IGCSE ECONOMICS · 1.1 THE MARKET SYSTEM · CHAPTER 10 · PAPER 1

Income Elasticity of Demand

Topic question sheet L10 | **Total: 33 marks** | **Time: 35 minutes** | **Student Book pp. 63–69**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 Which of the following shows the income elasticity of demand for an inferior good? **(1)**

A −1.2 **B** 1.7
C 1.9 **D** 0.7

2 The PED for a product is −2.4. If its price rises by 10%: **(1)**

A demand falls by 10% **B** total revenue rises
C total revenue falls **D** demand rises by 24%

3 A YED of +0.3 shows that a good is: **(1)**

A a luxury **B** a necessity
C an inferior good **D** income elastic

4 Governments prefer to place indirect taxes on goods with: **(1)**

A price elastic demand **B** price inelastic demand
C negative YED **D** many substitutes

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 State the formula for income elasticity of demand. **(1)**

6 Using the table, calculate the YED for foreign holidays. You are advised to show your working. **(2)**

7 Calculate the YED for second-hand clothes and state what type of good they are. **(2)**

8 Explain the difference between a necessity and a luxury, using YED. **(3)**

9 Explain one reason why a government might give a subsidy to farmers. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Incomes and spending in Oranland

Average incomes in Oranland rose by 6% in 2025. The table shows the change in the quantity demanded of three products.

Skyway Airlines is deciding whether to order more aircraft. Economists predict that incomes in Oranland will keep rising by about 5% a year, but some warn that a recession is possible within three years.

Product	% change in quantity demanded
Foreign holidays	+15%
Bread	+1.2%
Second-hand clothes	−3%

Fictional case, written for this sheet.

10 With reference to the extract, analyse how knowledge of YED could help Skyway Airlines. **(6)**

11 With reference to the extract, evaluate whether Skyway Airlines should order more aircraft now. **(12)**

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Mark scheme: Income Elasticity of Demand

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *Which of the following shows the income elasticity of demand for an inferior good? (1 mark)*

Answer: A (−1.2). Inferior goods have a negative YED.

2 *The PED for a product is −2.4. If its price rises by 10%: (1 mark)*

Answer: C (total revenue falls). Demand is elastic, so revenue falls.

3 *A YED of +0.3 shows that a good is: (1 mark)*

Answer: B (a necessity). Positive but less than 1.

4 *Governments prefer to place indirect taxes on goods with: (1 mark)*

Answer: B (price inelastic demand). Sales fall little, so revenue stays high.

Section B

5 *State the formula for income elasticity of demand. (1 mark)*

% change in quantity demanded ÷ % change in income (1).

6 *Using the table, calculate the YED for foreign holidays. You are advised to show your working. (2 marks)*

Working: 15% ÷ 6% (1).

Answer: +2.5 (1).

7 *Calculate the YED for second-hand clothes and state what type of good they are. (2 marks)*

Working: −3% ÷ 6% = −0.5 (1).

Answer: −0.5, an inferior good (1).

8 *Explain the difference between a necessity and a luxury, using YED. (3 marks)*

Point: a necessity has YED between 0 and +1; a luxury above +1 (1).

Development: demand for necessities changes less than proportionately with income (1), e.g. bread +1.2% vs holidays +15% when incomes rose 6% (1).

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9 *Explain one reason why a government might give a subsidy to farmers. (3 marks)*

Point: to lower food prices (1).

Development: a subsidy shifts supply right (1); because demand for food is price inelastic, the price falls a lot, helping poor households (1).

Section C

10 *With reference to the extract, analyse how knowledge of YED could help Skyway Airlines. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): YED measures response of demand to income; air travel is income elastic.

Application (2): holidays YED +2.5; incomes expected to rise 5% a year.

Analysis (2): demand for flights will grow about 12.5% a year, so Skyway can order aircraft in advance; but demand would fall sharply in a recession, so it must plan for that risk.

Knowledge 2 · Application 2 · Analysis 2.

11 *With reference to the extract, evaluate whether Skyway Airlines should order more aircraft now. (12 marks · levels)*

For: YED +2.5 means demand grows much faster than incomes; incomes forecast to rise 5% a year; aircraft take years to deliver, so order early.

Against: possible recession within 3 years would cut demand sharply (income elastic); aircraft are very expensive; forecasts may be wrong; competition from other airlines; fuel prices.

Judgement: a smaller or flexible order (options, leasing) balances growth and recession risk; depends on reliability of forecasts and Skyway's finances.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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