

GUIDED READING Activity 4-3

For use with textbook pages 101–107

E

LASTICITY OF DEMAND

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

elastic	demand elasticity	inverse
proportional	inelastic	unit elastic
elasticity		total expenditures

Introduction/Demand Elasticity

Consumers are sensitive to changes in prices. A change in price can affect quantity demanded. This cause-and-effect relationship in economics is known as **1** _____. The extent to which a change in price causes a change in the quantity demanded is called **2** _____. Demand is **3** _____ when a given change in price causes a relatively larger change in quantity demanded. Sometimes a lower or higher price does not create much change in demand. When the change in demand is relatively small, the demand is considered **4** _____. When the demand is exactly between elastic and inelastic, the demand is called **5** _____. Unit elastic demand causes a **6** _____ change in quantity demanded.

The Total Expenditures Test

To estimate elasticity, one can look at the effect that a price change has on **7** _____, which is the amount that consumers spend on a product at a particular price. Total expenditures are found by multiplying the price of a product by the quantity demanded. When the price goes down, total expenditures go up. This is called an **8** _____ relationship. For inelastic demand, total expenditures decline when the price declines. For unit elastic demand, total expenditures remain unchanged when the price decreases. If the change in price and expenditures move in opposite directions, demand is **9** _____. If they move in the same direction, demand is **10** _____. If there is no change in expenditures, demand is **11** _____.

Determinants of Demand Elasticity

Several factors determine whether a good is elastic or inelastic. When a consumer needs the product and the purchase cannot be put off, demand tends to be **12** _____. If there are enough substitutes available, consumers can switch back and forth between products in order to get the best price. Demand is said to be **13** _____. The fewer the substitutes, however, the more inelastic the demand. If the purchase uses a large portion of income, people are more sensitive to price changes and demand tends to be **14** _____.