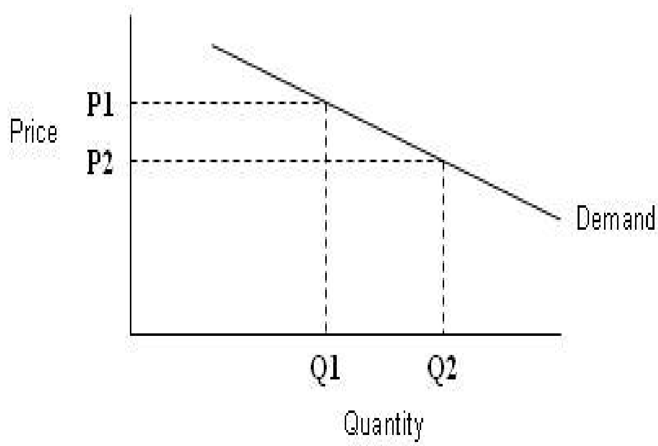
Solution Assignment #2

Scenario #1

As product B belongs to the category of normal goods and has a lot of substitutes so consumers have more choices in alternative to product B. If the price of product B increases, then consumers switch to its substitute products and demand of product B decreases. Hence the price elasticity of demand of product B is elastic and it has negative relation with respect to the increase in price.



Scenario #2

As product C belongs to the category of high quality goods and liked by the people of elite class. They are also not price sensitive and their major concern is the quality. The substitutes of product C are not having the same quality as that of product C. So if the price of Product C increases it does not affect the demand of product C. So we can say that its demand is inelastic with respect to increase in price.