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Voronina A., Tsimafeyeva Y.
Elasticity of Supply and Demand

Belarusian National Technical University
Minsk, Belarus

The analysis of supply and demand under the influence of various factors made it possible to identify the general directions of changes in supply and demand and formulate the law of supply and demand. According to the law of demand, in response to a decrease in price, consumers will begin to purchase more products. However, the degree of consumer susceptibility to price changes varies depending on the product and on the range of price changes for the same product. The susceptibility of consumers to changes in the price of a product is determined by the price elasticity of demand [2].

Elasticity is usually understood as a measure of the reaction of one quantity to a change in another. There are price elasticity of demand and price elasticity of supply. The price elasticity of demand is defined as the ratio of the relative change in the quantity of demand for a product to the relative change in price. If the price elasticity of demand is zero, then demand is called absolutely inelastic, that is, the volume of purchases does not change when the price changes. This is what the market demand for salt looks like. The level of its consumption is set physiologically. If the price elasticity of demand is equal to infinity, then demand is absolutely elastic. With any increase in the price above the market, the demand value drops to zero. With any decrease in price, the amount of demand increases indefinitely. Consequently, any quantity of goods will be sold at the same price [3].

Today there is not a single section of the economy where the concept of elasticity is used: the analysis of supply and demand, the theory of the firm, the theory of economic cycles, economic expectations, etc. Goods differ among themselves in the degree of change in demand [1]. Studying the elasticity of demand allows sellers to be aware of consumer preferences. Market conditions are quite volatile, so the seller should be aware of current and future changes. The application of the theory of elasticity of demand allows: to determine the volume of production of goods and services by the nomenclature position and assortment range; to predict consumer behavior, its prerequisites and factors; to implement a competent pricing policy; to plan the marketing and marketing policy of the enterprise; to develop a strategy for the development of the enterprise in order to obtain the maximum possible profit. Thus, the application of knowledge about the elasticity of demand serves to determine and measure the consumer response to changes in demand.

Elasticity theory finds another application in determining the tax policy of the state. One of the sources of state budget revenues is indirect taxes, which are included in the price of the goods produced. After the sale of the goods, the amount of money, the corresponding amount of tax, goes to the budget. Developing a tax policy, state leaders must solve a number of problems. One of them is which goods are exempt from indirect taxation. The answer to this question seems simple: those goods for which demand is inelastic should not be exempt from indirect tax. But this group of goods will include essential goods. If their prices rise with the introduction of an indirect tax, then with the volume of their consumption unchanged, the expenses of poor people will increase and their financial situation will worsen. In this case, the state will be forced to increase payments from the state budget to provide assistance to those in special need. This example shows that the correct choice of goods subject to indirect taxation cannot be made without taking into account the theory of elasticity of demand.

Another group of goods for which there is inelastic demand is bought by wealthy people (products made of expensive furs, jewelry, etc.). The introduction of indirect taxes on goods of this group will increase the prices of these goods, but will not lead to a significant reduction in the amount of demand for them. Therefore, the revenues of the state budget will increase and at the same time the material well-being of consumers of diamond necklaces will practically not suffer. Therefore, indirect taxation of goods of this kind is justified [4].

The sensitivity of the supply volume to changes in the market price shows the elasticity of supply. The elasticity of supply can be defined as the degree of change in the quantity of goods and services offered for sale in response to a change in market price. The elasticity of supply is influenced by the following factors: the price of this product and the prices of other goods; the ability of goods to be stored for a long time and the cost of their storage; the time factor; the level of resource utilization achieved; the degree of monopolization of the industry; technological features of establishing the production of a certain product (ship construction and bakery). The concept of elasticity allows us to find out how the market adapts to changes in its factors.

The manufacturer should understand that the elasticity of the goods specifically of his products and the same goods on the market often do not coincide. The first is almost always higher than the second. The exception is monopoly. For this reason, in conditions of market competition, the manufacturing company has to monitor the quality of its products and competitive firms, as well as the prices they set [5].

In the search for an equilibrium price of supply and demand, the interaction of consumers and entrepreneurs is the basis of a market economy. For entrepreneurs, the main goals are to meet the needs of consumers in competitive products or to find optimal ways to provide people with limited benefits and on this basis to obtain financial, economic or social benefits.

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