

SECTION 5.3 OTHER DEMAND ELASTICITIES

17. $20 \text{ percent} \div -10 \text{ percent} = -2$

18. a. substitutes
b. complements

Note: Do not confuse the elasticity of demand, where the dividing line between elastic and inelastic is an elasticity of demand equal to minus 1, with cross elasticity of demand, where the dividing line between substitutes and complements is a cross elasticity of demand of zero.

19. If the income elasticity of demand for a good is positive, it is a normal good. If it is negative, it is an inferior good.
20. The cross elasticity of demand for this example is obtained by dividing the percentage change in quantity demanded for tea (25percent) by the percentage change in the price of coffee (10percent). The cross elasticity is 2.5.