



IB Economics: [www.IBDeconomics.com](http://www.IBDeconomics.com)

### 1.7 INCOME ELASTICITY OF DEMAND: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

#### 1. IB ECONOMICS PAPER 1 EXAMINATION QUESTIONS

- Examine the importance to producers of price elasticity of demand **and** income elasticity of demand. **[15 marks]**
- Examine the implications for producers and for the economy of a relatively low YED for primary goods, a relatively higher YED for manufactured goods, and an even higher YED for services. **[15 marks]**
- Using examples, explain the factors that cause YED to have (i) a positive or negative value, and (ii) a value of less than one or a value greater than one. **[10 marks]**
- Using the concept of YED, examine why primary industries such as agriculture are often perceived as being in decline. **[10 marks]**

## Exam Practice Questions: 1.7: Income Elasticity of Demand

## 2. IB ECONOMICS HL PAPER 3 EXAMINATION QUESTIONS

## Question One

[25 marks]

Use the following information to answer questions (a.) and (b.). After a pay rise, Annabel's annual income increased from \$32 000 to \$40 000. Her spending on purchases of bread decreased by 6%, and her spending on other food items and restaurant dining increased by 14% and 45% respectively.

- a. State the elasticity of demand concept that applies to this financial information, and calculate the demand elasticities for each of the three goods. [7 marks]
- b. For each of the three values calculated in (b.) above, outline which good is a luxury good, a necessity good, and an inferior good. [3 marks]
- c. Sketch diagrams showing the relationship between consumer spending and level of income on luxury goods, necessity goods, and an inferior goods. [3 marks]

Use the following information to answer questions (d.), (e.) and (f.). The real GDP per capita of New Zealand increased by 23% in the ten years 2006-2016. Over this time, new car sales increased from 50 000 to 65 000 units, petrol sales increased from 260 million litres to 310 million litres, and intercity bus rides declines from 43 million to 38 million trips. Holding all other factors that affect demand constant:

- d. Calculate the income elasticity of demand (YED) for new cars **and** comment on the result. [3 marks]
- e. Calculate YED for petrol **and** comment on the result. [3 marks]
- f. Calculate YED for city-to-city bus rides **and** comment on the result. [3 marks]

Use the following information to answer question (g.). Good X has  $YED = 0.4$ . Current annual sales are 25 000 units. The economy is expected to see a decline in real per capita incomes of 5% next year as the country enters its second year of recession.

- g. Calculate the estimated sales of good X for next year and comment on the result. [3 marks]