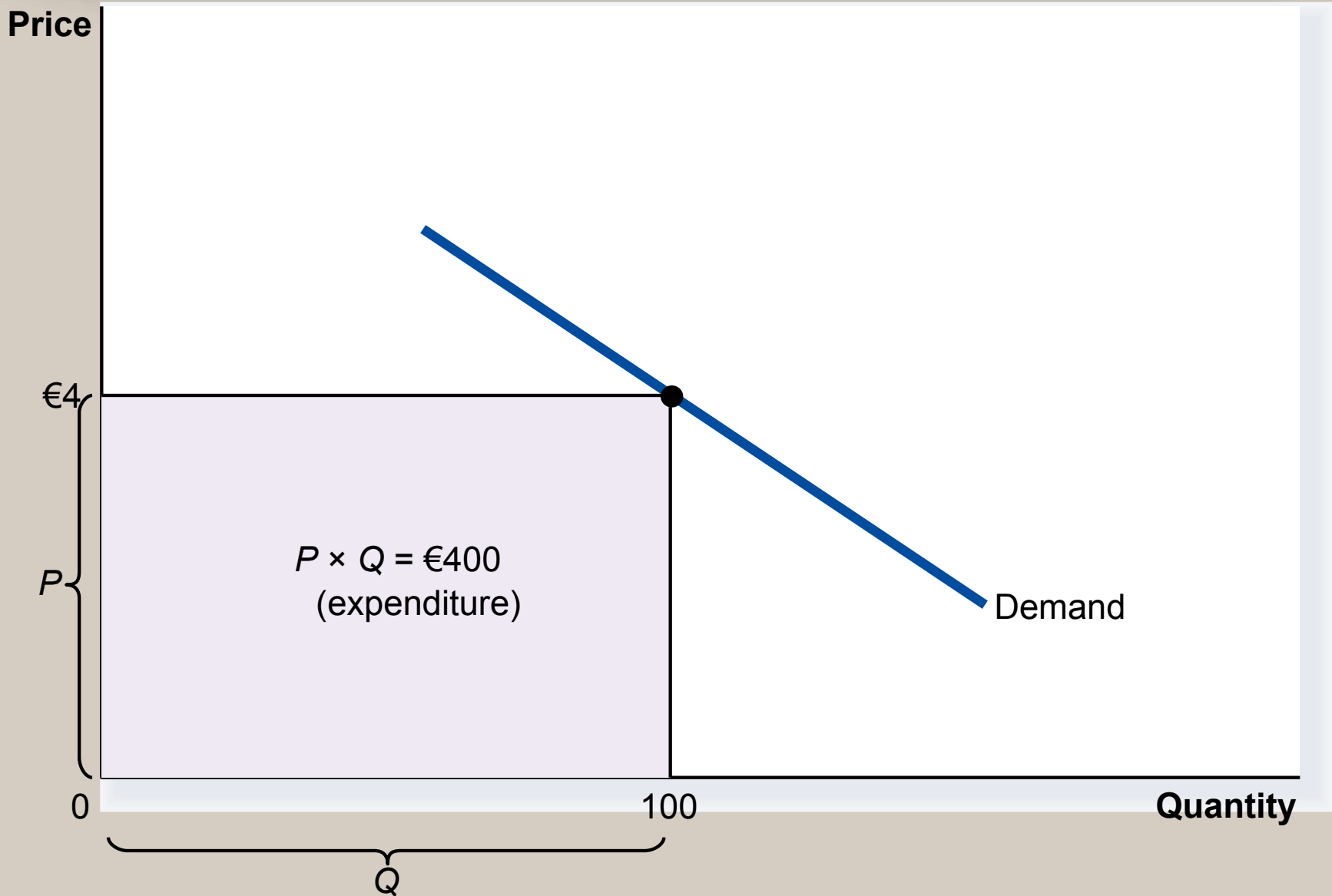


Figure 3 How Total Expenditure Changes When Price Changes: Inelastic Demand

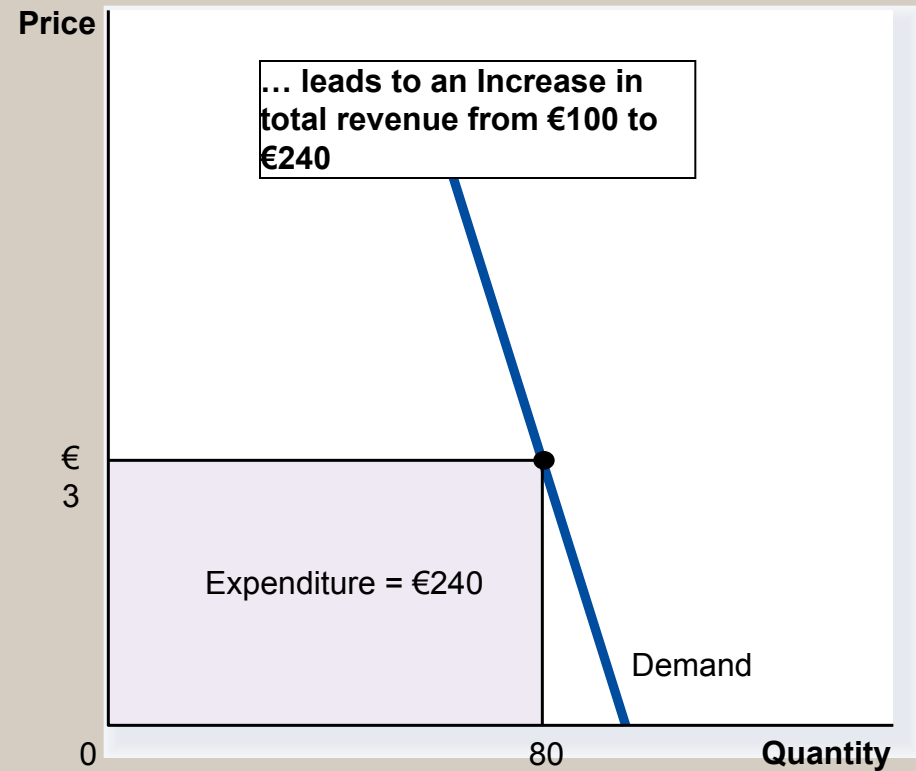
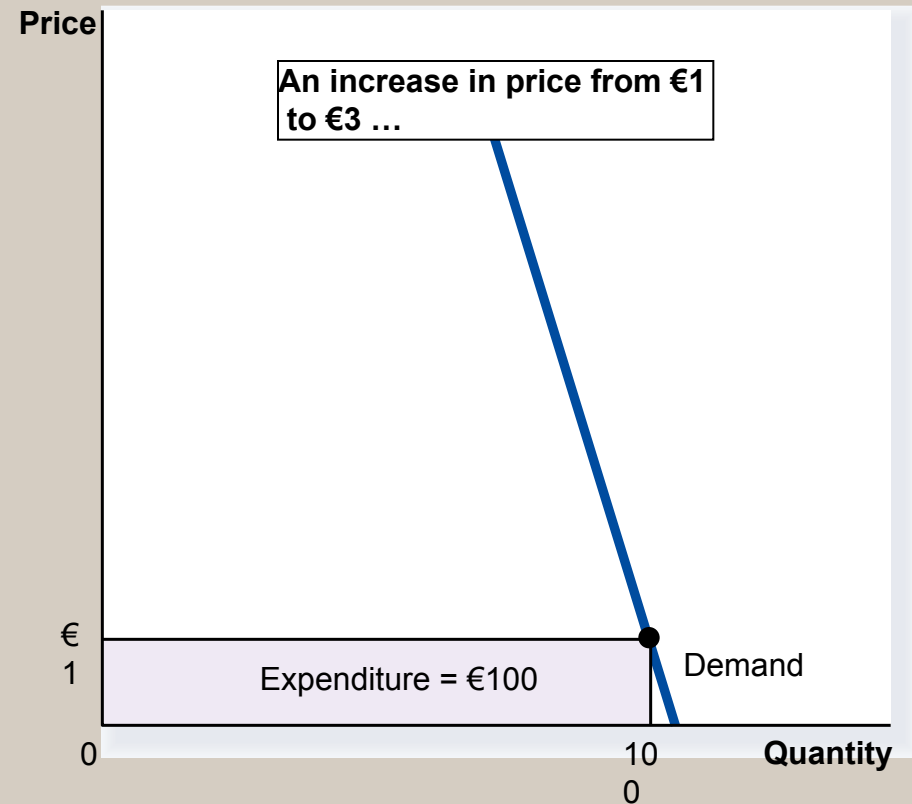


Figure 4 How Total Expenditure Changes When Price Changes: Elastic Demand

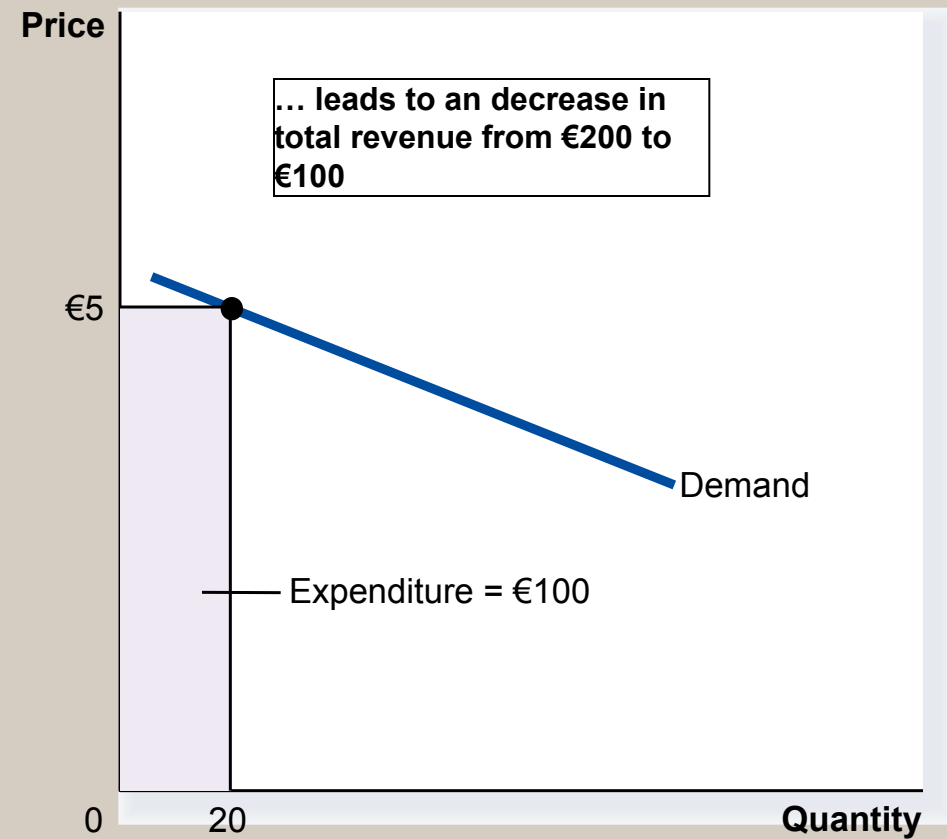
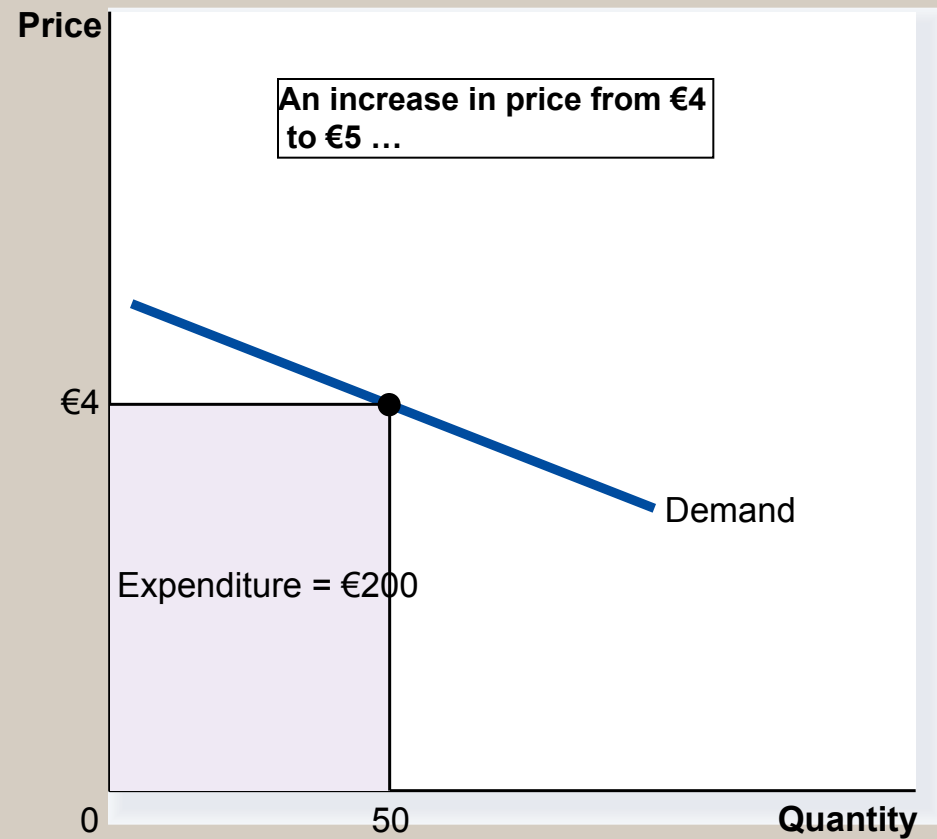


Figure 5 Elasticity of a Linear Demand Curve

Price (€)	Quantity	Total revenue (Price × Quantity)	Percent change in price	Percent change in quantity	Elasticity
€7	0	€0			
6	2	12	15	200	13.33
5	4	20	18	67	3.70
4	6	24	22	40	1.82
3	8	24	29	29	1.00
2	10	20	40	22	0.55
1	12	12	67	18	0.26
0	14	0	200	15	0.08

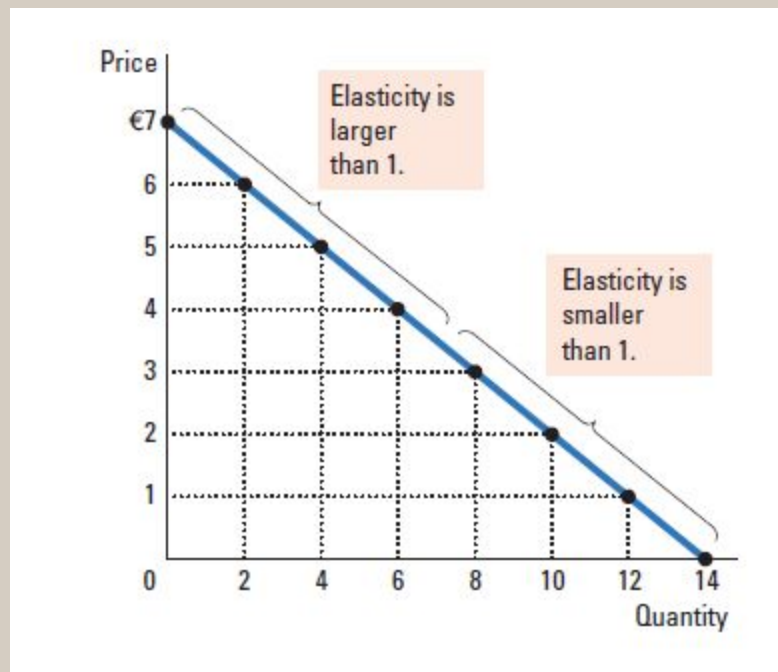


Figure 6 The Price Elasticity of Supply (1)

(a) Perfectly inelastic supply: Elasticity equals 0

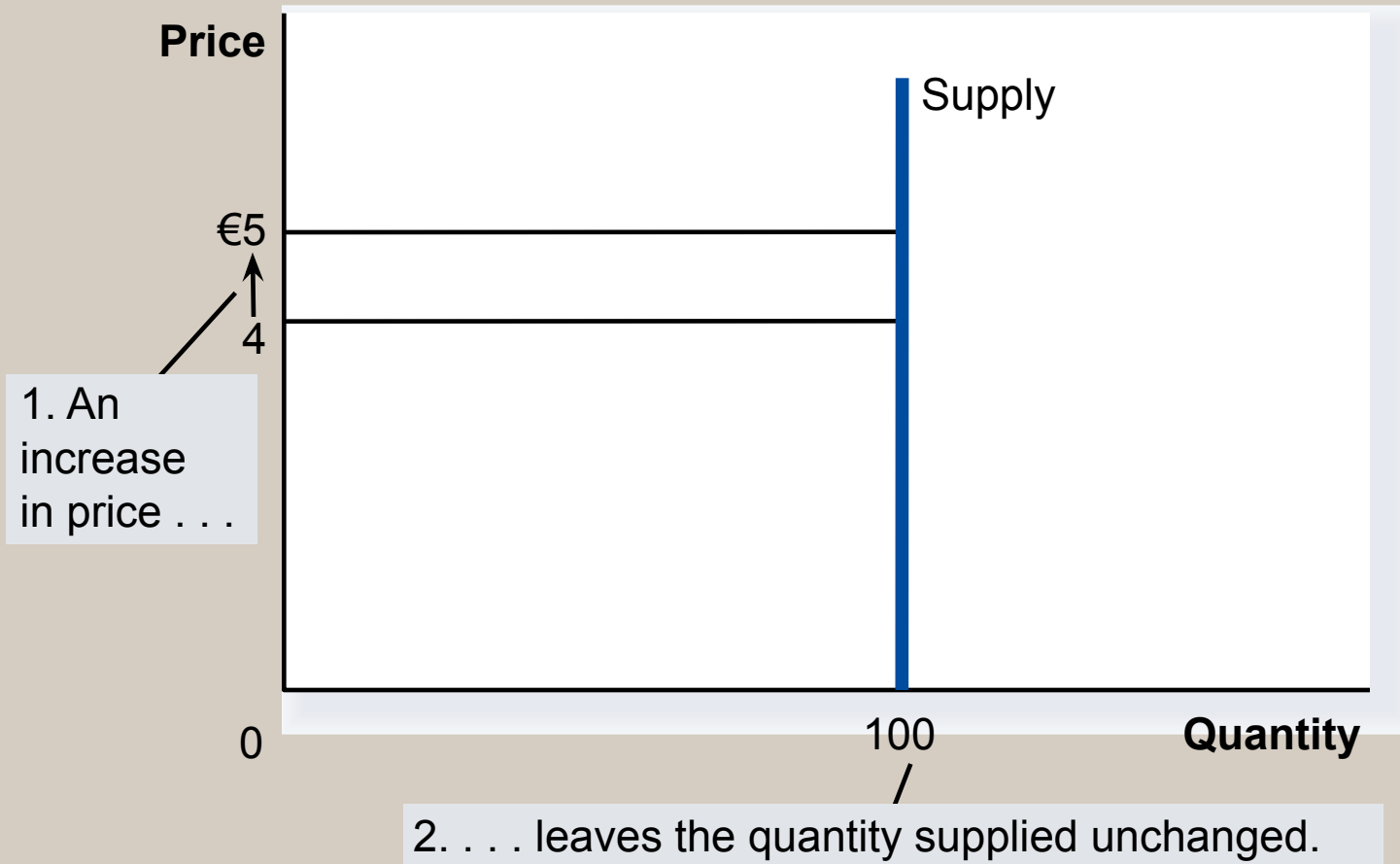


Figure 6 The Price Elasticity of Supply (2)

(b) Inelastic supply: Elasticity is less than 1

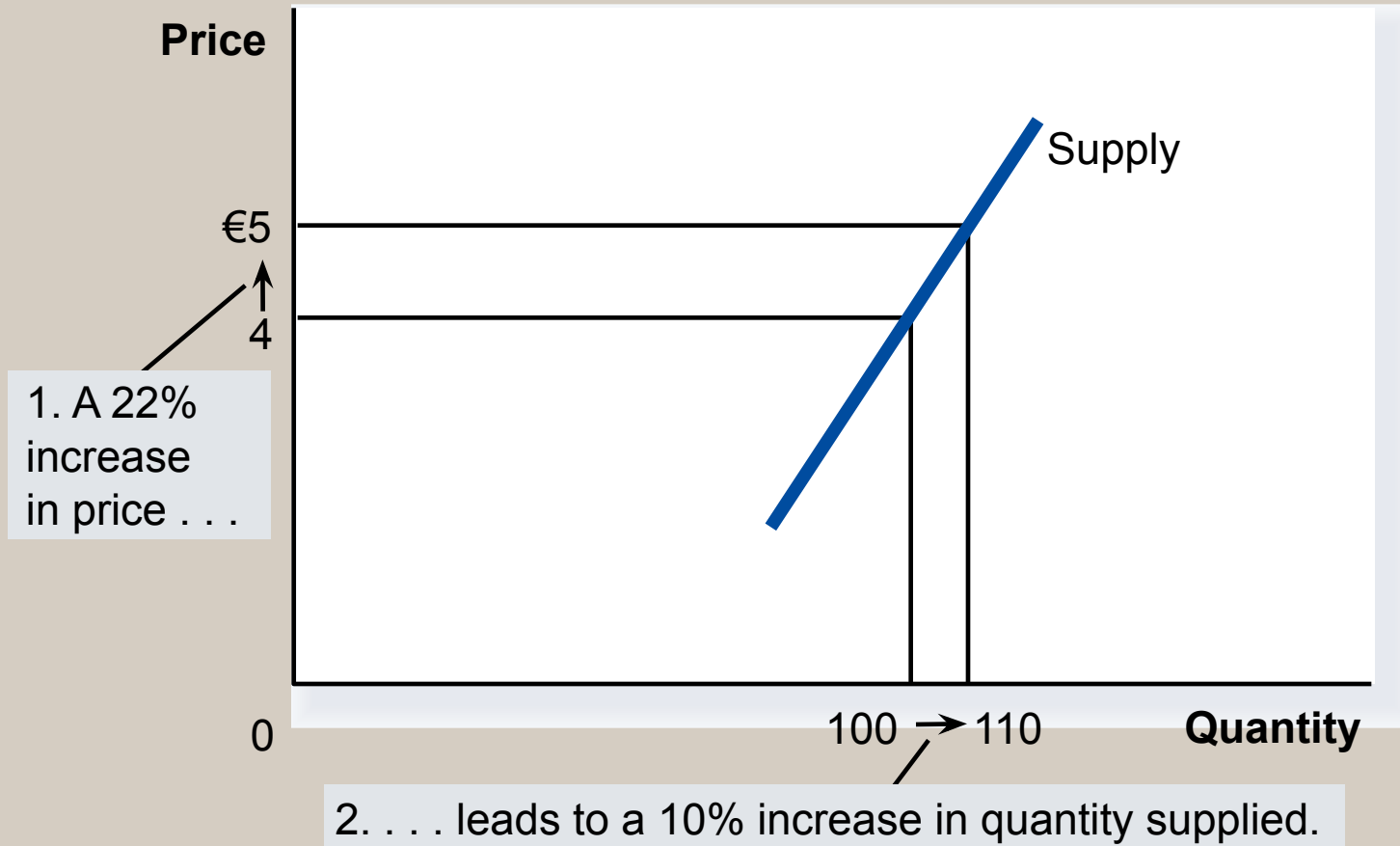


Figure 6 The Price Elasticity of Supply (3)

(c) Unit elastic supply: Elasticity equals 1

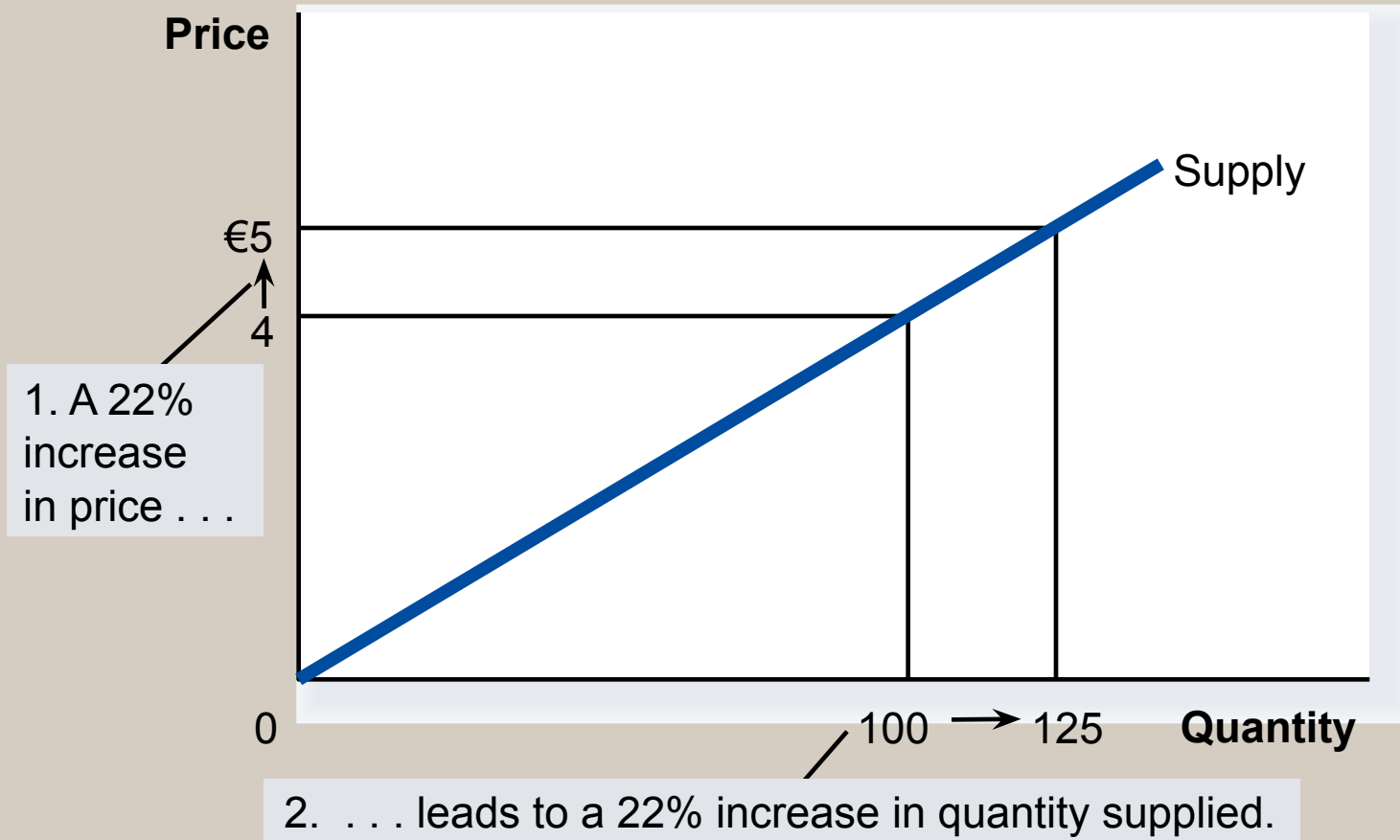


Figure 6 The Price Elasticity of Supply (4)

(d) Elastic supply: Elasticity is greater than 1

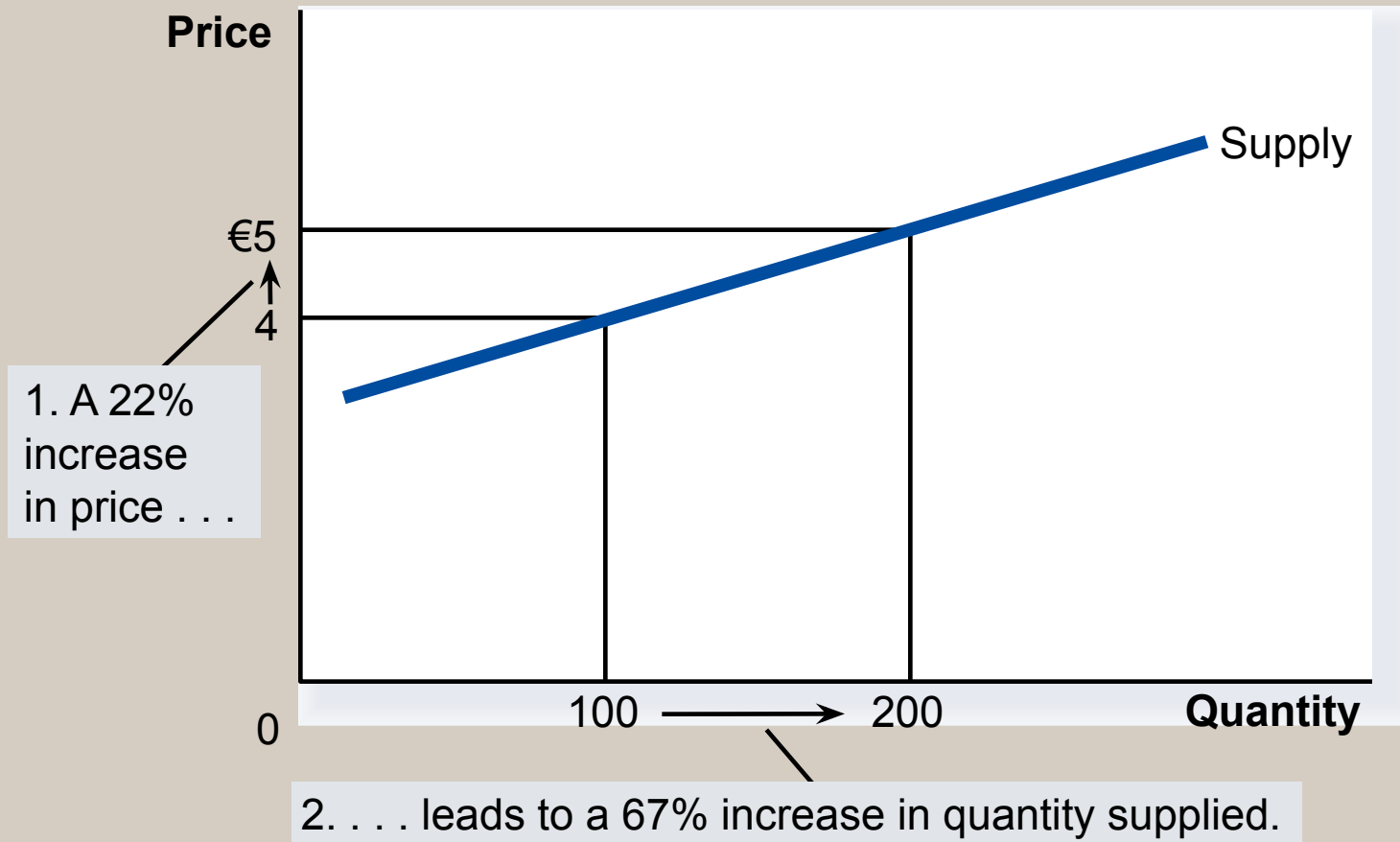


Figure 6 The Price Elasticity of Supply (5)

(e) Perfectly elastic supply: Elasticity equals infinity

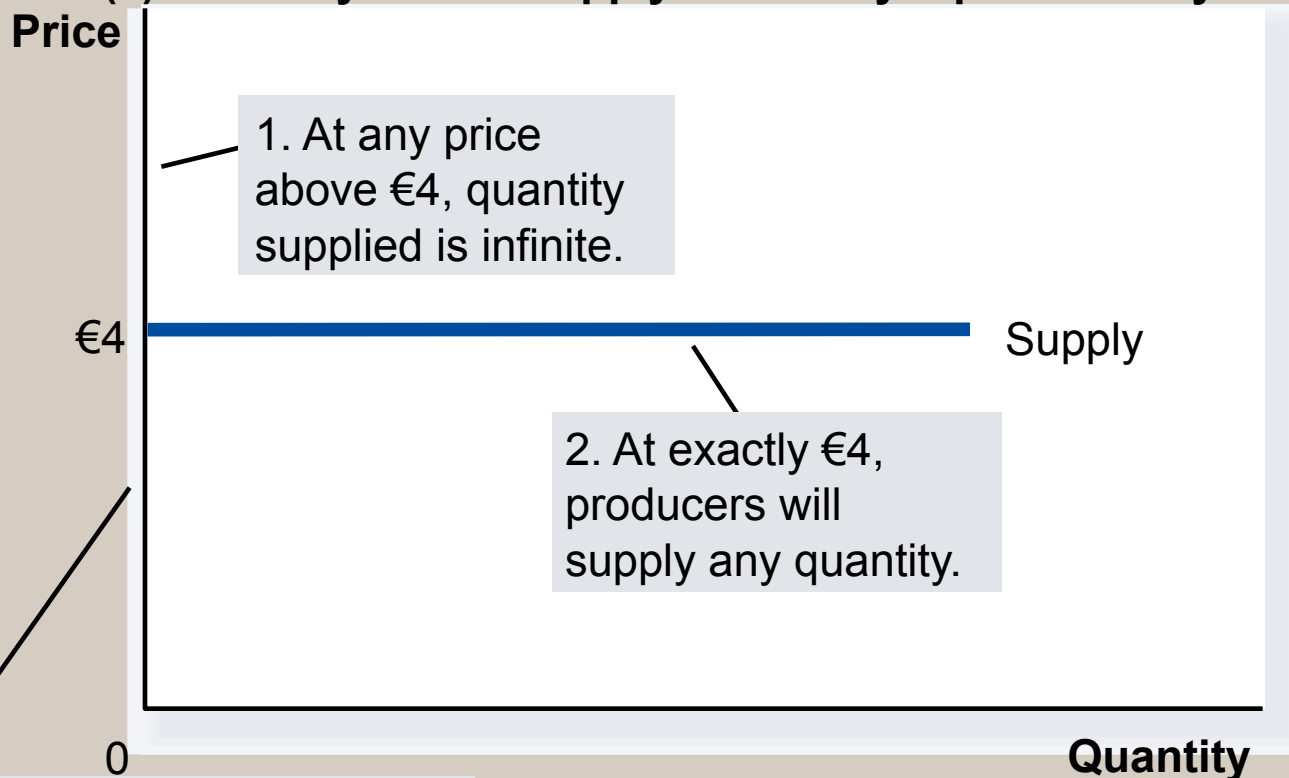


Figure 7 How the Price Elasticity of Supply Can Vary

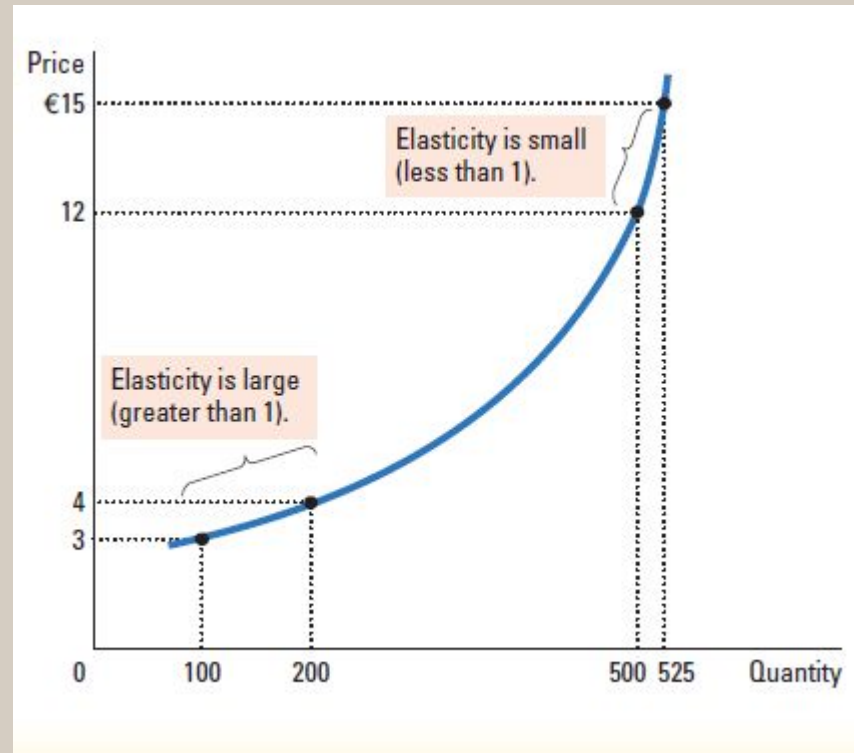


Figure 8 An Increase in Supply in the Market for Chips

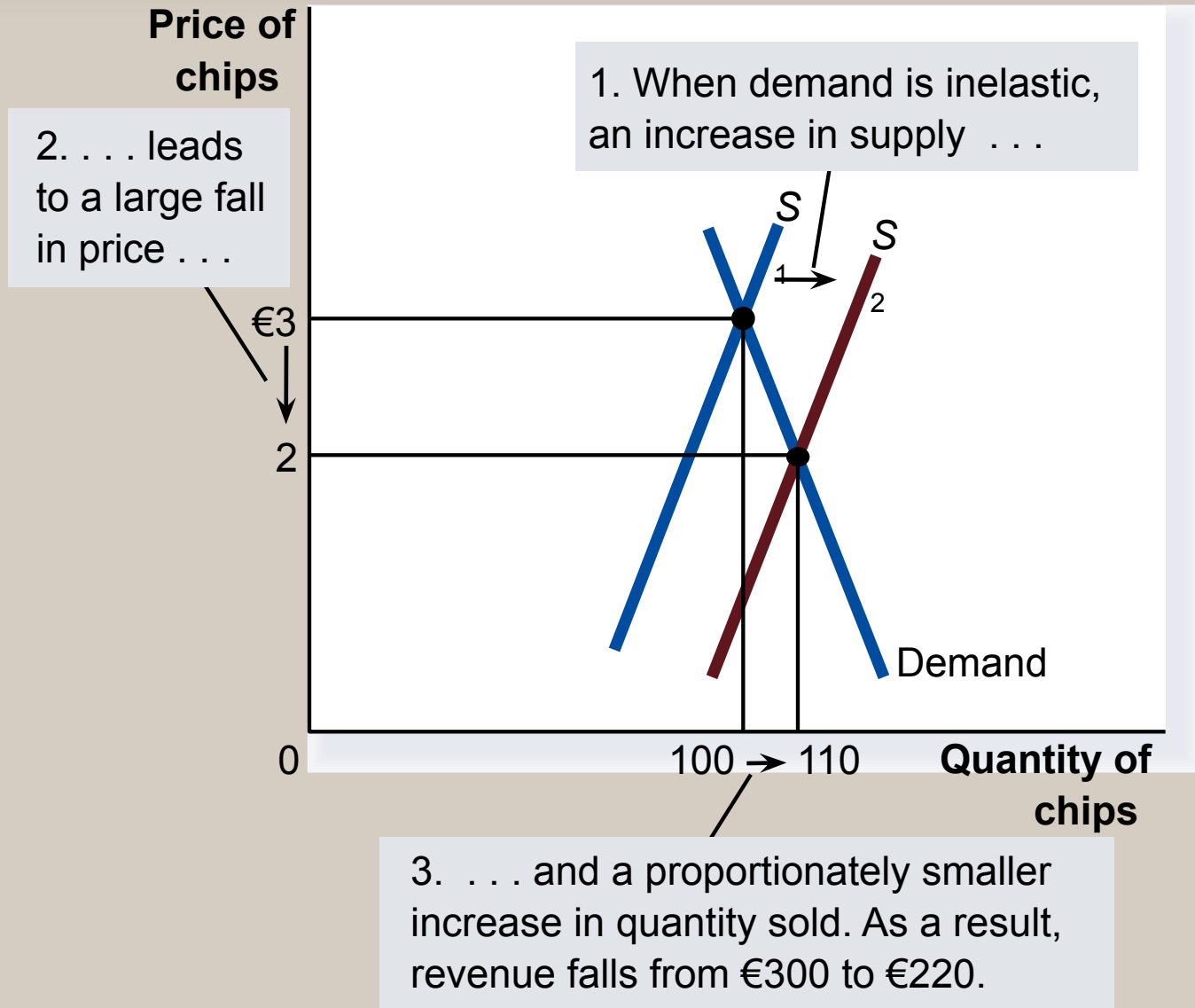


Table 1 Prices of 7-night Ski Holidays in Austria, from London

Departure date	Price per person (£)
5 December 2010	470
26 December 2010	1 000
16 January 2011	650
5 February 2011	670
13 February 2011	720
20 February 2011	1 180
27 February 2011	700

Figure 9 The Supply of Ski Holidays in Europe

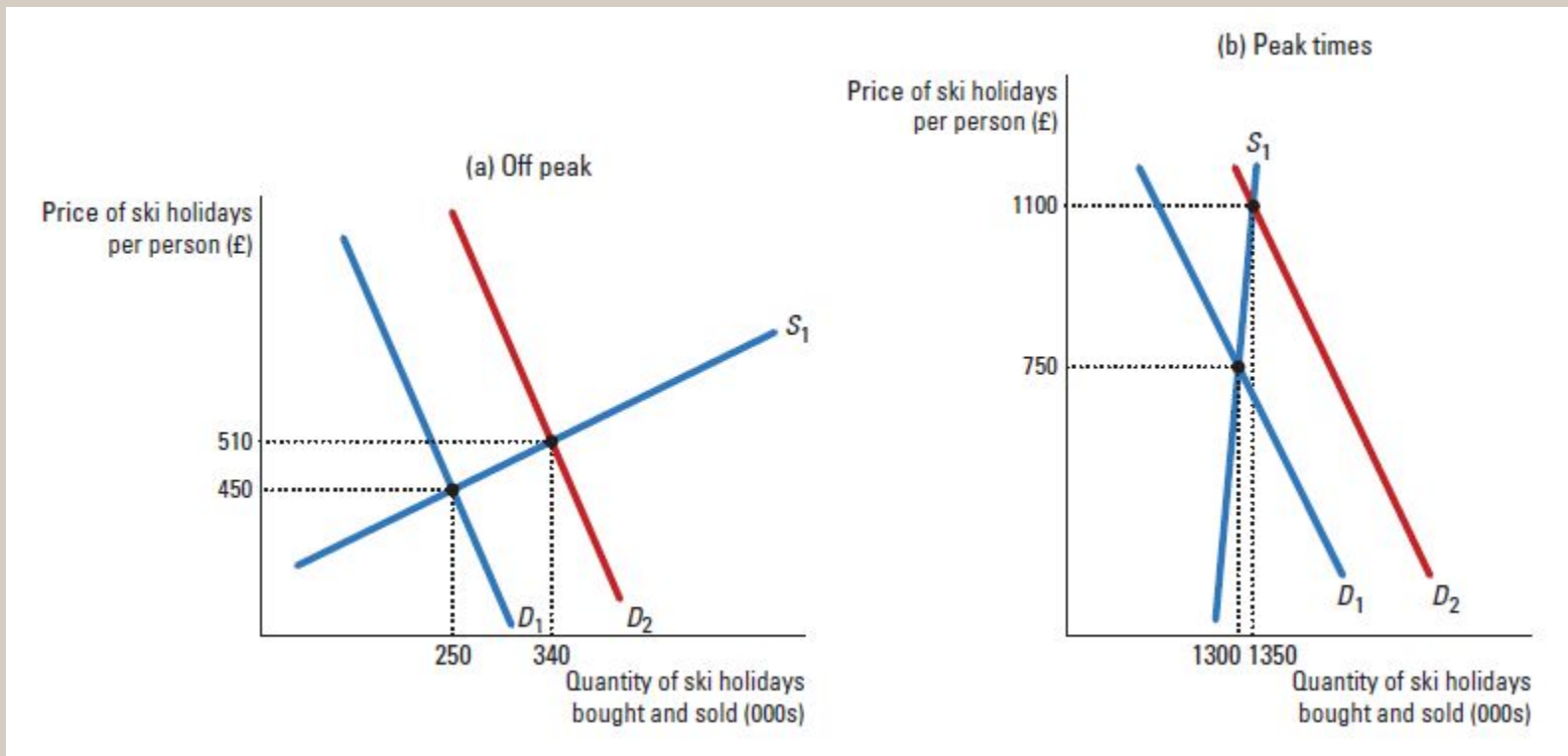


Figure 10 Policies to Reduce the Use of Illegal Drugs

