

$$e_{y^d} = \frac{\% \text{ change in demand}}{\% \text{ change in Income}}$$

If the $\% \Delta Q^d$ is

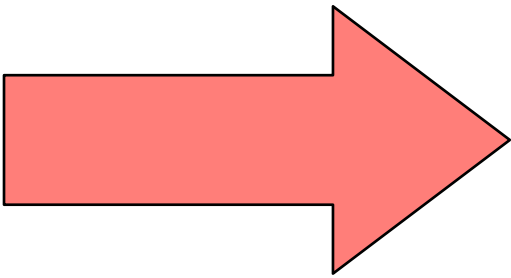
larger than the $\% \Delta Y$

If the $\% \Delta Q^d$ is

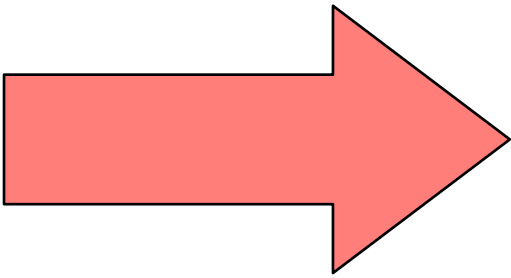
smaller than the $\% \Delta Y$

If the $\% \Delta Q^d$ is
equal to the $\% \Delta Y$

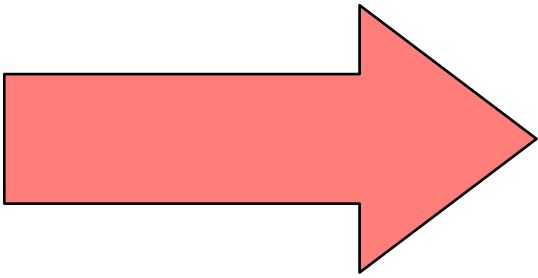
The elasticity will
be a number
larger than one



The elasticity will
be a number
smaller than one



The elasticity will be
a number equal to
one



$$e_{y^d} = \frac{\% \Delta Q^d = 60\%}{\% \Delta Y = 10\%}$$

eyd = 6

Demand is Income
Elastic

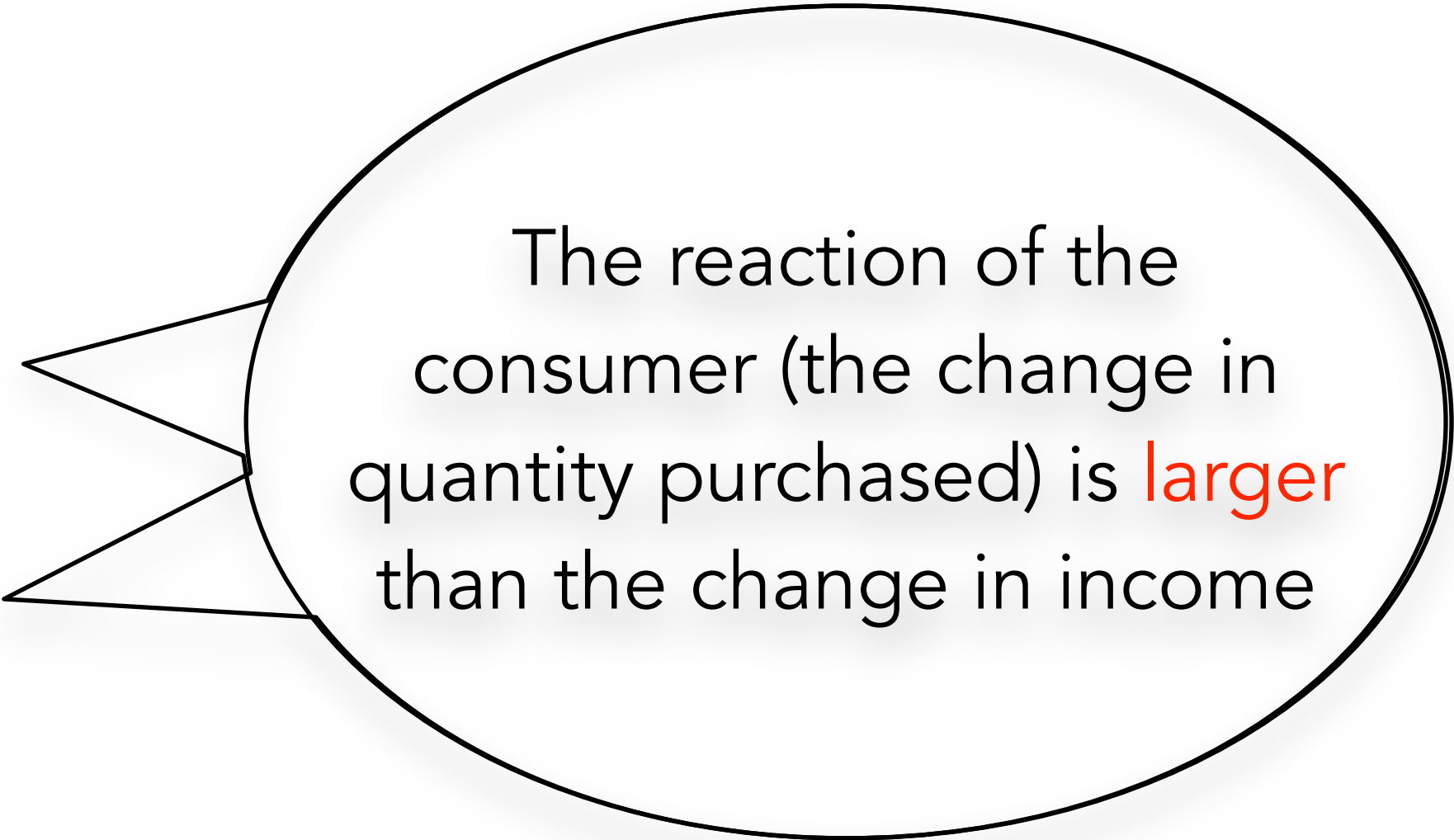
$$e_{y^d} = \frac{\% \Delta Q^d = 12\%}{\% \Delta Y = 25\%}$$

$$e_y^d = 0.48$$

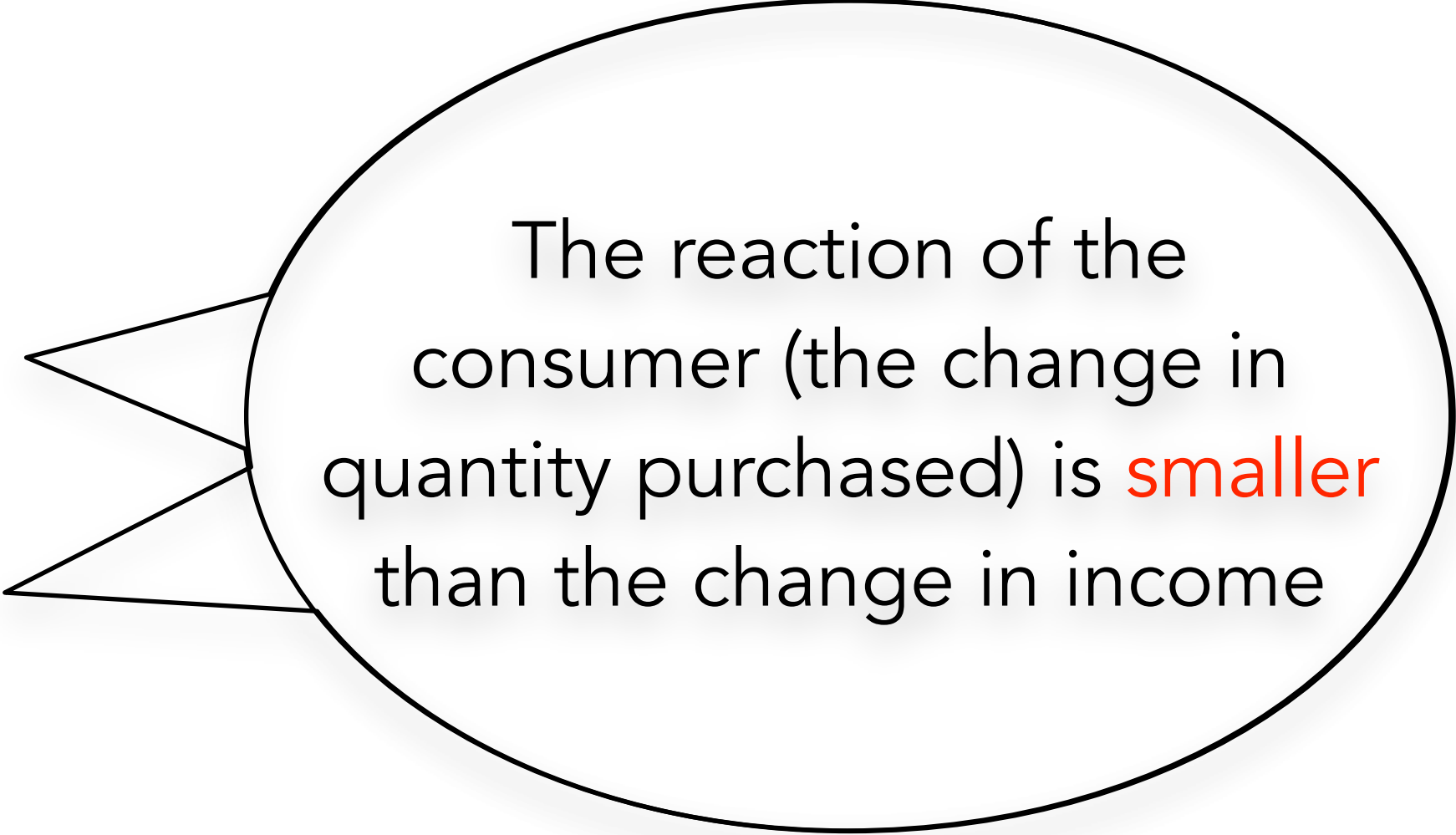
Demand is
Income Inelastic

$$e_{y^d} = \frac{\% \Delta Q^d = 12\%}{\% \Delta Y = 12\%}$$

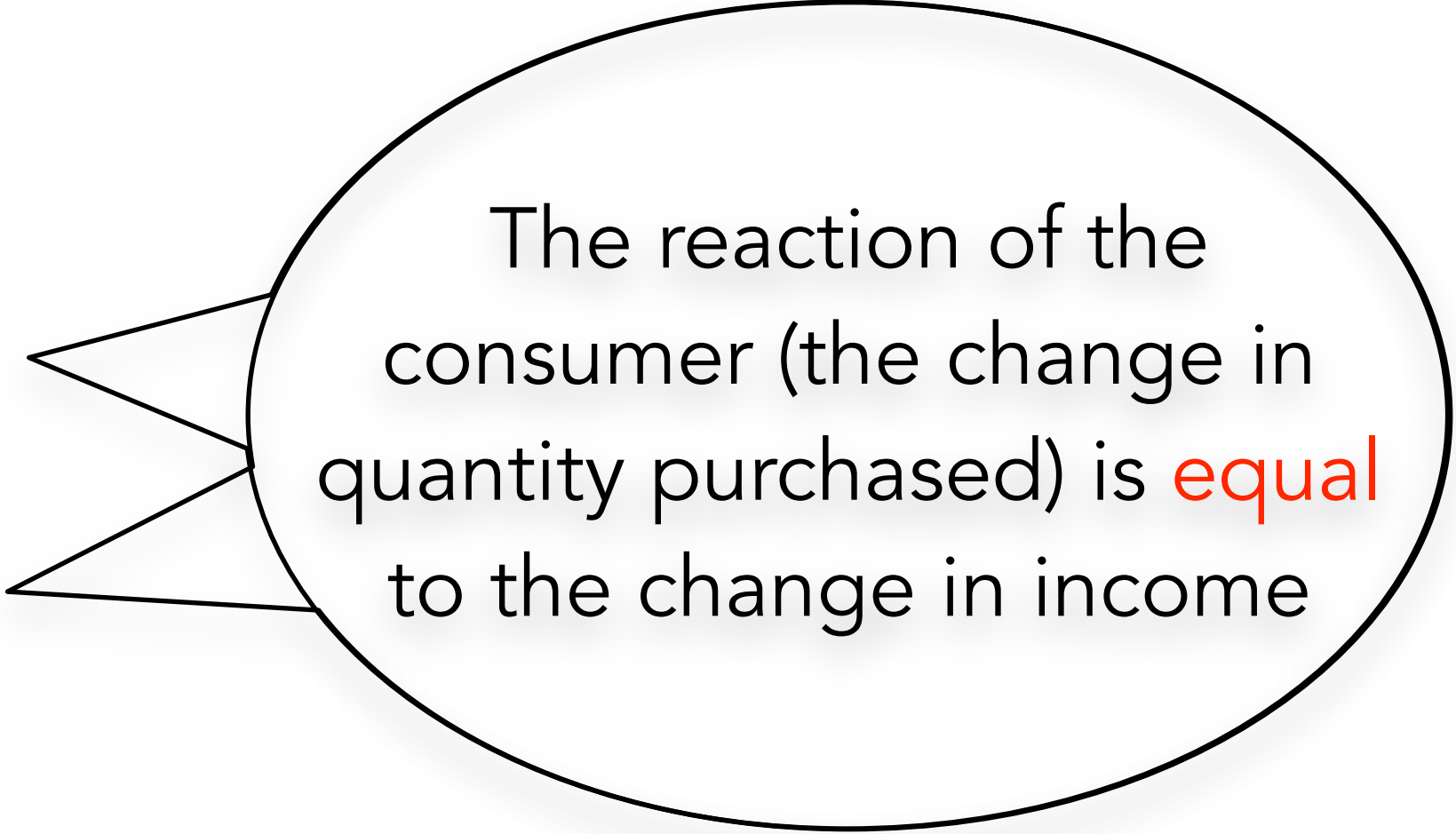
$$e_y d = 1$$



The reaction of the
consumer (the change in
quantity purchased) is **larger**
than the change in income



The reaction of the
consumer (the change in
quantity purchased) is **smaller**
than the change in income



The reaction of the
consumer (the change in
quantity purchased) is **equal**
to the change in income

$$e_y^d = \frac{\% \text{ change in demand}}{\% \text{ change in Income}}$$

$$e_y^d = \frac{\% \Delta Q^d = 60\%}{\% \Delta Y = 10\%}$$

Demand is Income Elastic
 $e_y^d = 6$

$$e_y^d = \frac{\% \Delta Q^d = 12\%}{\% \Delta Y = 25\%}$$

Demand is Income Inelastic
 $e_y^d = 0.48$

$$e_y^d = \frac{\% \Delta Q^d = 12\%}{\% \Delta Y = 12\%}$$

The reaction of the consumer (the change in quantity purchased) is **equal** to the change in income

$e_y^d = 1$

The **sign** of the Income Elasticity tells us what **kind** of good it is....