

Price Elasticity Using Coffee Example

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Why Elasticity?

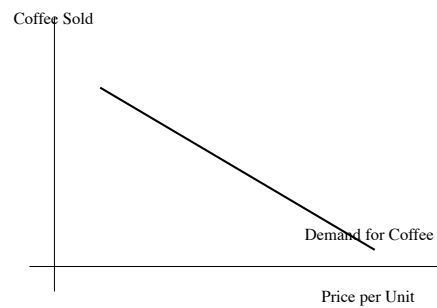
- If we know the slope we have a measure of price sensitivity.
- Why do we need elasticity?

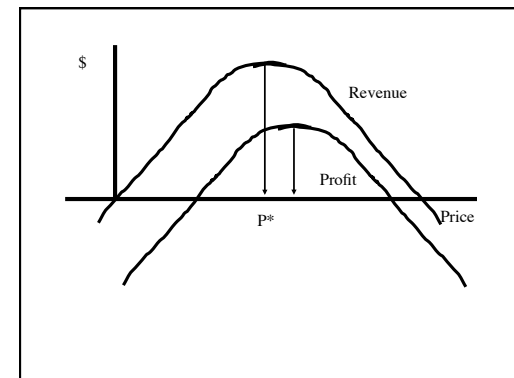
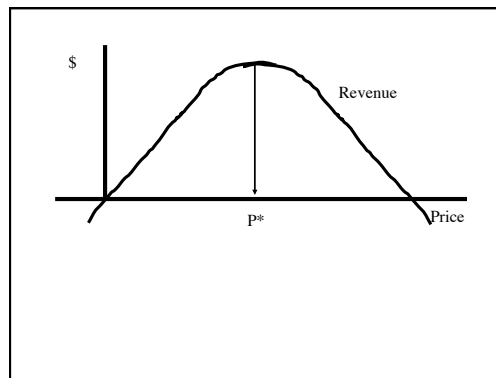
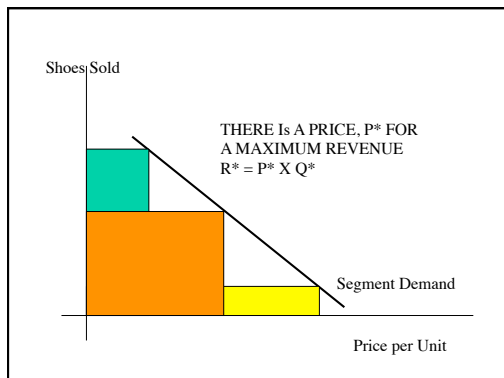
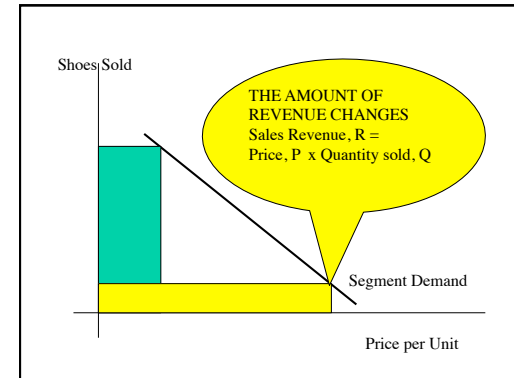
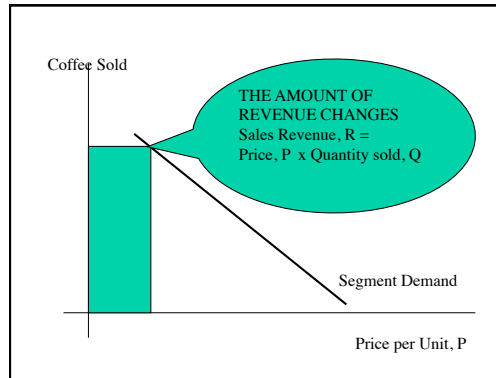
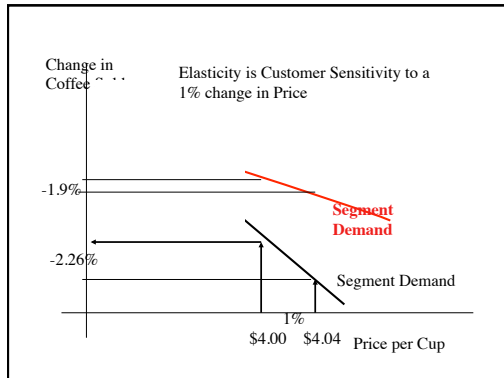
Why Use Elasticity?

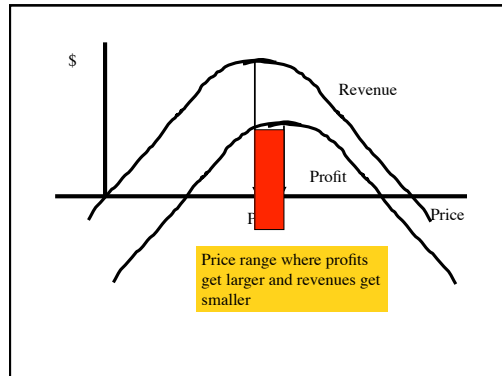
- **1) To compare the sensitivity in different markets?**
- **2) To estimate the percentage change in sales if we change the price by one percent.**
- **3) Guide to changing price to Maximize Revenues**

Price Elasticity Customer Sensitivity to Price Changes

See pages 158-159 in the text

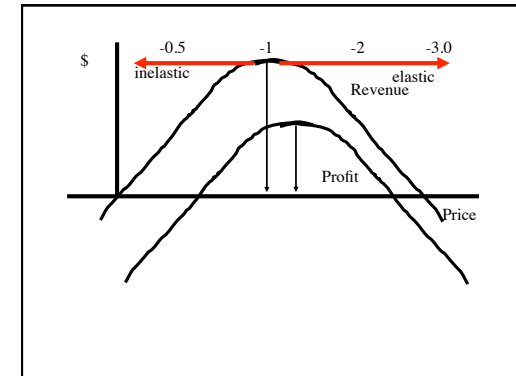






Exam Question

- When a firm has a variable cost per unit, there is a point during the process of increasing the selling price that revenues are coming down and profits are going up.
- True or False
- Yes. It Is True!!!**



210 Exam

- You need to know
- That elasticity means
- The percentage change in units sold for a 1% change in price

Change In Price

- A firm, selling 1000 units a week, is considering a price reduction strategy. A 5% price reduction should increase unit sales (Q) and the price elasticity(Ep) is estimated at -1.7. What percentage increase in unit sales is anticipated?

Change In Price

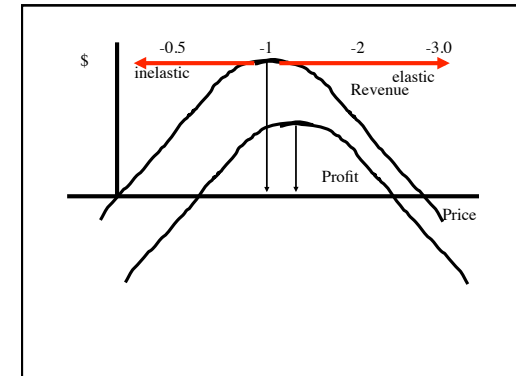
- A firm, selling 1000 units a week, is considering a price reduction strategy. A 5% price reduction should increase unit sales (Q) and the price elasticity(Ep) is estimated at -1.7. What percentage increase in unit sales is anticipated?
- $(E_p)(-5\%) = (-1.7)(-5\%) = 8.5\%$
or $8.5\%(1000) = 85$ new units**

The Crucial Question?

- Will there be an increase or decrease in Revenue?
- Elasticity is -1.7 and this is considered to be part of an elastic or sensitive range where a decrease in price causes an increase in revenue.
- **When price elasticity is -1 then revenue is at the maximum**

The Crucial point?

- **When price elasticity is -1 then revenue is at the maximum**
- **THEN ANY PRICE CHANGE WILL LOWER THE REVENUE**



Any Questions on Elasticity