# YED Worksheet

# Question 1

Symons Sausages have found that if incomes increase by 5% the demand for their premium sausages increases by 10%.

1. Calculate the YED for Symons premium sausages.
2. Since the percentage increase in the sales of premium sausages is greater than the percentage increase in incomes we can conclude that they are:
	1. Inferior goods
	2. Commodities
	3. Luxury goods
	4. Normal goods
3. If incomes continue to rise Symons Ltd should expect:
	1. Higher revenue
	2. Lower revenue
4. In order to prepare for this the company should consider such things as:

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# Question 2

Lighter Sounds are expecting average incomes to rise over the next year from £35,000 a year to £36,000 a year. They anticipate sales of their smaller size television sets will fall from 1000 sets a year to 800 as customers buy the larger, more expensive sizes.

1. Calculate the YED for Lighter Sounds.
2. Since the income elasticity is less than zero, we can conclude that the income elasticity is
	1. Negative
	2. Positive
3. And that small televisions are;
	1. Inferior goods
	2. Commodities
	3. Luxury goods
	4. Normal goods
4. In order to prepare for this the company should consider such things as:

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# Income Elasticity of Demand and types of goods

[Income elasticity of demand](http://www.economicshelp.org/microessays/equilibrium/income-elasticity-demand.html) measures the responsiveness of demand to a change in income.

* **Inferior Good:** An [inferior good](http://www.economicshelp.org/concepts/inferior-good/) means an increase in income causes a fall in demand. It has a negative YED. An example, of an inferior good is Tesco value bread. When your income rises you buy less Tesco value bread and more high quality, organic bread.
* **Normal Good.** This means an increase in income causes an increase in demand. It has a positive YED. Note a normal good can be income elastic or income inelastic.
* **Luxury Good**. A luxury good means an increase in income causes a bigger % increase in demand. It means that the YED is greater than one. For example, high definition TV’s would be luxury. When income rises, people spend a higher % of their income on the luxury good. (Note: a luxury good is also a normal good, but a normal good isn’t necessarily a luxury good)

# Other Types of Goods

* **Complementary Goods**. Goods which are used together, e.g. TV and DVD player. see: [Complementary goods](http://www.economicshelp.org/dictionary/c/complementary-goods.html)
* **Substitute Goods**. Goods which are alternatives, e.g. Pepsi and Coca-cola. See [Substitute goods.](http://www.economicshelp.org/dictionary/s/substitute-goods.html)
* **Giffen Good**. A rare type of good, where an increase in price causes an increase in demand. The reason is that the income effect of a rise in the price causes you to buy more of this cheap good because you can’t afford more expensive goods. For example, if the price of wheat rises, a poor peasant may not be able to afford meat any more, so has to buy more wheat. See: [Giffen goods](http://www.economicshelp.org/blog/1189/economics/giffen-good/)
* **Veblen / Snob Good**. A good where an increase in price encourages people to buy more of it. This is because they think more expensive goods are better. See: [Veblen good](http://www.economicshelp.org/blog/1164/economics/veblen-goods/)

# Market Failure

* **Public Goods** – goods with characteristics of non-rivalry and non-excludability, e.g. national defence.
* **Merit Goods**. Goods which people may underestimate benefits of. Also often has positive externalities, e.g. education.
* **Demerit Goods**. Goods where people may underestimate costs of consuming it. Often has negative externalities, e.g. smoking, drugs.
* **Private goods** – goods which do have rivalry and excludability. The opposite of a public good
* **Free Goods** – A good with no opportunity cost, e.g. breathing air.