Demand

The “demand” for a good is simply how much of that good consumers would buy at various prices. Demand is often illustrated using a graph known as a “demand curve.” (It’s referred to as a curve even when the graph is a straight line.)

Elasticity of Demand

Demand curves naturally tend to be downward sloping, indicating that the higher the price of the good in question, the less of it people will buy.

The steepness of a demand curve illustrates how sensitive consumers are to changes in the price of the good. If a demand curve is relatively flat, consumers are highly price sensitive, meaning that when the price goes up (or down) even slightly, they dramatically decrease (or increase) the quantity they purchase. Goods of this nature are said to have very “elastic demand.”[4] If a good has a horizontal demand curve, its demand is said to be “perfectly elastic.”

On the basis of different factors affecting the quantity demanded for a product, elasticity of demand is categorized into mainly three categories:

Price Elasticity of Demand (PED)- Price elasticity of demand is a measurement of the change in consumption of a product in relation to a change in its price. Expressed mathematically, it is: Price Elasticity of Demand = **% Change in Quantity Demanded / % Change in Price**.

There are five types of price elasticity of demand:

- perfectly inelastic
- inelastic
- perfectly elastic
- Elastic
- Unitary.

Cross Elasticity of Demand (XED)- Refers to the percentage change in the quantity demanded of a given product due to the percentage change in the price of another "related" product.

Formula:

$$XED = \frac{\text{Percentage Change in the Quantity Demanded of Good A}}{\text{Percentage Change in the Price of Good B}}$$

$$= \frac{\%\Delta\ \text{QD of Good A}}{\%\Delta\ \text{P of Good B}}$$

Income Elasticity of Demand (YED). - **the responsiveness of demand when a**