Price Elasticity

How much demand moves when price moves.

Marketing

Elasticity is the percentage change in quantity divided by the percentage change in price.

$$PED = \%\Delta Q \div \%\Delta P$$

PED = −2	Elastic — cutting price raises revenue
PED = −0.5	Inelastic — raising price raises revenue
PED = −1 Unit elastic.	Revenue unchanged

THE COMMON MISTAKE

× Assuming a price cut always raises revenue

✓ It depends on elasticity

With inelastic demand, a cut loses more in margin than it recovers in volume. The revenue falls.

Elasticity is lower where substitutes are few, the purchase is urgent, or the cost is a small share of a larger job.