Measuring and Interpreting elasticity
Econ 201/Haworth

The table below provides a summary of how to calculate each measure of elasticity, along with how to interpret your result.

E.g., if you calculate a measure of own-price elasticity and find that $\varepsilon_D = -2.1$, then you can use the table below to interpret this

measure as being elastic. Similarly, if you calculate income elasticity and find that $\varepsilon_I = 3.4$, then you know that this good is a normal good and a luxury.

Elasticity measure	Calculation	Direction of Relationship (Positive vs Negative)	Magnitude of Relationship (Big effect vs Small effect)
Own-Price Elasticity	$\varepsilon_D = \dfrac{\%\Delta Q_A}{\%\Delta P_A}$	$\varepsilon_D < 0$ (always true)	$\|\varepsilon_D\| < 1$ (inelastic) $\|\varepsilon_D\| = 1$ (unit elastic) $\|\varepsilon_D\| > 1$ (elastic)
Income Elasticity	$\varepsilon_I = \dfrac{\%\Delta Q_A}{\%\Delta I}$	$\varepsilon_I < 0$ (inferior good) $\varepsilon_I > 0$ (normal good)	$\varepsilon_I < 1$ (necessity) $\varepsilon_I > 1$ (luxury good)
Cross-Price Elasticity	$\varepsilon_{CP} = \dfrac{\%\Delta Q_A}{\%\Delta P_B}$	$\varepsilon_{CP} < 0$ (Goods A & B are complements) $\varepsilon_{CP} > 0$ (Goods A & B are substitutes)	—