

Relation between Elasticity of Demand and Consumer's Surplus

There is a close connection between elasticity of demand and consumer's surplus.

We know that the demand for necessities of life is relatively inelastic. Whatever their price, we must buy' them.

For necessities, therefore, we are prepared to pay much more than we actually have to pay, as they are generally cheap.

Hence, in such passes there is a large consumer's surplus, for consumer's surplus is equal to the difference between what the consumers are willing to pay and what they actually have to pay. For luxuries, we are not prepared to pay much more than we are paying actually. For them our demand is elastic. The consumer's surplus in such cases is small. We may, thus, conclude that the consumer's surplus is large when demand is inelastic and small when it is elastic.

Determinants of Elasticity:

Whether the demand for a commodity is elastic or inelastic or more elastic or less elastic depends on a number of factors. You cannot straight-away say that the demand is elastic or inelastic. All these factors must be taken into account before we can say whether the demand is elastic or inelastic.

The following are the chief factors on which elasticity of demand for a commodity depends:

For necessities, the demand is less elastic or comparatively inelastic. We must buy them, whatever be the price. The price may rise or fall but the demand will remain practically the same. For luxuries, on the other hand, the demand is more elastic.

A little fall in their price stimulates the demand and a little rise discourages it. Hence, in such cases, demand extends and contracts considerably when the price falls and rises respectively. The demand is elastic. But it should, be remembered that necessities and luxuries are relative terms. What is luxury for one may be a necessary for another. Thus, for the same commodity the demand may be elastic for some people and inelastic for other people. Hence, it is necessary to refer to the class of

people with respect to whom the demand is elastic or inelastic.