Answer on Question #40697 – Economics – Microeconomics

In economics, income elasticity of demand measures the responsiveness of the demand for a good to a change in the income of the people demanding the good, ceteris paribus. It is calculated as the ratio of the percentage change in demand to the percentage change in income. For example, if, in response to a 10% increase in income, the demand for a good increased by 20%, the income elasticity of demand would be 20%/10% = 2.
So, in our case a 5% increase in consumer income, ceteris paribus will increase the quantity of furniture bought by 5%*5 = 25%.