EDEXCEL

100 Worksheets for
iGCSE

ECONOMICS

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1.1.4 Income elasticity

1. Missing words

Income elasticity of demand measures the extent to which a change in income affects _____. It is often abbreviated to YED. Unlike price elasticity of demand, income elasticity can be either _____ or _____. Most goods have a _____ income elasticity of demand. If a product has a positive income elasticity of demand, when income increases, demand for the good _____. Goods for which demand increases (approximately) in line with rising incomes are called _____ goods. Goods for which an increase in income is followed by a more than proportionate change in demand are called _____ goods. However, for some goods, an increase in income will lead to a fall in demand. These goods have a _____income elasticity of demand. These goods are called _____ goods. **HINT: words from luxury, positive, inferior, demand, normal, negative, positive/negative, positive/negative, increases**

2. Calculations (1)

2.1 What is the formula for calculating income elasticity of demand? _____

2.2 In America's Midwest in early 2024 a 1% fall in real incomes led households to cut back their spending on anti-ageing creams by 10%, yet they spent 5% extra on meals at McDonalds.

ai) Calculate the income elasticity of anti-ageing creams (in the Midwest) _____

aii) Are anti-ageing creams luxuries, necessities or inferior goods? _____

bi) Calculate the income elasticity of McDonalds (in the Midwest) _____

bii) Are McDonalds meals luxuries, necessities or inferior goods? _____

3. Match the letters to the numbers, i.e. one from the middle & one from the right column to match 3.1 to 3.4.

	TYPES OF PRODUCT	MATCHING MATHS
3.1 A normal good	A. Eating out at an expensive restaurant	V. Negative YED
3.2 A luxury good	B. Buying rolls of toilet paper	W. Income elasticity of +0.1
3.3 An inferior good	C. Buying an umbrella	X. Positive YED much higher than 1
3.4 A good with very low income elasticity (highly income inelastic)	D. Buying clothes	Y. Income elasticity of exactly +1
	E. Tesco Value Baked Beans	Z. Positive YED of around 1

4. Calculations (2)

Manchester United has calculated that its football shirts have an income elasticity of around +0.8. In 2023/24 sales of one million of its replica shirts brought in £40 million to the club. The Chief Executive has just seen the UK Treasury's June 2025 economic forecast. It says that the most pessimistic independent forecast for 2024/25 real incomes is a change of -1% and the most optimistic is +3%. The Chief Executive has decided that there will be no price changes in shirts for the coming year and wants you to work out:

4.1 The worst case forecast for Manchester United shirt sales (in £s) in 24/25 _____

_____

4.2 The best case forecast for Manchester United shirt sales (in £s) in 24/25 _____

_____

1.1.4 ANSWERS – Income elasticity

1. demand … positive or negative … positive … increases … normal … luxury … negative … inferior

2.1 Income elasticity = <u>% change in quantity sold</u>
$\qquad$ % change in real incomes

2.2ai) Income elasticity = <u>% change in quantity sold</u>   = <u>-10%</u> = +10
$\qquad$ % change in real incomes $\qquad$ -1%

2.2aii) Luxury good

2.2bi) Income elasticity = <u>% change in quantity sold</u>   = <u>+5%</u> = - 5
$\qquad$ % change in real incomes $\qquad$ -1%

2.2bii) Inferior good

3.1 D, Z

3.2 A, X

3.3 E, V

3.4 B (though C is also OK), W

4.1 Pessimistically, sales will fall by −1% x + 0.8 x 1m = 992,000 x £40 = £39,680,000

4.2 Optimistically, sales might rise by +3% x + 0.8 x 1m = 1,024,000 x £40 = £40,960,000

## 2.1.1a Economic cycle

1. Missing words

The economic (or t_____) cycle is the tendency in free _____ economies for demand and output to move up and down in a wave-like motion. Between 1946 and 1981, this cycle lasted for about five years, in other words from the peak to the _____ was about two and a half years and the upturn lasted for about the same time. Fortunately, because the underlying _____ in demand was moving ahead quite rapidly, the upturns were sharp and the downturns quite minor. Since 1980/81, the length of the upturns has increased, though the downturns have been severe, especially 2009. The key to the economic cycle is to know that it is real, but not predictable. **Choose the missing words from: trend, trade, trough, market, developing**

2. Cause or effect?

Put a C, an E or both by the following, depending on whether they are a probable cause or effect of recessions (or possibly both cause and effect)

2.1. Deliberate destocking by firms	2.5. Cutbacks in consumer spending
2.2. Sharp rise in interest rates	2.6. Government anti-inflationary policies
2.3. Retrenchment programmes undertaken by firms	2.7. Rising demand for 'inferior' goods
2.4. Excess business investment leading to saturation	2.8. Cutbacks in spending on durables and luxuries

3. Data Response

4 quarter % change in GDP 1979-2019
Source: ONS Feb 2025
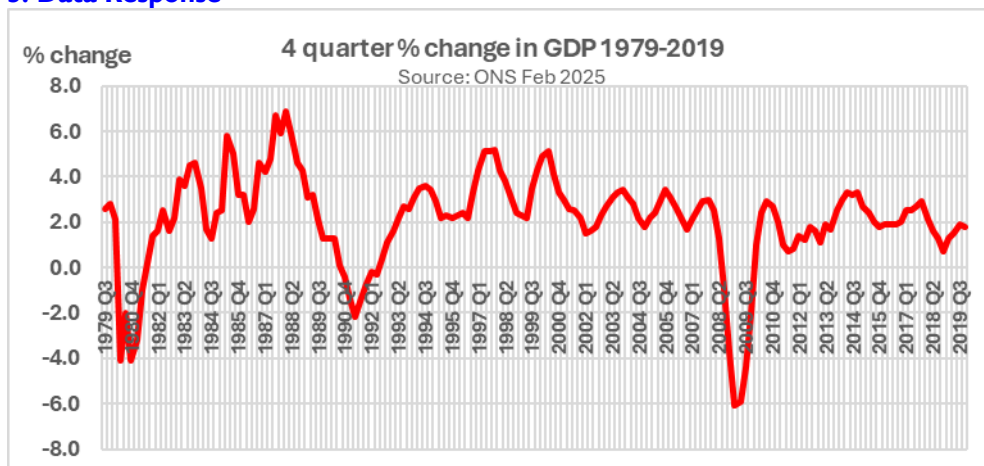
Recessions can be short & sharp or longer & more drawn out. Briefly describe the 1990 and the 2009 recessions.

1990 _____

_____

_____

2009 _____

_____

_____

4. What happens in which phase of the cycle? Match 2 characteristics to each phase.

Phase of the Cycle	Ans	Characteristics	Characteristics
1. Slump		A. Rising wage and price inflation	W. Many new business start-ups
2. Upturn		B. Business investment low, but not falling	X. Interest rates falling
3. Boom		C. Firms may be building up stock levels	Y. High unemployment
4. Recession/downturn		D. Import levels are starting to decline	Z. Growth, but no sign of inflation yet

2.1.1a ANSWERS – Economic Cycle

1. trade … market … trough … trend

2.1 C and E

2.2 C

2.3 E

2.4 C

2.5 C and E

2.6 C

2.7 E

2.8 E

3. 1990: very long and drawn-out slowdown (from 1988) with a small dip into recession (negative growth) and a slow recovery

3. 2009: very sharp downturn (most severe in the time period 1949-2014) with an equally sharp upturn, though after that recovery the ongoing rate of growth was lower than in the recovery period from earlier recessions

4.1 B, Y

4.2 C, Z

4.3 A. W

4.4 D, X