Test Yourself: Demand

If all economists were laid end to end, they would still not reach a conclusion.

GB Shaw

What is demand?

Demand represents the choice-making behavior of buyers.

The law of demand says there is an inverse relationship between the price of a good and the quantity buyers are willing to purchase in a defined time period, *ceteris paribus.*

We use a demand schedule or a demand curve to show the relationship between price and quantity demanded.

What is a demand schedule?

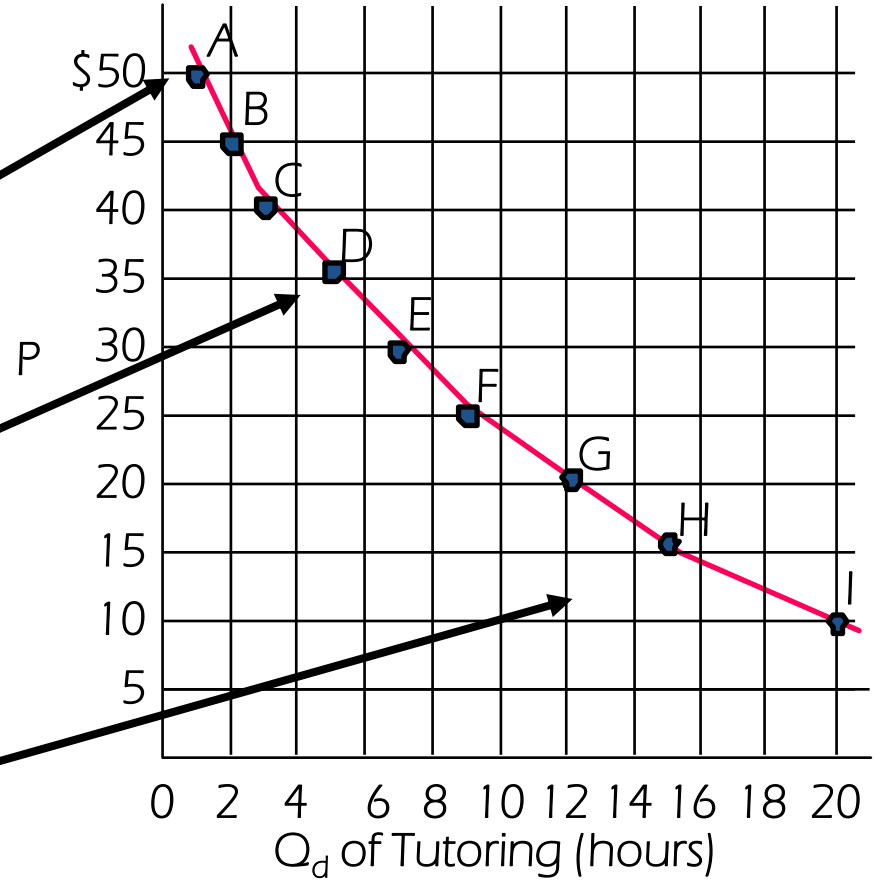
A demand schedule shows the quantities of a good or service that people are willing and able to buy at different prices.

Table and Chart: Demand Schedule and Demand Curve

Demand curves and demand schedules show the same information in different formats.

Demand Schedule

Price	Quantity Demanded
$50	1
45	2
40	3
35	5
30	7
25	9
20	12
15	15
10	20



Why do demand curves have a negative slope?

Demand curves have a negative slope because at a higher price buyers will buy fewer units, and at a lower price they will buy more units, *ceteris paribus*.

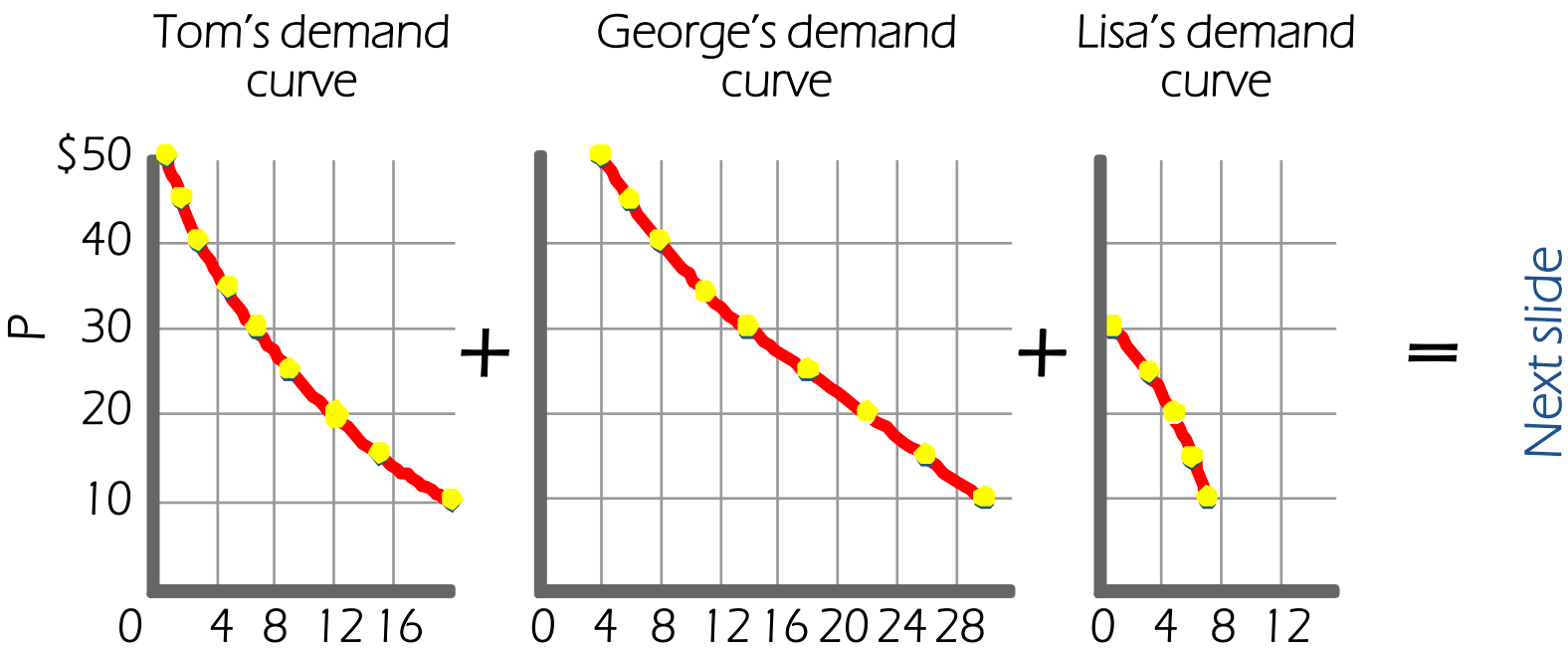
What is a market?

A market is any arrangement in which buyers and sellers interact to determine the price and quantity of goods and services exchanged.

What is market demand?

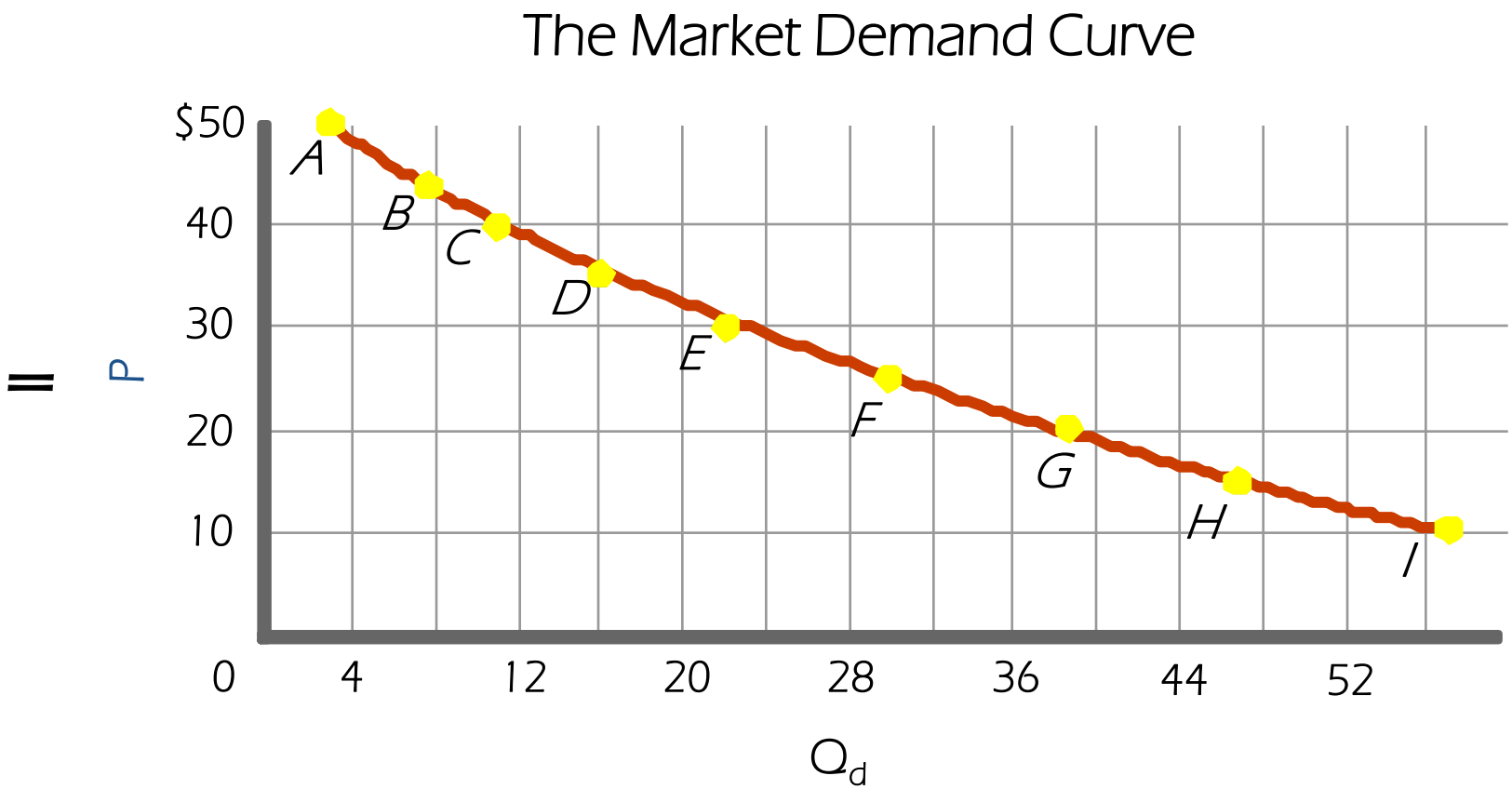
Market demand is the summation of the individual demand schedules in a market.

Charts: Construction of the Market Demand Curve



Next slide

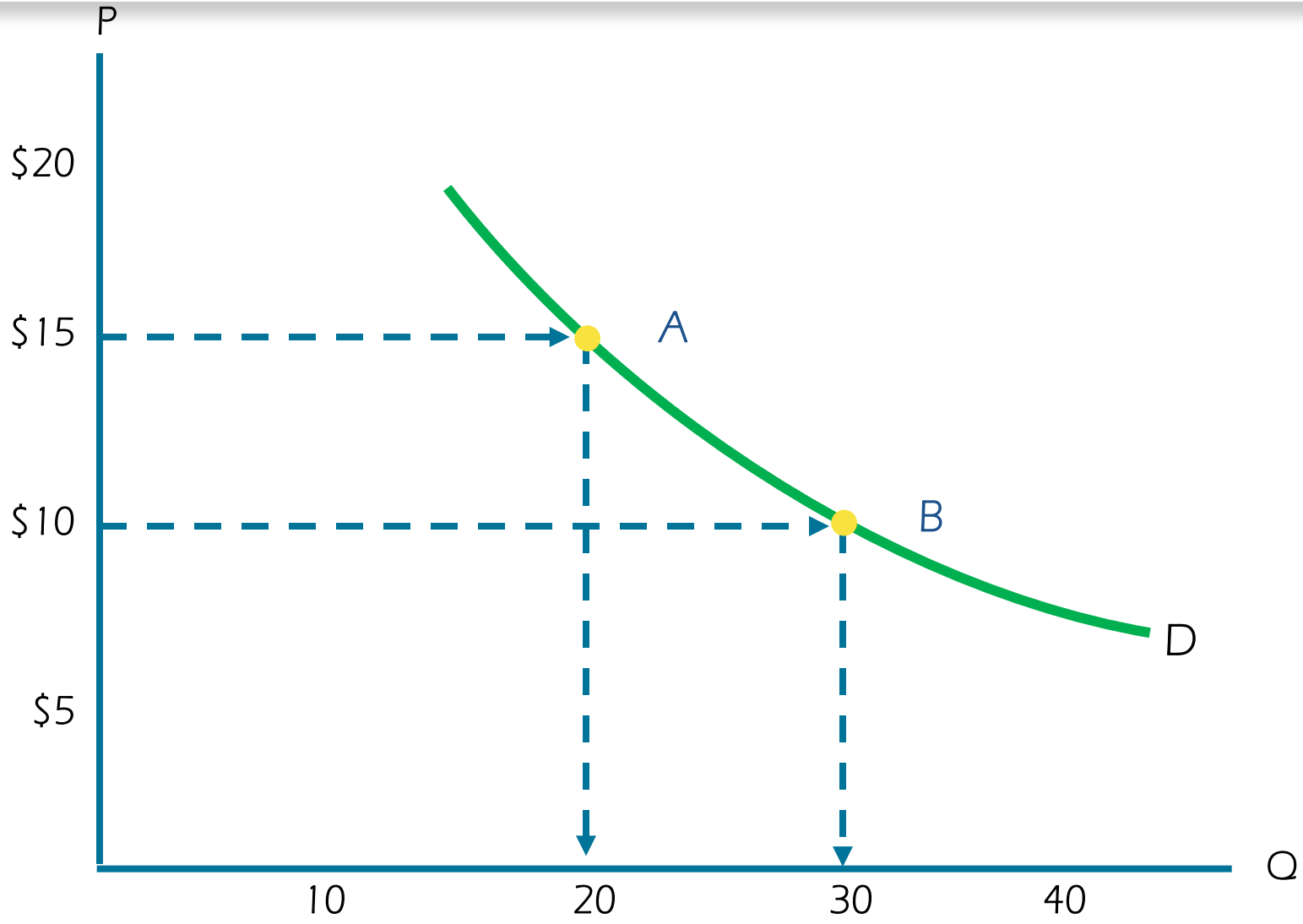
Chart: Construction of the Market Demand Curve



What happens when price changes?

When price changes the curve does not shift. There is a change in the *quantity demanded* and so movement *along* the curve.

Chart: Change in the Quantity Demanded

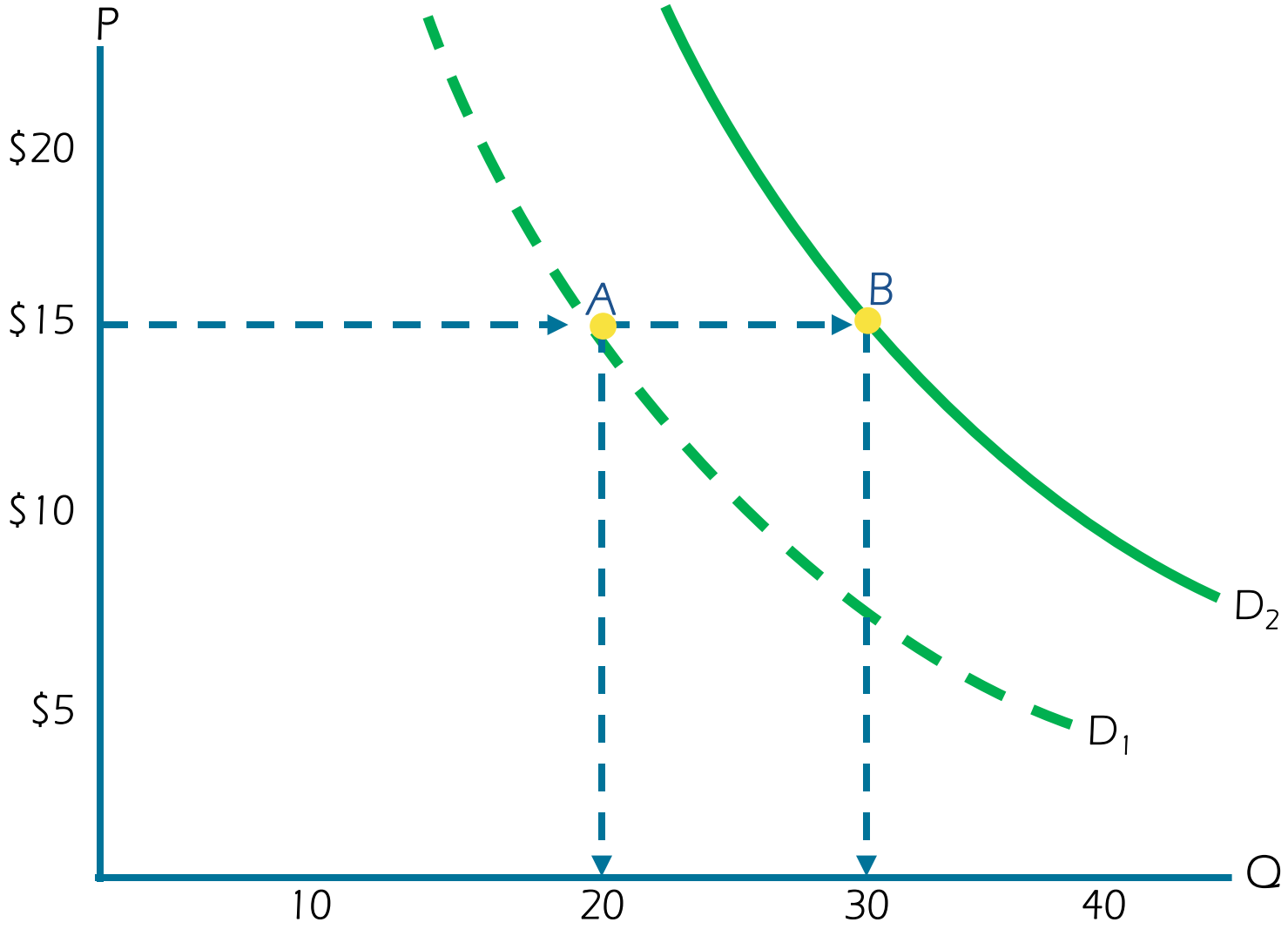


What happens when something other than price changes?

When something other than price changes, the whole curve may shift … there is a *change in demand*.

Changes in nonprice determinants can produce only a *shift* in the demand curve, not movement *along* the demand curve.

Chart: Change in Demand



What can cause a *shift* in the demand curve?

A change in any of the following can cause a shift in the demand curve.

- number of buyers in the market
- tastes and preferences
- income (normal & inferior goods)
- expectations of consumers
- prices of related goods (substitute & complementary goods)

What is a normal good?

A normal good is any good for which there is a direct relationship between changes in income and its demand curve.

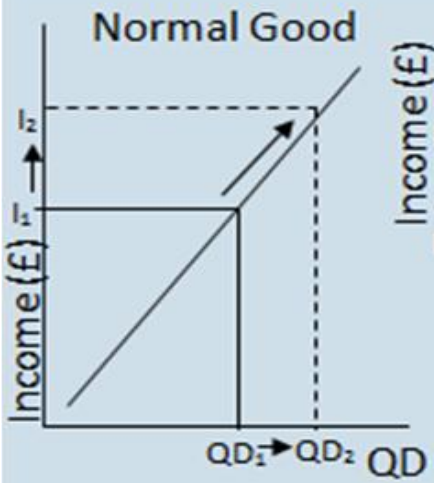
If income increases, demand for normal goods increases.

What is an inferior good?

An inferior good is any good for which there is an inverse relationship between changes in income and its demand curve.

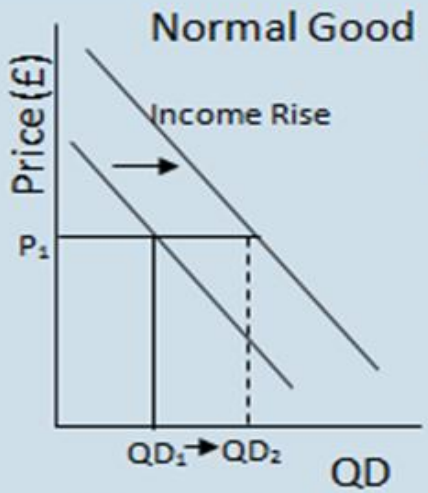
As buyers' incomes increase, demand for inferior goods decreases.

Table: Normal and Inferior Goods

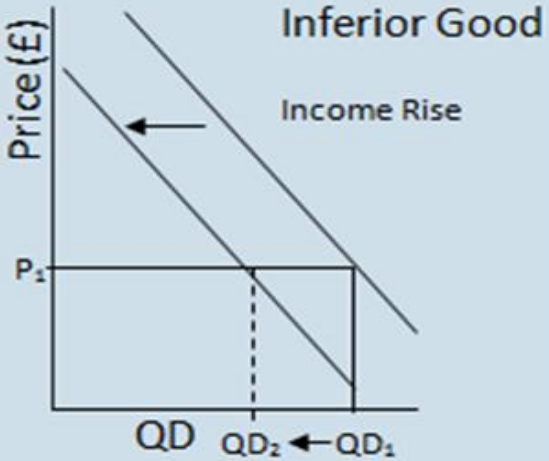


There is an extension in demand as income increases so to does the quantity demanded.

There is an extension in demand as income decreases the quantity demanded increases.



There is a rightward (positive) shift caused by income rising (a non-price factor) thus an increase in demand.



There is a leftward (negative) shift caused by a rise in income thus demand decreasing.

What are substitute goods?

Substitute goods are goods that compete with one another for consumer purchases.

If a product's price begins to increase, the demand for similar but less expensive products (substitutes) will increase.

What are complementary goods?

Complementary goods are goods that are jointly consumed with another good – coffee and cream, peanut butter and jelly, printer ink and paper.

As a product's price increases, the demand for that product and for its compliments decrease.

Table: Complements and Substitutes

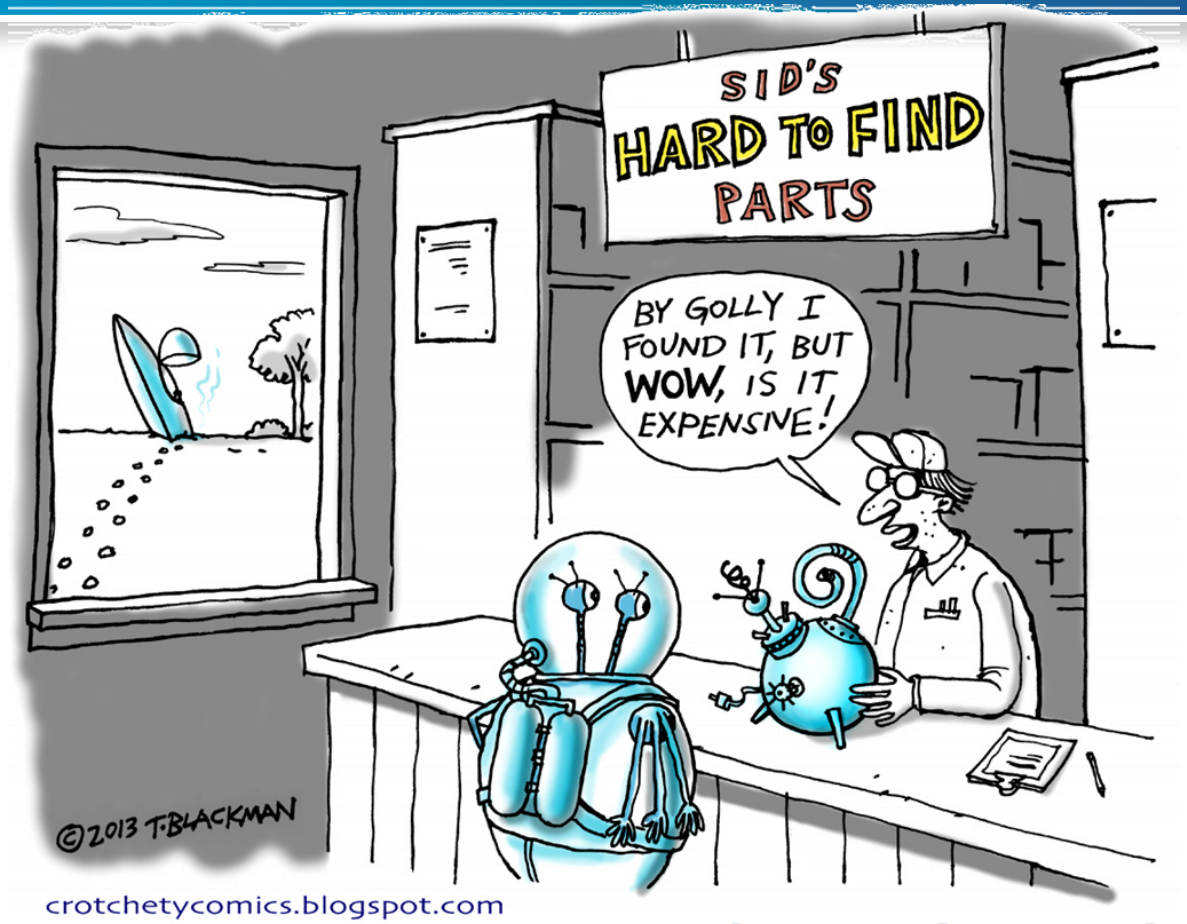
Complements (coffee and doughnuts)	
↓ *Reducing* the price of one...	↑ *increases* the demand for the other.
↑ *Increasing* the price of one...	↓ *reduces* the demand for the other.

Substitutes (coffee and tea)	
↑ *Increasing* the price of one...	↑ *increases* the demand for the other.
↓ *Reducing* the price of one...	↓ *reduces* the demand for the other.

IMPORTANT: KNOW THE DIFFERENCE BETWEEN A CHANGE IN THE QUANTITY DEMANDED AND A CHANGE IN DEMAND!

- Change in the quantity demanded – movement *along* the demand curve, caused by a change in price
- Change in demand – *shifts* the entire demand curve, caused by a non-price change

How did you do?! If you didn't do as well as you'd like, review the margin notes and presentations and test yourself again.



CONTINUED IN TEST YOURSELF: SUPPLY