

## Elasticity means Responsiveness

The following exercise reinforces concepts regarding consumer demand. These include deriving the market demand from individual demands, and the income and substitution effects. This exercise then introduces the concept of the price elasticity of demand, income elasticity and cross price elasticity, moving from a graph to the calculation and application of the concepts.

Scenario one: You have \$5.00 to spend right now. It disappears after class. Record what you would purchase and then add these tallies for your group to determine the market demand.

	Your purchases	Market
The price of Snickers is \$1	_____	_____
The price of Coke is \$1	_____	_____
The price of Twinkies is \$1	_____	_____
The price of Milk is \$1	_____	_____

Scenario two: Peanut crop destruction leads to a higher price of Snickers You still have \$5.00 to spend.

	Your purchases	Market
The price of Snickers is \$2	_____	_____
The price of Coke is \$1	_____	_____
The price of Twinkies is \$1	_____	_____
The price of Milk is \$1	_____	_____

Scenario three: The price returns to \$1 but the government decides that all economics students deserve a \$3 subsidy in addition to the \$5. It too disappears after class.

	Your purchases	Market
The price of Snickers is \$1	_____	_____
The price of Coke is \$1	_____	_____
The price of Twinkies is \$1	_____	_____
The price of Milk is \$1	_____	_____

### Draw the market demand curve

1) Calculate the price elasticity of demand:

2) Calculate the income elasticity of demand:

3) Calculate the cross -price elasticity of demand:

What I learned about consumer demand:

What I learned about Elasticity (concept, formula, applications to the real world):