Income elasticity of demand

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  - *inferior good* (negative): increase in income results in *decrease* in demand

Good	Income elasticity	Elastic or inelastic	Type of good	The effect of a 10% increase in income
Product W	0.6	Inelastic	Normal	Demand would increase by 6%
Product X	–2.4	Elastic	Inferior	Demand would fall by 24%
Product Y	1.9	Elastic	Normal	Demand would rise by 19%
Product Z	–0.8	Inelastic	Inferior	Demand would fall by 8%

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  - Relatively *expensive* products will be *income elastic*

THE SIGNIFICANCE OF INCOME ELASTICITY OF DEMAND TO BUSINESS

Businesses may use income elasticity of demand in order to *predict* how changes in income (in the economy) will affect the demand for their products:

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  - in countries with *steady economic growth*, the demand for *inferior goods* and *normal necessities* tends to decline

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    2. Products that are *inferior goods* prepare production when recession is coming (demand for inferior goods *increase* when income goes down)

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