

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

12 August 2010 Total Possible Marks: 11

## Income Elasticity of Demand

Complete in pen or pencil and hand into your teacher when ready. Each multiple choice question carries one mark. Select one answer only.



- 1. Income elasticity of demand is defined as  
1 \_\_\_\_\_
- 2. When demand for a product is income inelastic, the percentage change in quantity demanded is  
1 [A] \_\_\_\_\_ the percentage change in income
- 3. The income elasticity of demand for a normal good is always  
1 \_\_\_\_\_
- 4. It was estimated in 2003 that milk has an income elasticity of demand of -0.6. What can be  
1 concluded about milk from this information?  
\_\_\_\_\_
- 5. An income reduction of 15% causes Geoff to increase his purchases of minced beef by 10%.  
1 Which of the following statements is most likely to be correct?
- A. The income elasticity of demand for minced beef is  $-\frac{2}{3}$  and ground beef is a superior good
  - B. The price elasticity of demand for ground beef is -1.5 and ground beef is a normal good
  - C. The income elasticity of demand for minced beef is  $-\frac{2}{3}$  and ground beef is an inferior good
  - D. The price elasticity of demand for ground beef is  $-\frac{2}{3}$  and minced beef is a normal good
- 6. The income elasticity of demand for private dental services, rental movie services, and private (or  
6 own) label clothing available in supermarkets have been estimated to be +2.5, +0.8, and -1.5 respectively.

Write an answer interpreting these coefficients for income elasticity

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