Economics/Wolters

DEMAND

I. **Definition** - A relation showing the various amounts of a good or service that consumers would be willing and able to buy at alternative prices during a given time period (all other things remaining the same).

II. **Law of Demand** - The quantity demanded varies inversely with price (assuming all else remain the same).

Income effect:

Substitution effect:

III. **Change in Quantity Demanded (ΔQD)**

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 else remaining 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).

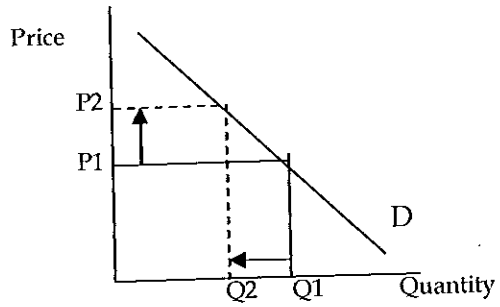


Fig. 1

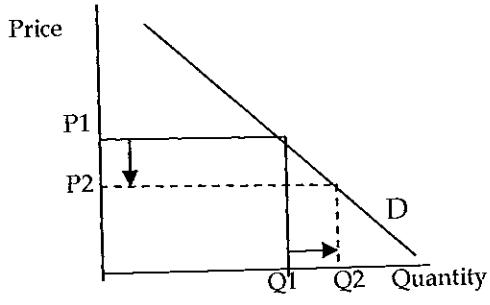


Fig. 2

IV. Change in Demand (ΔD)

This is a ***shift in the demand curve*** caused by factors <u>other than a change in the price of that good or service</u>. It reflects a ***change in the demand schedule*** itself, showing either an increase or decrease in quantity demanded for the good or service at each and every price. The demand curve will ***shift*** either to the left or the right.

Factors that will shift demand:

1. Change in tastes or preferences
2. Change in the prices of related goods:
   - substitute goods
   - complements
3. Change in income:
   - normal goods
   - inferior goods
4. Change in the number of buyers
5. Change in future expectations of incomes, prices, shortages

When the demand curve shifts, the new demand curve shows that buyers are willing to purchase more (Fig. l) or less (Fig. 2) than before at any given price.

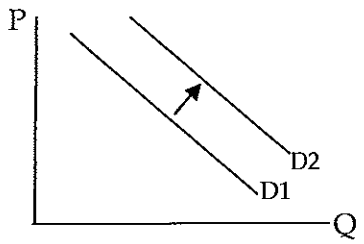


Fig. 1

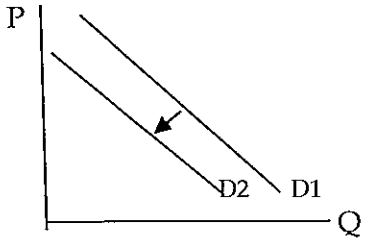


Fig. 2

Econ/Wolters

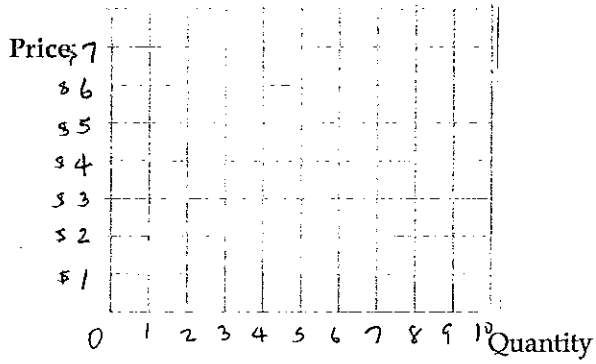
DEMAND WORKSHEET

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).

Demand Schedule

Price	Quantity
$3	5
$4	4
$5	3
$6	2
$7	1



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?

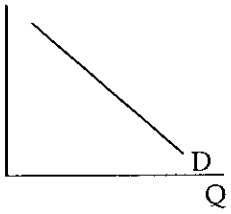
B. Now suppose your friend suddenly wins the lottery and his/her demand for this product doubles. Show this new demand schedule below and then graph this new curve with a dashed line (- - -) on the graph above.and label it D2.

New Demand Schedule

Price	Quantity
$3	
$4	
$5	
$6	
$7	

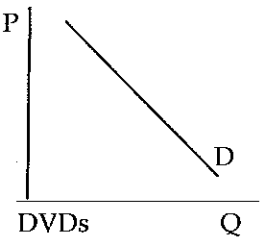
II. For each of the following products a change in demand (Δ D) or a change in quantity demanded (Δ QD) will occur as a result of the event described.

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.

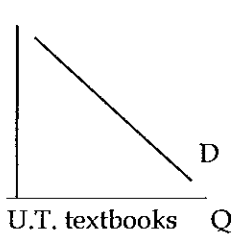
1. 

IPhones

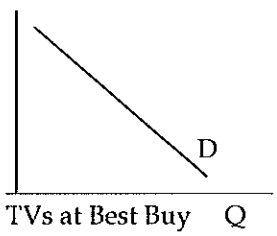
The price of an iPhone drops from $400 to $99.
Will this cause ΔD or ΔQD for this phone?_____
Reason?_____

2. 

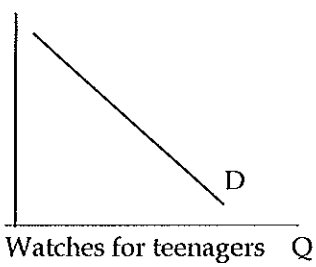
Manufacturers announce price decreases which will make the average DVD player less than $25.00.
Will this cause ΔD or ΔQD for DVDs?_____
Reason? _____

3. 

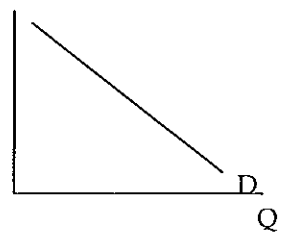
UT increases enrollment by 10%.
Will this cause ΔD or ΔQD for texts?_____
Reason?_____

4. 

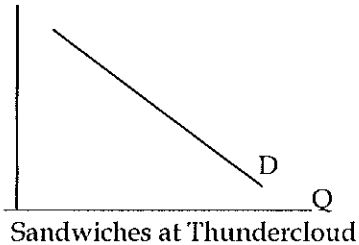
On Oct. 25, Best Buy announces a sale on all televisions, to begin on Nov. 1. During the period Oct. 25 - Oct. 31, will this cause ΔD or ΔQD for TVs at Best Buy?_____
Reason?_____

5. 

Cell phones become cheaper and more teens are acquiring them.
Will this cause ΔD or ΔQD for watches?_____
Reason?_____

6. 

American Airlines announces a 40% price increase in Austin – Seattle flights. Southwest Airlines keeps its prices the same for this flight.
Will this cause ΔD or ΔQD for Southwest Airlines flights to Seattle?_____
Reason?_____

7. 

The price of a sandwich at Thundercloud Subs doubles
Will this cause ΔD or ΔQD for a sub?_____
Reason?_____