

Factors influencing PED

- 1. Availability of substitutes.** If customers can easily find an alternative, then demand is likely to be price elastic. Petrol for cars is price elastic as there are few alternatives if fuel prices rise. However, the demand for petrol retailers is price elastic. If Exxon puts up its price customers will switch to buying their fuel from Shell service stations instead.
- 2. Proportion of income spent.** Products whose prices are a small % of a person's income tend to be price inelastic (eg matches). However, those that are a high % will tend to be price elastic eg a family holiday.
- 3. Time.** If customers have time to shop around, then their demand will tend to be price elastic. However, if they have little time, then their demand becomes price inelastic. This explains why airport shops are so expensive!
- 4. Durability.** Perishable products need to be replaced often. If prices rise then people will still need to buy them eg onions or tomatoes. However, demand for durable goods like TV's is more price elastic. If prices rise then people will delay replacing their old set.
- 5. Fashion, taste, habits etc.** Habit forming products tend to have inelastic demand. Cigarette smokers continue to smoke despite large price increases.
- 6. Branding.** Products that have strong brands effectively remove the competition. In the minds of their customers, there are no alternatives or substitutes.
- 7. Necessity.** The more we need something, the less price elastic our demand. Hence business class travel is usually far more expensive than economy; they **have** to fly!