Price Elasticity of Demand - Knowledge Worksheet

1	**Fill in the gaps**

Price Elasticity of Demand (PED) shows the degree to which a product is _______________ following a change in its ______________. There are three types of price elasticity: elastic, _______________ and unitary. A product or service that is deemed to be _______________ will see the percentage change in demand greater than the percentage change in price. Whereas, a product considered as ______________ will see the percentage change in demand equal to the percentage change in price. An inelastic product is where a product's percentage change in demand is _____________ the percentage in price. Products with inelastic demand will see a rise in sales revenue when the price is _______________, and a decrease in sales revenue when the price is decreased. However, products with elastic demand will see a _______________ in sales revenue when the price is increased. Sales revenue for unitary products will be the same whether the price increases or decreases.

Price, Demanded, Inelastic, Increased, Decline, Elastic, Unitary, Increased, Decline, Less Than

2	**Does sales revenue rise, remain unchanged, or fall?**		
Price Change	PED >1 (Elastic)	PED =1 (Unitary)	PED <1 (Inelastic)
Price increases			
Price decreases			

3	**Identify the factors that affect price elasticity of demand.**
Description of the factor that makes a product price inelastic	The factor
Consumers will buy similar quantities of the product even if the price increases as needs are satisfied. A price reduction will not lead to additional purchases. These include products like bread and milk.	
Some consumers will buy similar quantities of a product even if the price increases because it's a necessity to them such as cigarettes and alcohol.	
Consumers who have limited choices of alternative products will pay a higher price than consumers who have lots of choice. For example, a petrol station in the city is cheaper than on the motorway.	
Consumers are not concerned about price increases for products that represent a small percentage of their income such as chewing gum.	
Consumers who are in a rush to receive a service are willing to pay a higher price than those who have time to research for cost-effective options. For example, calling an engineer to fix a gas boiler leak.	
Consumers who strongly believe in wearing/using/eating/attending a certain business won't be fussed about paying a higher price.	
Available factors: proportion of income, time, habit, necessity, substitutes, loyalty	