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

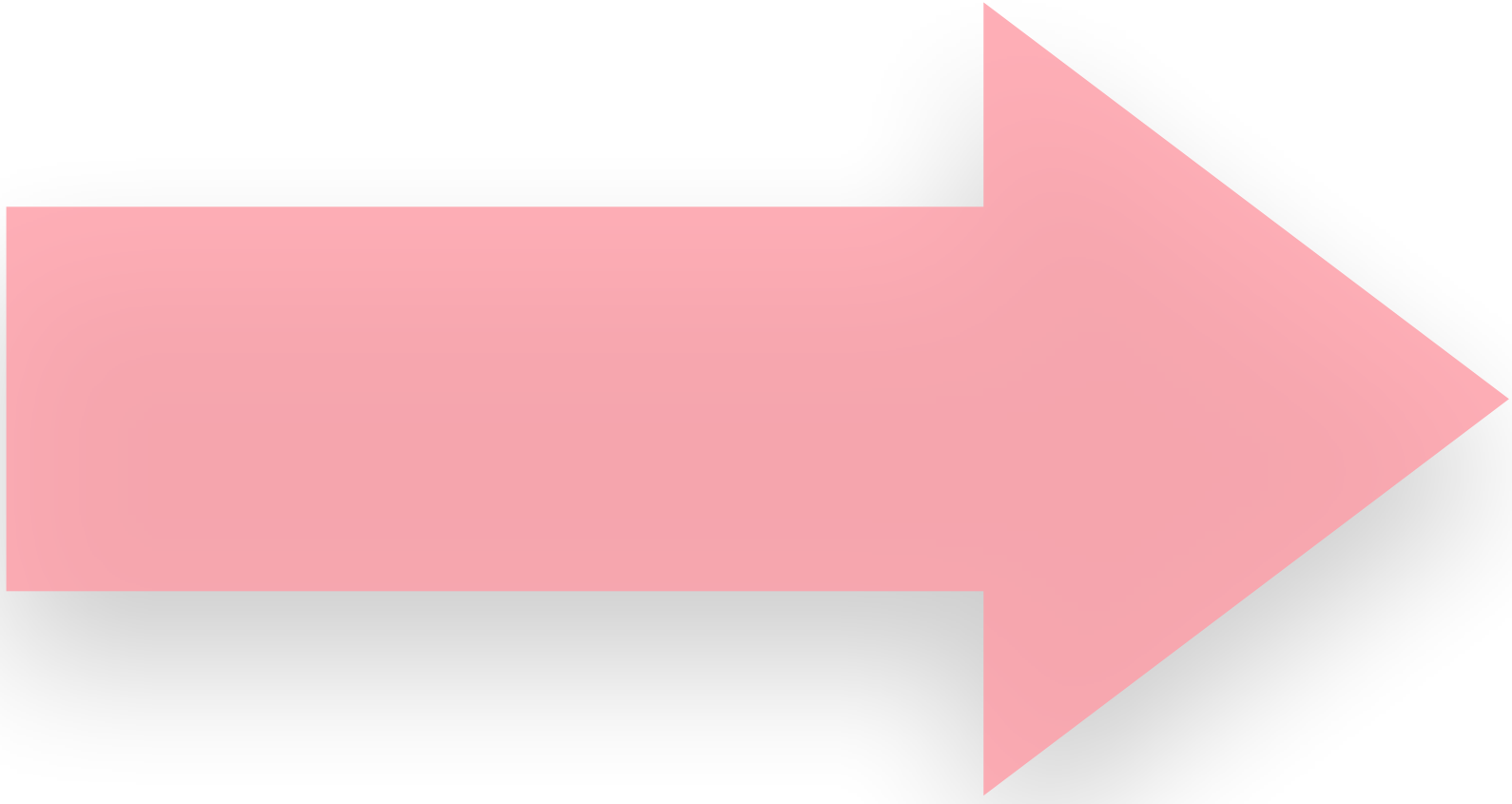
If the $\%\Delta D$ is **larger** than the $\%\Delta Y$

If the $\%\Delta D$ is **smaller** than the $\%\Delta Y$

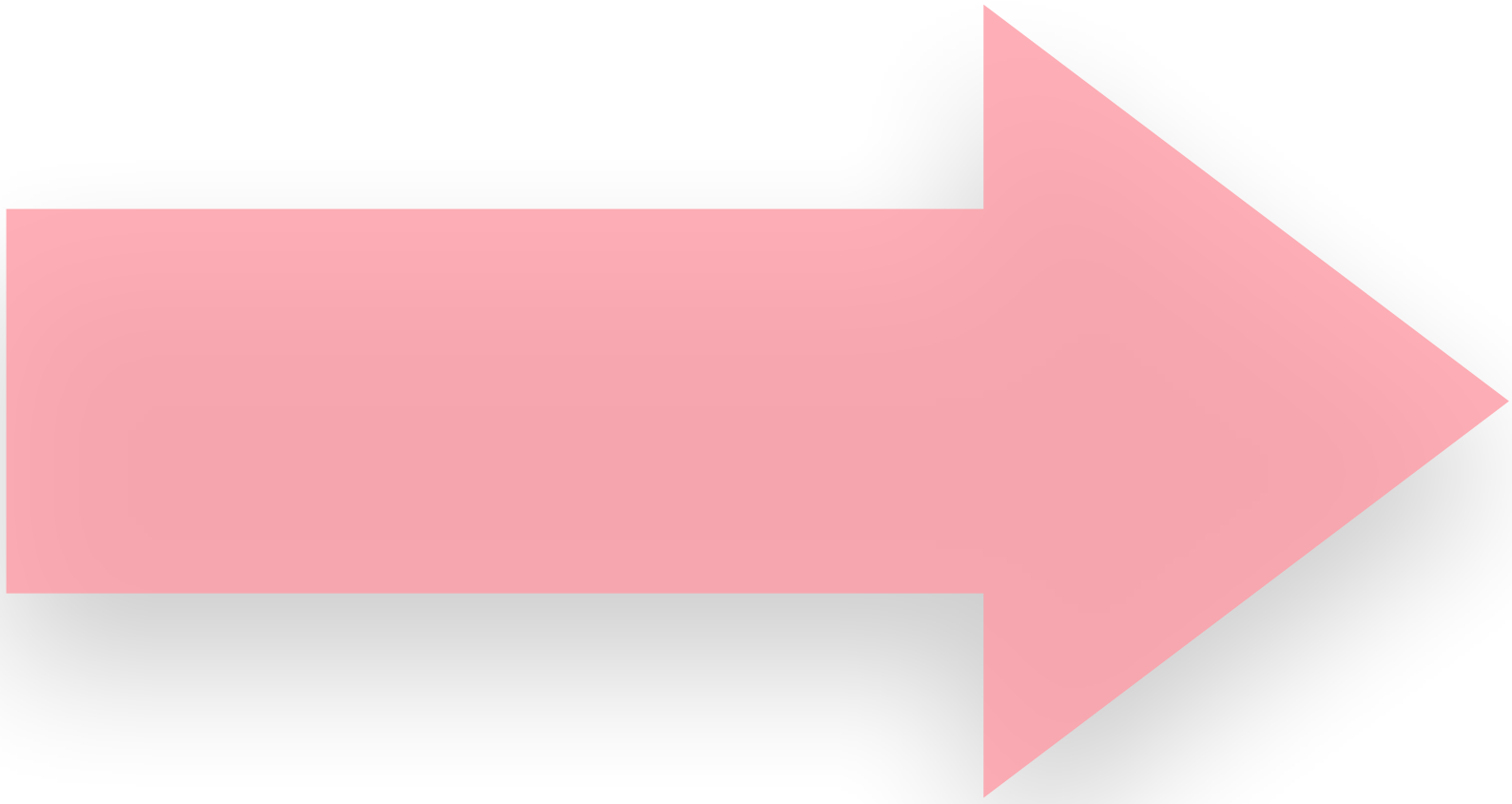
If the $\%\Delta D$ is

equal to the $\%\Delta Y$

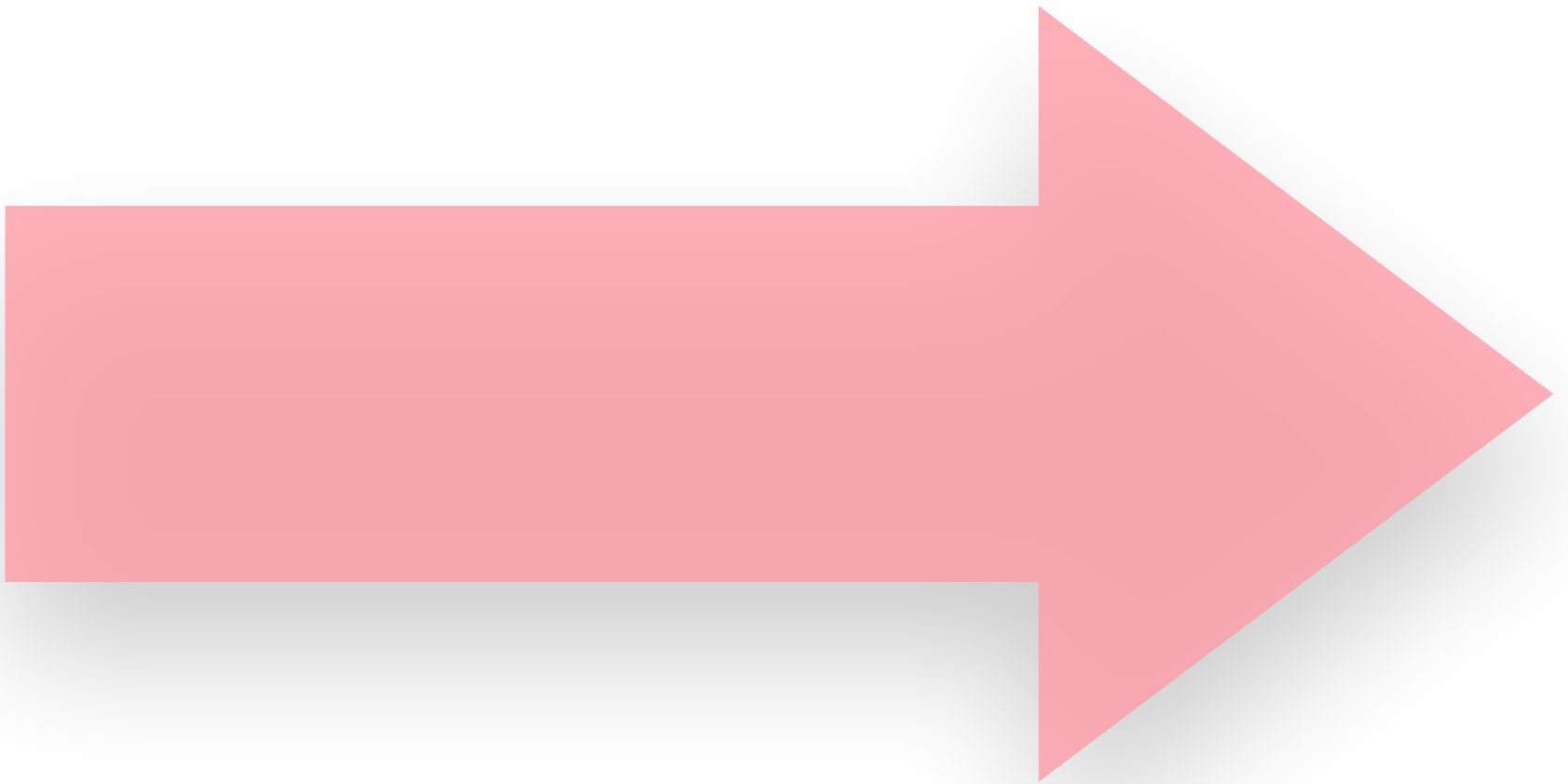
The elasticity will be a number **larger** than one



The elasticity will be a number **smaller** than one



The elasticity will be **equal** to one



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

$$e_y{}^d = 6$$

Demand is Income Elastic

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

$$e_y^{d} = 0.48$$

Demand is Income Inelastic

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

$$e_y{}^d = 1$$

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

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

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

Demand is Income Elastic

$e_y^d = 6$

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

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….