

1.5 — Demand - Practice Problems

ECON 306

You can spend your income on apples and oranges. Apples currently cost $\text{\$/0.25}$ and oranges cost $\text{\$/0.50}$. When your income is $\text{\$/40}$, you buy 10 apples and 8 oranges. When your income increases to $\text{\$/80}$, you buy 12 apples and 6 oranges

1. What type of good are apples (inferior, necessity, luxury)? Calculate the income elasticity of demand.
2. What type of good are oranges (inferior, necessity, or luxury)? Calculate the income elasticity of demand.

You can have cereal and milk for breakfast. When milk is $\text{\$/2/gallon}$, you consume 5 bowls of cereal per week. When milk increases to $\text{\$/4/gallon}$, you consume 4 bowls of cereal per week.

3. What is the relationship between these two goods?
4. Calculate the cross-price elasticity of demand.