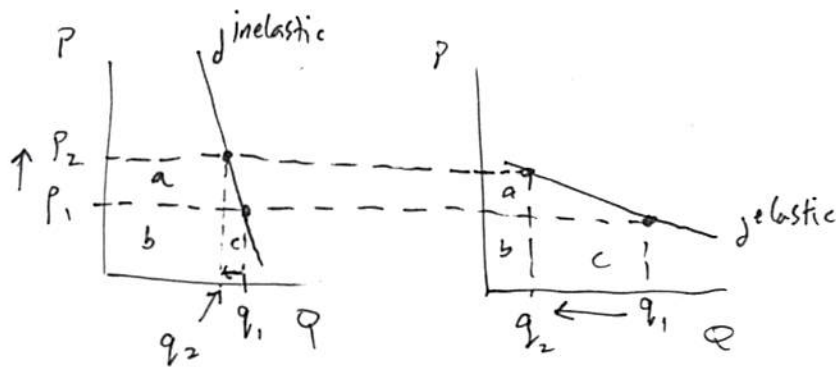Additional notes on <u>elasticity of demand</u> (ε_d)

- On zoom, I explained how TR is affected by ε_d.

when P increases from P_1 to P_2, TR changes from
$b+c$ to $a+b$. In the graph on the left,
since $a > c$, TR increases when $P\uparrow$. On the
graph to the right, $a < c$, so TR $\downarrow$ when $P\uparrow$.

- I didn't explain the math-calculation of elasticity
of demand. I won't ask you to make calculations.
But I will ask you to know this:

$$\varepsilon_d = \frac{\% \Delta Q_d}{\% \Delta P}$$

So if P cigarettes $\uparrow$ by 20%
and Q_d falls by only 5%,
$\varepsilon_d = \frac{5}{20}$, which is < 1.
when $\varepsilon_d < 1$ it's called "inelastic"
demand

But if some good has really responsive consumers, like for
Diet Pepsi, Then maybe when $P\downarrow$ by 10%, Q_d increases by 30%.
Then $\varepsilon_d = \frac{30}{10}$, which is > 1, so that's "elastic" or
a flat D curve.

See p.93 of the book for more on this. But don't worry about
doing calculations more complicated than: is it $>$ or < 1.