

Revisionstation

YED




Income Elasticity of Demand



Tricky Topics
REVISIONSTATION

Answers

Answers to YED identify normal, inferior and luxury goods on page 4

		
<p>Normal goods: As incomes rise the demand for these goods rises slightly Positive YED <1</p>	<p>Luxury goods: As incomes rise the demand for these goods rises sharply Positive YED >1</p>	<p>Inferior goods: As incomes rise the demand for these goods falls Negative YED</p>
<p>2 Coca Cola</p>	<p>3 Sports car</p>	<p>1 Sainsbury's Own Brand Cola</p>
<p>8 Galaxy chocolate bar</p>	<p>4 Holiday</p>	<p>7 Pot noodle</p>
<p>11 China plates</p>	<p>5 Diamond ring</p>	<p>9 ASDA Smart price chocolate bar</p>
<p>13 Domino's pizza</p>	<p>6 Rolex watch</p>	<p>10 Paper plates</p>
<p>15 Steak</p>		<p>12 Microwave pizza</p>
<p>17 Taxi fare</p>		<p>14 Cheap cuts of meat</p>
		<p>16 Bus tickets</p>

Answers to YED example calculations on page 7



%Change in Quantity demanded	% Change in income	YED calculation	Inferior, normal or luxury goods?
+40%	-6%	-6.67	Inferior
-25%	+7%	-3.57	Inferior
+35%	-4%	-8.75	Inferior
-80%	-2%	40	Luxury
+3%	+15%	0.2	Normal
+13%	+3%	4.33	Luxury
+22%	+24%	0.92	Normal
+21%	+7%	3	Luxury
-30%	4%	-7.5	Inferior



Answers to YED practice questions

Answer to practice question 1 on page 8

- The consumer incomes have fallen so this is a negative number -10%
- $15 / -10 = -1.5$
- YED is negative therefore Bob's Pizza an inferior good

Answer to practice question 2 on page 9

- Consumer incomes have risen so this a positive number
- $1.2 / 1.6 = 0.75$
- YED is between 0 and 1 so the beds are a normal good

Answer to practice question 3 on page 10

- % change in quantity demanded is 4%
- % change in income is 8.5%
- $4\% \div 8.5\% = 0.47$
- YED is 0.47
- YED is between 0 and 1 so the meal deals are a normal good

Answer to practice question 4 on page 11

- % change in quantity demanded needs to be calculated
- New = 800, Old = 700
- $800 - 700 / 700 \times 100$
- 14.29% (rounded up)

Now put the result into the YED formula

- % change in quantity demanded is 14.29%
- % change in income is 2.2% (given in the question)
- $14.29\% \div 2.2\% = 6.495$
- YED is 6.50 (rounded up to two decimal places)
- YED value is larger than 1 so a dog bed is a luxury good