

2.5 Other Elasticities

Name: _____ Class: _____ Date: _____

Total: 9 marks

KEY WORDS cross-price elasticity 交叉价格弹性 • income elasticity 收入弹性 • elastic 富有弹性
• demand 需求 • price elasticity of demand 需求价格弹性

Objective

Build the skills to answer exam questions on **other elasticities**.

You must be able to:

- define and calculate **cross-price elasticity of demand** 交叉价格弹性
- use its sign to classify goods as **substitutes** or **complements**
- define and calculate **income elasticity of demand** 收入弹性
- use its sign to classify goods as **normal** or **inferior**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Cross-price elasticity

$$XED = \frac{\% \Delta Q_d \text{ of good A}}{\% \Delta P \text{ of good B}}.$$

Positive → substitutes; **negative** → complements.

■ Income elasticity

$$YED = \frac{\% \Delta Q_d}{\% \Delta \text{income}}.$$

Positive → normal good; **negative** → inferior good.

2 Practice

2.1 State what a **positive** cross-price elasticity means about two goods.

[1]

2.2 State what a **negative** income elasticity means about a good. [1]

2.3 When income rises 10%, demand for a good falls 5%. Find the income elasticity and classify the good. [2]

3 Exam-style questions

3.1 Two goods with a **negative** cross-price elasticity are [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** substitutes
 - B** complements
 - C** normal goods
 - D** inferior goods

3.2 A normal good has an income elasticity that is [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** negative
 - B** zero
 - C** positive
 - D** infinite

3.3 The price of tea rises 20% and the quantity of coffee demanded rises 10%.

(a) Find the cross-price elasticity. [2]

(b) State whether tea and coffee are substitutes or complements. [1]