

② Total Outlay or Expenditure method.

Total Expenditure = Price \times Quantity demanded

(i) Equal to unit elasticity $\Rightarrow P_1 Q_1 = P_2 Q_2$

Where,

P_1 = Original price

P_2 = New or changed price.

Q_1 = Original Quantity

Q_2 = New or changed quantity.

(ii) Elasticity of demand more than unity. ($e > 1$).

$$P_1 \times Q_1 > P_2 \times Q_2$$

(iii) Elasticity of demand less than unity ($e < 1$).

$$P_1 \times Q_1 < P_2 \times Q_2$$

Exp - if $P_1 = 10$ $Q_1 = 800$
 $P_2 = 8$ $Q_2 = 900$

$$\begin{aligned} TE_1 &= P_1 \times Q_1 \\ &= 10 \times 800 \\ &= 8000 \end{aligned}$$

$$\begin{aligned} TE_2 &= P_2 \times Q_2 \\ &= 8 \times 900 \\ &= 7200 \end{aligned}$$

So, $TE_1 < TE_2$
 $\therefore e < 1$.