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ECO704 SOLVED FIRST QUESTION ENJOY

SOLVED BY ABDUL SABOOR

MSBA HRM

CPEoD = (% Change in Quantity Demand for Good X)/(% Change in Price for Good Y)

Calculating the Percentage Change in Quantity Demanded of Good X

The formula used to calculate the percentage change in quantity demanded X:

[QDemand(NEW) - QDemand(OLD)] / QDemand(OLD)

So now

4-8/8=-4/8=-.05

The formula used to calculate the percentage change in price of good Y:

Calculating the Percentage Change in Price of Good Y

The formula used to calculate the percentage change in price is:

[Price(NEW) - Price(OLD)] / Price(OLD)

40.85-43.95/43.95=-0.071

CPEoD = (% Change in Quantity Demand for Good X)/(% Change in Price for Good Y)

=-.05/-0.071

=-0.70

- If CPEoD > 0 then the two goods are substitutes

- If CPEoD =0 then the two goods are independent (no relationship between the two goods
- If CPEoD < 0 then the two goods are complements