SA12066

PRICE ELASTICITY OF DEMAND FOR THE UNIVERSITY OF MISSISSIPPI: 2000-9

Abstract

The responsiveness of consumers to a change in the price of a product is measured by the price elasticity of demand. If demand is elastic, a decrease in price will increase total revenue. Even though a lower price is received per unit, enough additional units are sold to more than make up for the lessor price. If demand is inelastic, a price increase will increase total revenue. The relatively small decrease in sales will be more than offset by the increase in revenue per unit.

The percentage change in the price is measured as (ending price – beginning price) / beginning price. The University of Mississippi (UM – Ole Miss) raised tuition (price) by 62% over 10 years through 2009 – from $3,153 in the year 2000 to $5,106, or by $1,953 -- (5,106 – 3,153) / 3,153 = 1,953 / 3,153 = 62%.

Increase/decrease in the quantity demanded (student enrollment) is measured as (ending enrollment – beginning enrollment) / beginning enrollment. Total student enrollment was 11,405 in the year 2000 and 18,345 in the year 2009. This was a 61% increase – (18,345 – 11,405) / 11,405 = 6,940 / 11,405 = .61 = 61%.

In spite of a 62% price increase, there was a 61% rise in students (quantity demanded) for UM. The price elasticity of demand for UM was calculated as 0.99, inelastic. The results imply that UM should raise tuition again to increase revenue.