**6. Income Elasticity of Demand Mark: /13**

Geri sells conservatory furniture. His product portfolio ranges from the basic two seater sofa and two chairs, priced at just £199 to a deluxe set priced at £2 500. Last year Geri sold 125 deluxe sets. Incomes in the area are forecast to increase by 3.2% next year.

1. What was Geri’s sales revenue from deluxe sets last year? /2 marks

Sales Revenue = Selling Price x Quantity Sold
Sales Revenue = 125 x £2 500 = **£312 500**

1. Geri predicts that YED for his deluxe range is +1.25. What % change in demand would he forecast? /3 marks

YED = Income Elasticity of Demand
= % change in quantity demanded
 % change in income
YED predicted =1.25 = Positive - an increase in income = an increase in demand.

+1.25 = % change in quantity demanded/3.2
% Change in demand = 1.25 x 3.2 = **4%**

1. What is Geri’s new sales revenue from the deluxe range? /5 marks

Sales Revenue = Selling Price x Quantity Sold
Change in Income = 3.2%
Change in Demand = 4%

125 x 1.04 = 130

Sales Revenue = 130 x £2500 = **£325 000**

1. For the basic range Geri forecasts his YED is -0.8. What percentage change in demand would this lead to? /3 marks

% change in demand = YED x Forecast Income
% change in demand = -0.8 x 3.2
% change in demand = **-2.56%**