



**F**







**N**







m

a



g





d

**S**



d

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d



n





m

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h

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S

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e

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**S**

e



d

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n







e

a

**S**

e



Income Elasticity for  
Normal Goods is  
Positive



eyd > 1

eyd

<1

Luxuries: are Normal  
goods with income  
elastic demands

Necessities: are  
Normal goods with  
income inelastic  
demands

eyd ≥ 0

For Inferior goods demand and income  
move in **opposite** direction: when income  
increase, demand decrease

Income  
Elasticity for  
Inferior Goods  
is Negative





eyd < 0

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

For Normal goods demand and income move in the **same** direction: when income increase, demand increase

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

For Normal goods demand and income move in the **same** direction: when income increase, demand increase

Income Elasticity for  
**Normal** Goods is  
**Positive**

$$+ e_y^d > 0$$

$$e_y^d > 1$$

**Luxuries:** are **Normal** goods with income **elastic** demands

$$e_y^d < 1$$

**Necessities:** are **Normal** goods with income **inelastic** demands

For Inferior goods demand and income move in **opposite** direction: when income increase, demand decrease

Elasticity for  
**Inferior** Goods  
is **Negative**

$$- e_y^d < 0$$

# Cross Price Elasticity of Demand