Chapter 6	McConnell, Brue and Flynn 20th

Elasticity

In this chapter we extend Chapter 3's discussion of supply and demand by explaining elasticity. This discussion helps us answer such questions as: Why do buyers of some products (for example, ocean cruises) respond to price increases by substantially reducing their purchases, while buyers of other products (say, gasoline) respond by only slightly cutting back on their purchases? Why do higher market prices for some products (for example, chicken) cause producers to greatly increase their output, while price rises for other products (say, gold) cause only limited increases in output? Why does the demand for some products (for example, books) rise a great deal, when household income increases, while the demand for other products (say, milk) rises just a little?

Elasticity extends our understanding of markets by letting us know the degree to which changes in prices and incomes affect supply and demand. Sometimes, the responses are substantial. In other cases, minimal or even nonexistent. By knowing what to expect, businesses and the government can do a better job in deciding what to produce, how much to charge, and, surprisingly, what items to tax.