

# Guided Reading Activity

## Demand

### Lesson 3 *Elasticity of Demand*

#### Review Questions

**Directions:** Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

#### A. Three Cases of Demand Elasticity

**Main Idea:** Demand elasticity is the extent or degree to which a change in price causes a change in the quantity demanded; it may be elastic, inelastic, or unit elastic.

1. Demand is \_\_\_\_\_ when the price change results in a relatively larger change in quantity demanded. People \_\_\_\_\_ need products urgently with this type of demand.
2. Demand is \_\_\_\_\_ when the price change results in a relatively smaller change in quantity demanded. People \_\_\_\_\_ need products urgently with this type of demand.
3. Demand is \_\_\_\_\_ when the price change results in a proportional change in quantity demanded. This type of demand is \_\_\_\_\_ to find.

#### B. The Total Expenditures Test

**Main Idea:** When the direction of a price change is compared with the direction of the change in total expenditures (or amount spent), it is sometimes called the total expenditures test.

1. Total expenditures (or total revenue) is found by multiplying the \_\_\_\_\_ of a product by the \_\_\_\_\_ for any point along the \_\_\_\_\_ curve.
2. What types of elasticity do the following scenarios illustrate?
  - a. Change in price and change in revenue move in the same direction. \_\_\_\_\_
  - b. Change in price and change in revenue move in opposite directions. \_\_\_\_\_
  - c. Price change has no effect on revenue. \_\_\_\_\_
3. When businesses raise prices on products with inelastic demand, total revenues are more likely to \_\_\_\_\_ than when prices are increased on products with elastic demand.

# Guided Reading Activity *cont.*

## Demand

### C. Determinants of Demand Elasticity

**Main Idea:** There are three determinants of demand elasticity: whether a purchase can be delayed, availability of substitutes, and the amount of income required to make the purchase.

1. If you cannot put off purchase of a product, demand is \_\_\_\_\_. If you can wait, demand is \_\_\_\_\_.

2. Generally, the more available substitutes are, the more \_\_\_\_\_ the demand is. The \_\_\_\_\_ of the market can affect demand elasticity in cases of substitutions.

3. When a purchase requires more of a person's income, it tends to be \_\_\_\_\_. However, if the costly purchase is for a product or service a person needs urgently, the demand becomes more \_\_\_\_\_.

### Summary and Reflection

**Directions:** Summarize the main ideas of this lesson by answering the questions below.

How does demand elasticity affect a business? A consumer? How can knowing the elasticity of demand for a product affect pricing decisions? Purchasing decisions?

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