**Factors that determine the value of price elasticity of demand**

1. **Number of close substitutes within the market** - The more (and closer) substitutes available in the market the more elastic demand will be in response to a change in price. In this case, the substitution effect will be quite strong.

**Give an example of a good/service with few substitutes and a good/service with many substitutes. Will they be inelastic/elastic? – Draw the demand curve for both.**

1. **Luxuries and necessities -** Necessities tend to have a more inelastic demand curve, whereas luxury goods and services tend to be more elastic. For example, the demand for opera tickets is more elastic than the demand for urban rail travel. The demand for vacation air travel is more elastic than the demand for business air travel.

**Explain why you think demand for luxuries is more elastic than the inelastic demand for necessities?
Provide additional examples for both and draw the associated demand curve.**

1. **Percentage of income spent on a good** – It may be the case that the larger the proportion of income spent on a good/service, the more elastic the demand will be. For example, grocery shopping is a significant outlay of income and is therefore likely to be elastic – ie. If the price of groceries increase at a particular supermarket, you are likely to demand a lot less as you go in search of a cheaper alternative at another supermarket. It may also be the case that the smaller the proportion of income spent taken up with purchasing the good or service, the more inelastic demand will be.

**Give an example of another good/service which a large proportion of income is spent on, draw the demand curve for this good. Furthermore, give an example of a good/service in which a small proportion of income is spent on – draw the diagram for this.**

4) **Habit forming goods** - Goods such as cigarettes and drugs tend to be inelastic in demand. Preferences are such that habitual consumers of certain products become de-sensitised to price changes.

**Draw the demand curve for, and provide an additional example, of a good in which habit de-sensitises the consumer to price changes. Furthermore, provide an example of and draw the demand curve for a good/service in which a habit is unlikely to form.**

1. **Time period under consideration -** Demand tends to be more elastic in the long run rather than in the short run. For example, after the two world oil price shocks of the 1970s - the "response" in demand to higher oil prices was not large in the immediate period after the price increases, but as time passed, people found ways to consume less petroleum and other oil products. This included measures to get better mileage from their cars; higher spending on insulation in homes and car pooling for commuters. The demand for oil became more elastic in the long-run.

**Draw the demand curves for oil in the long-run and short-run, explaining why the demand response to a price increase is greater in the long-run than in the short-run. Furthermore, provide an additional example of a good/service which would be less responsive to a price change in the short-run, than in the long-run.**

1. **The cost of switching between products**– there may be **costs** involved in switching. In this case, demand tends to be inelastic. For example, mobile phone service providers may insist on a 12 month contract.

**Name another good/service in which the costs of switching result in the demand curve being inelastic, furthermore give an example of a good that has an elastic demand curve due to a lack of switch costs. Explain why goods/services that involve costs of switching tend to be inelastic than those that do not.**

1. **Peak and off-peak demand** - demand is price inelastic at peak times and more elastic at off-peak times – this is particularly the case for transport services.

**Why are prices for package holidays more expensive during school holiday weeks and why are rail fares more expensive at peak times? Draw the demand curve for one of these examples, explaining why. Furthermore, give an example of a good/service that would be elastic during off-peak times.**

1. **The breadth of definition of a good or service ie. ‘petrol’ in a general sense as opposed to Esso, Shell and BP** – if a good is broadly defined, i.e. the demand for petrol or meat, demand is often inelastic. But specific brands of petrol or beef are likely to be more elastic following a price change.

**Draw the demand curves for petrol in a ‘general’ context and petrol within the context of being provided by ‘branded suppliers’. Why do you think that this is the case when we compare ‘general’ vs. ‘branded suppliers’?

Furthermore, provide an additional example of good which is inelastic in a ‘general’ sense and elastic when provided by branded suppliers.**

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| **Factor Impacting Upon PED** | **Notes/ Explanation** |
| **Substitutes** |  |
| **Luxury/Necessity** |  |
| **Percentage of Income** |  |
| **Habit** |  |
| **Short-run/Long-run** |  |
| **Switching Costs** |  |
| **Peak and Off-peak** |  |
| **Breadth of definition** |  |