## Income Elasticity of Demand: Variation Theory

**Answer left to right**.

**ARHI** is Average Real Household Income. (Real means adjusted for inflation.)

Think carefully about how each question has changed from the ones before, and how that effects the answer. Every **variation** is chosen carefully to teach you something.

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £20,200 |
| Old Sales | 1500 |
| New Sales | 1515 |
| YED | |

| | |
|---|---|
| Old ARHI | £10,000 |
| New ARHI | £10,100 |
| Old Sales | 1500 |
| New Sales | 1515 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £20,200 |
| Old Sales | 100 |
| New Sales | 99 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £22,000 |
| Old Sales | 1500 |
| New Sales | 1800 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £18,000 |
| Old Sales | 1500 |
| New Sales | 1200 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £22,000 |
| Old Sales | 1500 |
| New Sales | 2250 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £22,000 |
| Old Sales | 1500 |
| New Sales | 1650 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £18,000 |
| Old Sales | 1500 |
| New Sales | 1470 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £22,000 |
| Old Sales | 1500 |
| New Sales | 1515 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £22,000 |
| Old Sales | 1500 |
| New Sales | 1500 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £18,000 |
| Old Sales | 1500 |
| New Sales | 1650 |
| YED | |

| | |
|---|---|
| Old ARHI | £20,000 |
| New ARHI | £22,000 |
| Old Sales | 1500 |
| New Sales | 750 |
| YED | |

In your book:

1) After a 20% increase in Average Real Income, sales of Good A increased from 800 to 1000. Find the YED.
2) After a 25% fall in Average Real Income, sales of Good B increased from 800 to 1000. Find the YED.
3) If the YED is -2, and incomes fall by 40%, how much will sales change by?
4) I took a 30% pay cut, and started buying 60% more products from shop X. Is shop X more likely to be **ALDI, Sainsbury's** or **Marks' & Spencer's**?
5) The YED is 1.5. Sales are at 300 per month, last year they were at 100 per month. What happened to incomes?