# Determinants of Price Elasticity

a) **Availability of Substitutes** → It is one of the most important determinants of elasticity of demand for a commodity is the availability of its close substitutes. The higher the degree of closeness of the substitutes the greater the elasticity of demand for the commodity.

For example → Coffee and Tea may considered as close substitutes for one another. If price of one commodity increases the other commodity becomes relatively cheaper. Therefore, consumers ~~by m~~ buy more of the relatively cheaper goods as ~~com~~ comparison to costlier one. On the other hand sugar and salt don't have close substitutes and hence there price elasticity is lower.

b) **Nature of Commodity** → It also affect the price elasticity of demand. Commodities can be classified as luxuries, comfort and necessities, demand for

(~~xx~~ luxury, Comfort, basic (necessity))

luxury goods is more elastic than the demand for necessities and Comfort because Consumption of luxury goods can be postponed when there prices rise. On the other hand Consumption of necessary goods cannot be postponed and ~~goo~~ hence, there demand is inelastic. Comfort have more elastic demand than basic and less elastic than luxury.

(i) Weightage of the total Consumption-

It is the factor which influenced the elasticity of demand is the proportion of Income which Consumer spend on a particular commodity. If proportion of income spent on a Commodity is large its demand will be more elastic. On the other hand if the proportion of income spent on Commodity is ~~xxx~~ small its demand is less price elastic. Such as, the commodity like Salt, Pen, toothpaste etc. These goods claim a very small proportion of income. Demand for these goods is generally inelastic because increase in the price of such goods doesnot substantaially effects the consumer budget.

d) Time factor in adjustment of consumption pattern → Price elasticity of demand depend also on the time consumers need to adjust there consumption pattern to a new price. The longer the time available the greater the price elasticity. The reason is that over a period of time consumers are able to adjust there expenditure pattern to price changes. For example → If the price of T.V set is decreased demand will not increase immediately unless people posses excess purchasing powers. But overtime people may be able to adjust there expenditure pattern so that they can buy a T.V sets at a lower price.

e) Range of commodity used → It also influences the price elasticity of its demand. The ~~wider the~~ wider the range of the usage of product the higher the elasticity of demand for the decrease in price. As the price of multiused commodity decreases people extend their consumption of its other ~~usages~~ ~~usages~~ uses therefore the demand for such a commodity generally increases more than the proportionate increase in its price. for example → Milk can be taken as and in the form of curd, cheese, ghee etc.

The demand for milk will therefore being highly elastic for decrease in price.

2 → **Income elasticity of demand →**

It is the extent to which a consumer demand for the commodity change as a result of change in his income i.e.

Income elasticity of demand

$$= \frac{\%\ \text{change in the quantity demand}}{\%\ \text{change in the income of the consumer}}$$

i.e.

$$\frac{\Delta Qx}{\Delta Y} \div \frac{Qx}{Y}$$

Where = $Qx$ = Quantity demanded of x product

$Y$ = Income level of the consumer

$\Delta$ = rate of change.