



Price effect on Demand:	Higher price will result in	Lower price will result in
Normal Good	Lower Demand	Higher Demand
----- Good	Higher Demand	**Demand will fall but greatly fall
----- Good	Higher Demand	***Greater fall in demand
Inferior Good (Kerosene, coarse grains)	Higher INCOME = Lower Demand	Lower INCOME = Higher Demand

41.3 DEMAND ELASTICITY TYPE#2: AGAINST INCOME OF PEOPLE

- Effect of people’s income on demand of a good is called ‘**Income Effect**’.
- Graphs showing the relationship between income and demand are called, “**Engel Curves**” named after German Statistician Ernst Engel.
- For Normal good, Income of people (y- axis) vs Quantity demanded (x-axis) shows a positive slope () i.e. As your income increases, the demand of that good increases. (that is the definition of a ‘normal good’)

41.3.1 Normal Good: Demand Elasticity with respect to income

- **Ei = 1:** Demand may **unitary** elastic IF 10% salary rise = 10% demand rise.
- **Ei > 1:** Demand may relatively **more elastic** IF 10% salary rise → More than 10% demand rise e.g. mobile phones, movie tickets, Swiggy food orders, air travel & other luxury goods.
- **0 < Ei < 1:** Demand may **relatively inelastic** IF 10% salary rise → demand grows but at less than 10% e.g. daily necessities like soap, toothpaste because salary increase doesn't mean daily you'll brush & bath four times a day.
- **Ei = 0:** Demand may **perfectly inelastic** for inexpensive essential items: salt, matchbox. So, increase or decrease in salary may have no effect on its demand.

41.3.2 Inferior Good: Demand Elasticity with respect to Income

- When a Gullyboy becomes a famous Rapstar, he'll shift (substitute / replace) consumption pattern from Maize to Wheat, Kerosene stove to LPG stove.
- So, Inferior goods (with substitutes) like Maize, Bajra, Kerosene will show negative Income elasticity e.g. 10% salary rise → “x%” fall in their demand. Accordingly, they'll have a **Negative-slope** () . ----- .
- Thus, we can say demand for normal goods is directly related to the income of the buyer but demand for inferior goods is inversely related to the income of the buyer.

MCQ. Income elasticity of demand for inferior good is (Asked in UPSC-CDS-2013-II)

- (a) Less than one (b) Less than zero (c) Equal to one (d) Great than one

MCQ. In view of the fact that kerosene is an inferior good in India, what is/are its implication(s)? (Asked in UPSC-CDS-2015-II)

1. As households get richer, they consume less kerosene.
2. Over time there is a decline in quality of kerosene.