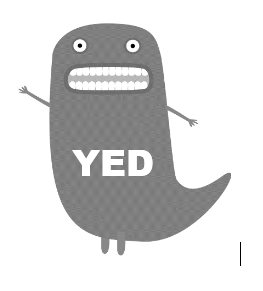


1.2.5 Income Elasticity of Demand (YED)

Starter

Read these statements and have a go at the question.

1. We know that an inferior good is a good whose demand decreases when consumer income increases
2. We also know that a normal good (necessity good) is any good for which demand increases when income increases
3. We also know that a luxury good is a good for which demand increases more than proportionally as income rises



Define Income Elasticity of Demand here:

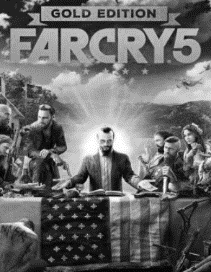
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Normal goods

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Inferior goods

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ED formula, write that in here:

% change in price or quantity demanded formula, write that in here:

Interpretation of numerical values

|  |  |  |
| --- | --- | --- |
| **Inferior** | **Normal** | **Luxury** |
|  |  |  |
|  |  |  |

Example YED Calculations

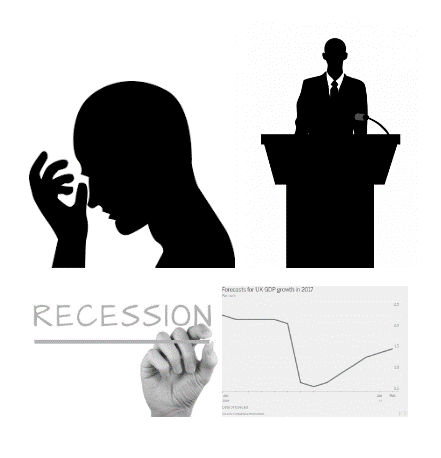
|  |
| --- |
| Question 1: Calculate YED if demand has increased from 20,000 units to 25,000 units following an average income increase of 15%. |
| Question 2: Calculate YED if demand has increased from 52,476 units to 702,003 units following an average income increase of 4%. |
| Question 3: Calculate YED if demand has increased from 6,438 units to 6,489 units following an average income increase of 12%. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Question 1** | **Question 2** | **Question 3** |
| Your answers |  |  |  |
| YED negative or positive? |  |  |  |
| Inferior or normal good? |  |  |  |

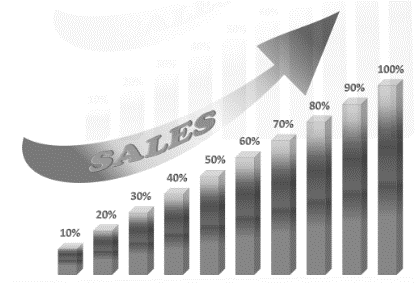
**The factors influencing income elasticity of demand**

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| --- | --- |
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|  |  |

Expectations of changes of income



**The significance of income elasticity of demand to businesses**



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