Total Revenue Elasticity

Why Elasticity matters?

Elasticity, Total Revenue, and Demand

• The elasticity of demand tells suppliers how their total revenue will change if their price changes.
• *Total revenue* equals total quantity sold multiplied by price of good.

Elasticity, Total Revenue, and Demand

• If $E_D$ is elastic ($E_D > 1$), a rise in price lowers total revenue.
• Price and total revenue move in opposite directions.

Elasticity, Total Revenue, and Demand

• If $E_D$ is unit elastic ($E_D = 1$), a rise in price leaves total revenue unchanged.
Elasticity, Total Revenue, and Demand

- If $E_D$ is inelastic ($E_D < 1$), a rise in price increases total revenue.
- Price and total revenue move in the same direction.
Total Revenue Along a Demand Curve

• With elastic demand – a rise in price lowers total revenue.
• With inelastic demand – a rise in price increases total revenue.

Elasticity of Individual and Market Demand

• Market demand elasticity is influenced both by:
  – The number of people who totally drop out when price increases.
  – How much an existing consumer marginally changes his or her quantity demanded.

Elasticity of Individual and Market Demand

• Price discrimination occurs when a firm separates the people with less elastic demand from those with more elastic demand.
Elasticity of Individual and Market Demand

• Firms that price discriminate charge more to the individuals with inelastic demand and less to individuals with elastic demands.

Elasticity of Individual and Market Demand

• Examples of price discrimination include:
  – Airlines' Saturday stay-over specials.
  – The phenomenon of selling new cars.
  – The almost-continual-sale phenomenon.