# Business Section 3 (LP) ~ 17-19

**Elasticity** measures the extent to which demand for a product changes when there is a change in a variable such as price or consumer incomes.

$$\text{Price Elasticity (PED)} = \frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}}$$

Elasticities are always negative because a price rise pushes demand down and a price cut pushes demand up. For example, a PED of -2 suggests that for every 1% change in price, demand will move by 2% in the opposite direction.

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## Determinants of price elasticity:

**The Degree of Product DIfferentiation:**

The extent to which consumers view a product as being different from its competitors. For example, Look magazine is largely the same as other fashion magazines, so readers may read something else if the price increases. Conversely, readers of the Financial Times have no other option.

The higher the product differentiation, the lower the price elasticity.

**The Availability of Substitutes:**

When there is no direct competition, price elasticity is much lower. Therefore the brand owner can push the price up without losing too many customers.

**Branding and Brand Loyalty:**

Products with low price elasticity are those that consumers buy without looking at the price. Strong brand names with strong brand images create customers who buy out of loyalty.

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