American Journal of Science and Learning for Development

ISSN 2835-2157
Volume 2 | No 5 | May -2023

Elasticity of Demand and Supply

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Abstract: *Nowadays, the concept of elasticity is used in every department of the economy. To one degree or another, the coefficient of elasticity is widely used in the analysis of market equilibrium, in the analysis of the market composition, in the determination of monopolies there, in the theory of economic cycles. The general concept of elasticity, the influence of various factors on the elasticity of demand, inelastic demand, the main factors that determine the elasticity of supply, the time factor and information about the elasticity of supply are covered in this article.*

Key words: *elasticity of demand, elasticity of supply, law of demand, market, price, time factor, consumers, income, market situation, commodity.*

The general concept of elasticity came to economics from the natural sciences. The term "elasticity" was first used in economics by Alfred Marshall in 1885 **in the context** of demand and supply elasticity. The inclusion of elasticity in economic analysis is of great importance. Including

- on the one hand, the elasticity coefficient serves as the main tool for obtaining statistical measurements, especially widely used in marketing research;
- on the other hand, the concept of elasticity is an important tool of economic analysis, because in science it is necessary not only to measure and calculate, but also to know how to explain and analyze the obtained result.

The law of demand shows how demand changes in relation to price, but does not show how much it changes. In order to correctly assess the economic situation, it is important to know how much the demand will change. There are such products that a small change in price leads to a large change in the quantity of goods purchased. Some products, regardless of the large price change, are not affected by the change in the quantity of goods purchased.

Economists introduced the concept of elasticity of demand into economic theory as an indicator of how changes in prices lead to changes in demand. It is calculated according to price changes and according to population income changes.

In order to analyze the sensitivity of producers to changes in certain factors in the market situation, in most cases, the price supply elasticity coefficient is used. The coefficient of price elasticity of supply means the percentage change in quantity supplied as a result of a one percent change in price.

The most important factor influencing the elasticity of supply is the time factor, that is, the amount of time that the producer has at his disposal for the price of the product to change significantly.

In the market economy, elasticity of demand is an important economic concept, which represents the buyer's reaction to changes in goods and prices in the market, that is, how price changes affect the buyer. Elasticity is determined not by how the quantity and price of goods change in absolute units, but by relative changes, and it is expressed by the coefficient of elasticity.

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In addition to the price of the product, the following factors also affect the elasticity of demand:

1) Availability of substitute goods;

2) Its weight in the consumer's income;

3) Product category;

4) Stock of goods;

5) Consumer expectations.

1. Availability of substitute goods. The more substitutes a product has, the higher its elasticity. Because when the price changes, consumers tend to replace expensive goods with cheaper substitutes. As a result, if the price of the main good increases, the demand for it decreases, and the demand for the substitute good increases, and vice versa, if the price of the substitute good increases, the demand for the main good increases.

2. The higher the weight of the product in the consumer's income, the higher the elasticity of demand, and the lower the weight, the lower the elasticity. As the consumer's income increases, the elasticity of demand for high category goods decreases and the elasticity of demand for low category goods increases. When income decreases, the elasticity of demand for low category goods decreases and the elasticity of demand for high category goods increases.

3. Product category. It varies depending on whether the product is a luxury item (high demand elasticity) or a primary need item (low demand elasticity). For example, according to a study carried out in the USA, the demand elasticity coefficient for bread was 0.15, for electricity 0.13, for deer and shoes 0.2, for cars 1.87 and for porcelain 1.547.

4. Stock of goods. The greater the stock of goods, the higher the elasticity of demand for them, the less elastic the demand for scarce goods with less stock.

5. Consumer expectations. The elasticity of demand for the same product is different for short and long periods. For example, even if the price of a certain commodity increases in the short term, it is difficult to suddenly reduce the consumption. But if the trend of price increase is maintained in the long term, the demand for this product will decrease.

Cross-sectional elasticity of demand is the percentage change in demand for a good when the price of other goods changes by one percent.

The demand for the most necessary products for consumption - bread, salt, potatoes, clothes, shoes, public transport, electricity costs, etc. will be inelastic. Thus, the factors that determine demand are:

- time factor;
- the more goods that suppress the death of this product, the higher their useful properties, the higher the elasticity of demand;
- is a factor of product exchangeability;
- the more possibilities of using this product, the higher the variability of demand for it.

The time factor. In general, the longer the time for making decisions, the more variable, that is, elastic, the demand for a product. If the price of a product increases, it takes time to find and taste other products until you are sure that they can be used. If the price of beef increases by 50%, consumers should not quickly reduce their purchases. But after a certain time, they can transfer their desire to poultry or fish products. Now they have a taste and demand for the same products.

The main factors that determine the elasticity of supply include:

1. The presence of unactivated productive forces. The growing demand can be met at a relatively early stage of production.

2. Types of goods and services offered for sale. Goods, services, technology and production volumes that change rapidly and do not require additional investment in this process have a higher elasticity of supply than others.

3. The possibility of long-term storage of finished goods. If the company has such an opportunity, it can increase the volume of production due to the products collected in the reserve. Accordingly, its supply will be more elastic in relation to price changes.

4. The minimum amount of cost necessary to expand production. The greater the amount of capital investment required, the lower the elasticity of supply.

5. Market conditions. In the conditions of a shortage of goods, producers will have the opportunity to sell a certain amount of goods at a high price. Under such circumstances, supply is inelastic.

6. Time interval. The longer the time interval, the more opportunity the producer has to adjust to price changes, and the elasticity of supply increases.

7. Analyzing revenue using price elasticity of demand. Thus, if demand is inelastic, an increase in price leads to an increase in revenue, a decrease in revenue leads to a decrease in revenue, and in this case, sellers can only increase revenue by increasing the price.

The most important factor influencing the elasticity of supply is the time factor, that is, the amount of time that the producer has at his disposal for the price of the product to change significantly. Analyzing the effect of the time factor on the elasticity of supply, economists find it useful to distinguish between the shortest market period, short market period and long-term market period. If the time at the disposal of the producer to adapt to a certain change in price m is long, the volume of production will change accordingly, supply elasticity will occur. Why? The sensitivity and reaction of lg depends on the ability to redistribute resources in favor of the production of X product at the expense of reducing the production of other types of products. Allocation of resources takes time: the longer the time, the stronger the "mobility" of resources, in turn, the production volume changes more and the supply elasticity is higher.

- In the shortest market period, the manufacturer does not have enough time to change the size of the product. In this case, supply is perfectly inelastic and the supply curve shifts to the left.
- Production capacity remains unchanged during the short market period. But the volume of production may change due to their intensive use. Therefore, the supply turns out to be more elastic.
- During a long market period, all measures can be applied to change the production capacity in accordance with changes in demand, and the supply will be more elastic.

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