Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**1.2.5 Income elasticity of demand**

1. Fill in the gaps.

Income elasticity of demand is a \_\_\_\_\_\_\_\_\_ of how \_\_\_\_\_\_\_\_\_ demand is to a \_\_\_\_\_\_\_\_\_ in \_\_\_\_\_\_\_\_\_ . A product that is income inelastic will have a coefficient between \_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_ . A product that is income \_\_\_\_\_\_\_\_\_ will have a coefficient \_\_\_\_\_\_\_\_\_ than \_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_ than \_\_\_\_\_\_\_\_\_ .

1. Which one of the following products is most likely to have an income elasticity of demand of -0.4?
   1. Tesco’s finest dark chocolate
   2. Coffee beans
   3. Semi-skimmed milk
   4. Garden furniture

Explanation:

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

1. Explain, with the use of an example, why the demand for a luxury product will have a YED of +1.5 when incomes are rising.

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1. Give an example of a product that is likely to have a YED close to zero. Justify your answer.

Product: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Justification: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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