

## DEMAND

**Demand** – is the desire to own something and the ability to pay for it

Demand schedules and demand curves illustrate how people react to different prices

When price is higher people will buy less

**Law of Demand**- consumers buy more of a good or service when its price decrease and less when its price increases

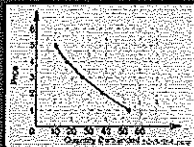
**LOD**- result of two separate patterns of behavior-  
Substitution effect  
Income effect

## Reasons for Change in Demand

- **Preference / consumer taste / trends**
- **Substitute**- Can use one in place of another. I.e. Coke and Pepsi.
- **Compliment**- Items go together. I.e. Peanut Butter and Jelly.
- **Change in population/consumer numbers.**
- **Expectations**- Think price will change in future. Perhaps a sale, or change in supply.
- **Income Effect**: Changes in your income may do the following:
  - a. **Neutral Goods**- demand remains constant with income changes (food, toilet paper)
  - b. **Normal Goods**- You buy more as your income increases. Vacations, eating out, luxury goods.
  - c. **Inferior goods**- Good you buy less as your income increases. Used items, generic brands, discount stores.

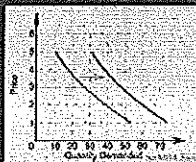
## Change in Quantity of Demand ( $\Delta QD$ ) vs. Change in Demand ( $\Delta D$ ).

**$\Delta QD$** - This occurs if a change in price has occurred, and moves along the existing demand curve, Law of Demand is in effect.



**$\Delta D$** - When some factor other than price influences demand.

- The demand curve itself shifts to the right (increase) or left (decrease).
- It causes a change in demand at every price.



## Checklist for graphing demand problems. ALWAYS DO IT EXACTLY IN THIS ORDER!

1. Read the problem, then look at graph and underline the item to be graphed.
2. Ask yourself, "Has there been a change in price of the item being graphed?"
  - If the answer is yes, then it is  $\Delta QD$ . Movement will be along the demand curve. Reason is Law of Demand.
  - If the answer is no, then it must be  $\Delta D$ . The curve itself will shift either left or right. Then you must figure out the reason. (see list on previous slide).

## Demand Worksheet #1

Define the following from Chapter 4, section 1.

Demand-

Law of Demand-

Substitution Effect-

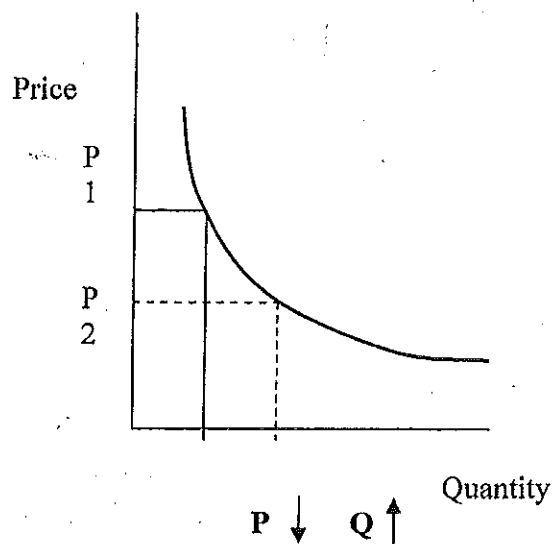
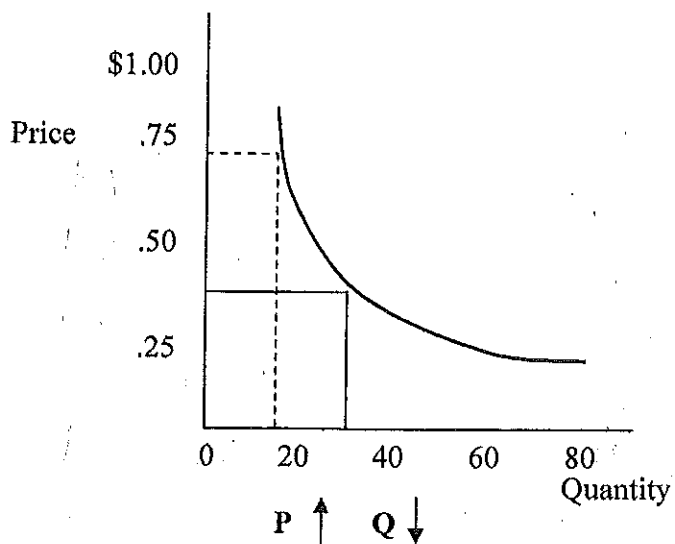
Income effect-

Demand Schedule-

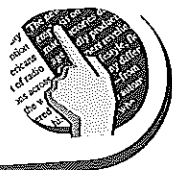
Demand Curve-

### II. Change in Quantity Demanded ( $\Delta QD$ )

This is a movement *along the demand curve* which results from changes in quantities purchased by buyers in response to *changes in the price of that good* (all other factors remain the same). When the price of the good increases, the quantity demanded will decrease (Fig. 1), and when the price of the good decreases, the quantity demanded will increase (Fig 2).



# Section 2: Guided Reading and Review Shifts of the Demand Curve



### A. As You Read

As you read Section 2, answer the following questions in the space provided.

1. What condition must exist to make a demand curve accurate? \_\_\_\_\_  
\_\_\_\_\_
2. What happens to a demand curve when there is a change in factors (other than price) that can affect consumers' decisions about purchasing the good? \_\_\_\_\_  
\_\_\_\_\_
3. How does consumer income affect the demand for normal and inferior goods? \_\_\_\_\_  
\_\_\_\_\_
4. How does consumer expectation affect demand for certain goods? \_\_\_\_\_  
\_\_\_\_\_
5. Explain how the baby boom generation affected demand for certain goods. \_\_\_\_\_  
\_\_\_\_\_
6. How are consumer tastes and advertising related? \_\_\_\_\_  
\_\_\_\_\_
7. Explain how demand for a good can affect demand for a related good. \_\_\_\_\_  
\_\_\_\_\_
8. Give an example of a substitute good. \_\_\_\_\_  
\_\_\_\_\_

### B. Reviewing Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

#### Column I

- \_\_\_ 9. all other things held constant
- \_\_\_ 10. goods whose demand increases as consumer income increases
- \_\_\_ 11. goods whose demand falls as consumer income increases
- \_\_\_ 12. goods that are bought and used together
- \_\_\_ 13. goods that are used in place of one another

#### Column II

- a. normal goods
- b. substitutes
- c. *ceteris paribus*
- d. inferior goods
- e. complements

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# DEMAND WORKSHEET #2

I. Demand schedules and graphs:

A. Use the following demand schedule to graph your friend's demand for restaurant meals at lunchtime during a two week period (label the curve D1).

		Price	
Demand Schedule			\$8
		Price	\$7
			\$6
Price	Quantity		\$5
\$3	5		\$4
\$4	4		\$3
\$5	3		\$2
\$6	2		_____
\$8	1		0 1 2 3 4 5 6 7 8 9 10
			Quantity
			Restaurant Lunches

Show on this graph what happens when the price of a lunch increases from \$4 to \$5. Is this a change in demand or a change in quantity demanded?

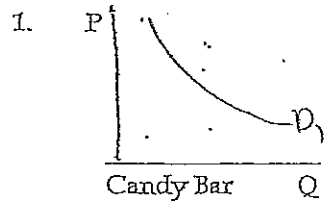
B. Now suppose your friend suddenly wins the lottery and his/her demand for this product doubles. Show this new demand schedule below and then graph this new curve with a dashed line (---) on the graph above and label it D2.

New Demand Schedule

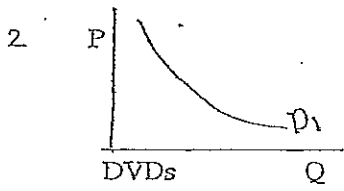
Price	Quantity
\$3	
\$4	
\$5	
\$6	
\$8	

II. For each of the following products a change in demand ( $\Delta D$ ) or a change in quantity demanded ( $\Delta QD$ ) will occur as a result of the event described.

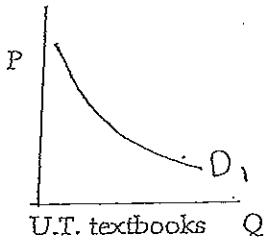
Graph each change and label new demand curves D2. Then write the symbol describing this change, and tell the reason for the change in the space provided.



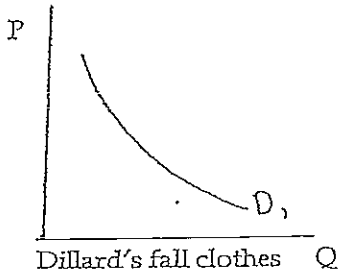
The producers of this candy bar raise the price of the candy from 50 cents to 60 cents. Will this cause  $\Delta D$  or  $\Delta QD$  for this candy? \_\_\_\_\_  
Reason? \_\_\_\_\_



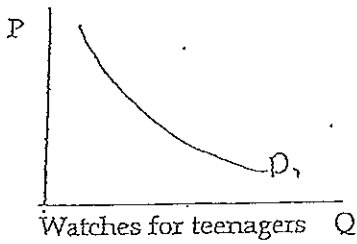
Manufacturers announce price decreases which will make the average DVD player less than \$25.00. Will this cause  $\Delta D$  or  $\Delta QD$  for DVDs? \_\_\_\_\_  
Reason? \_\_\_\_\_



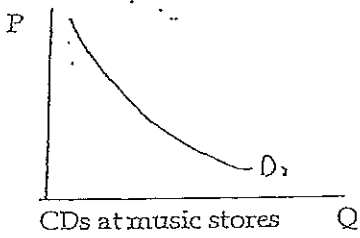
UT increases enrollment by 10%.  
 Will this cause  $\Delta D$  or  $\Delta QD$  for texts? \_\_\_\_\_  
 Reason? \_\_\_\_\_



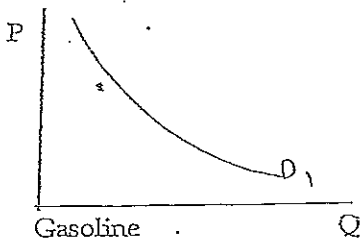
On Oct. 25, Dillard's announces a sale on its fall clothes, to begin on Nov. 1. During the period Oct. 25 - Oct. 31, will this cause  $\Delta D$  or  $\Delta QD$  for fall clothes? \_\_\_\_\_  
 Reason? \_\_\_\_\_



Cell phones become cheaper and more teens are acquiring them.  
 Will this cause  $\Delta D$  or  $\Delta QD$  for watches? \_\_\_\_\_  
 Reason? \_\_\_\_\_



iPods become more popular.  
 Will this cause  $\Delta D$  or  $\Delta QD$  for CDs? \_\_\_\_\_  
 Reason? \_\_\_\_\_



The price of gasoline surges to \$6.00/gallon.  
 Will this cause  $\Delta D$  or  $\Delta QD$  for gasoline? \_\_\_\_\_  
 Reason? \_\_\_\_\_