Demand

Chapter 3-3

Laugher Curve

Q. What do you get when you cross the Godfather with an economist?

A. An offer you can't understand.

Demand

- ***Demand*** means the willingness and capacity to pay.
- Prices are the tools by which the market coordinates individual desires.

Demand vs. Quantity Demanded

- **Demand** is the amount of a product that people are willing and able to purchase at each possible price during a given period of time.
- The **quantity demand** is the amount of a product that people are willing and able to purchase at one, specific price.

The Law of Demand

- ***Law of demand*** – there is an inverse relationship between price and quantity demanded.
  - Quantity demanded rises as price falls, other things constant.
  - Quantity demanded falls as prices rise, other things constant.

The Law of Demand

- What accounts for the law of demand?
  - People tend to substitute for goods whose price has gone up.

The Demand Curve

- The ***demand curve*** is the graphic representation of the law of demand.
- The demand curve slopes downward and to the right.
- As the price goes up, the quantity demanded goes down.

The Demand Table

- The demand table assumes all the following:
  - As price rises, quantity demanded declines.
  - Quantity demanded has a specific time dimension to it.
  - All the products involved are identical in shape, size, quality, etc.

The Demand Table

- The demand table assumes all the following:
  - The schedule assumes that everything else is held constant.

From a Demand Table to a Demand Curve

- You plot each point in the demand table on a graph and connect the points to derive the demand curve.

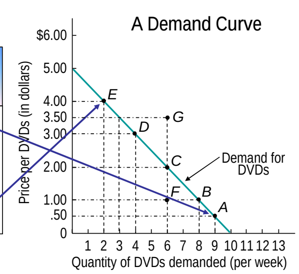
From a Demand Table to a Demand Curve

- The demand curve graphically conveys the same information that is on the demand table.

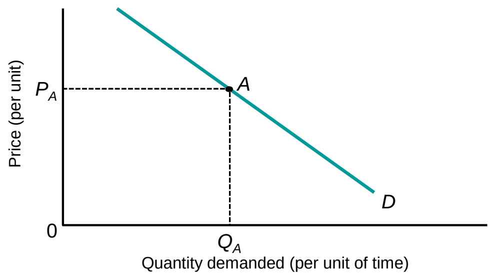
From a Demand Table to a Demand Curve

A Demand Table

	Price per cassette	DVD rentals demanded per week
A	$0.50	*9*
B	1.00	*8*
C	2.00	*6*
D	3.00	*4*
E	4.00	*2*



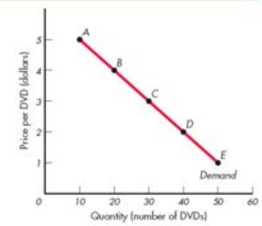
A Sample Demand Curve



Demand Schedule and Demand Curve for DVDs

FIGURE 3 Bob's Demand Schedule and Demand Curve for DVDs

Combination	Price per DVD (constant-quality units)	Quantity Demanded per Week (constant-quality units)
A	$5	10
B	$4	20
C	$3	30
D	$2	40
E	$1	50



The number of DVDs that Bob is willing and able to rent at each price during the week is listed in the table, or demand schedule. The demand curve is derived from the combinations given in the demand schedule. The price-quantity combination of $5 per DVD and 10 DVDs is point *A*. The combination of $4 per DVD and 20 DVDs is point *B*. Each combination is plotted, and the points are connected to form the demand curve.

Other Things Constant

- ***Other things constant*** places a limitation on the application of the law of demand.
  - All other factors that affect quantity demanded are assumed to remain constant, whether they actually remain constant or not.

Other Things Constant

- ***Other things constant*** places a limitation on the application of the law of demand.
  - These factors may include changing tastes, prices of other goods, income, even the weather.

Shifts in Demand Versus Movements Along a Demand Curve

- Demand refers to a schedule of quantities of a good that will be bought per unit of time at various prices, other things constant.
- Graphically, it refers to the entire demand curve.

Shifts in Demand Versus Movements Along a Demand Curve

- ***Quantity demanded*** refers to a specific amount that will be demand per unit of time at a specific price.
  - Graphically, it refers to a specific point on the demand curve.

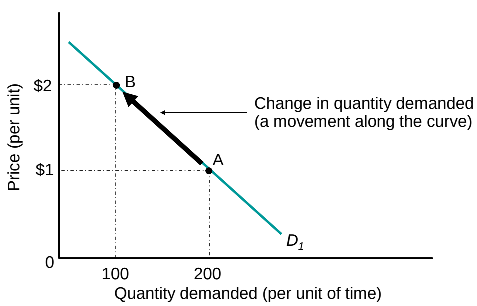
Shifts in Demand Versus Movements Along a Demand Curve

- A ***movement along a demand curve*** is the graphical representation of the effect of a change in price on the quantity demanded.

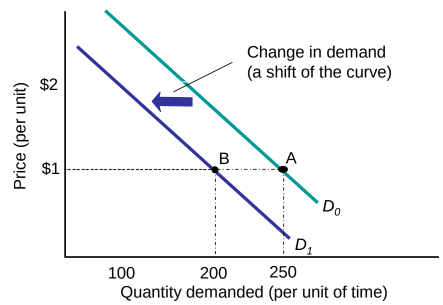
Shifts in Demand Versus Movements Along a Demand Curve

- A ***shift in demand*** is the graphical representation of the effect of anything other than price on demand.

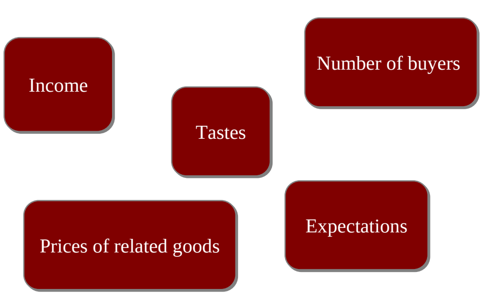
Change in Quantity Demanded



Shift in Demand



Determinants of Demand



Shift Factors of Demand

- Shift factors of demand are factors that cause shifts in the demand curve:
  - Society's income.
  - The prices of other goods.
  - Tastes.
  - Expectations.
  - Number of Buyers
  - Taxes on subsidies to consumers.

Income

- An increase in income will increase demand for normal goods.
- An increase in income will decrease demand for inferior goods.

Price of Other Goods

- When the price of a substitute good falls, demand falls for the good whose price has not changed.
- When the price of a complement good falls, demand rises for the good whose price has not changed.

Tastes

- A change in taste will change demand with no change in price.

Expectations

- If you expect your income to rise, you may consume more now.
- If you expect prices to fall in the future, you may put off purchases today.

Individual and Market Demand Curves

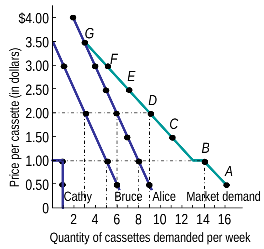
- A market demand curve is the horizontal sum of all individual demand curves.
  - This is determined by adding the individual demand curves of all the demanders.

Individual and Market Demand Curves

- Sellers estimate total market demand for their product which becomes smooth and downward sloping curve.

From Individual Demands to a Market Demand Curve

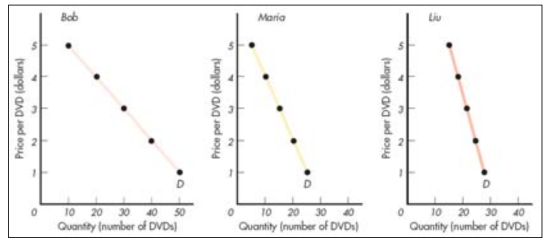
	(1) Price pe cassette	(2) Alice's demand	(3) Bruce's demand	(2) Cathy's demand	(3) Market demand
A	$.0.50	9	6	1	16
B	1.00	8	5	1	14
C	1.50	7	4	0	11
D	2.00	6	3	0	9
E	2.50	5	2	0	7
F	3.00	4	1	0	5
G	3.50	3	0	0	3
H	4.00	2	0	0	2



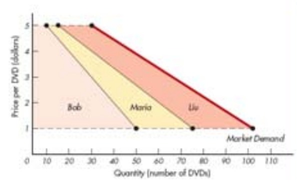
McGraw-Hill/Irwin

© 2004 The McGraw-Hill Companies, Inc., All Rights Reserved.

Aggregation of Demand (I)



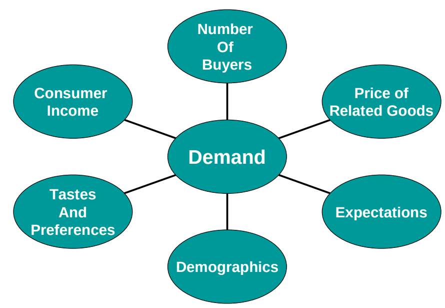
Aggregation of Demand (II)



Price per DVD	Quantities Demanded per Year by: Bob		Maria		Liu		Market Quantity Demanded
$5	10	+	5	+	15	=	30
$4	20		10		18		48
$3	30		15		21		66
$2	40		20		24		84
$1	50		25		27		102

The market is defined to consist of three individuals: Bob, Maria, and Liu. Their demand schedules are listed in the table and plotted as the individual demand curves shown in Figure 4(a). By adding the quantities that each demands at every price, we obtain the market demand curve shown in Figure 4(b). At a price of $1, we add Bob's quantity demanded of 50 to Maria's quantity demanded of 25 to Liu's quantity demanded of 27 to obtain the market quantity demanded of 102. At a price of $2, we add Bob's 40 to Maria's 20 to Liu's 24 to obtain the market quantity demanded of 84. To obtain the market demand curve, for every price we sum the quantities demanded by each market participant.

Factors that Shift Demand



Taxes and Subsidies

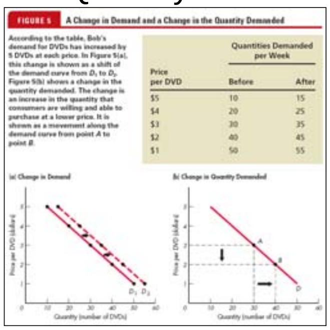
- Taxes levied on consumers increase the cost of goods to consumers, thereby reducing demand.
- Subsidies have an opposite effect.

Not in your book but something you should think about

Changes in Demand and Quantity Demanded

- **Change in Quantity Demanded** - movement along the same demand curve in response to a price change.
- **Change in Demand** - shift in entire demand curve in response to a change in a determinant of demand (a ceteris paribus variable)

Change in Demand vs. Change in the Quantity Demanded



Price per DVD	Quantities Demanded per Week: Before	After
$5	10	15
$4	20	25
$3	30	35
$2	40	45
$1	50	55

The Law of Demand

- The demand curve is downward sloping for the following reasons:
  - At lower prices, existing demanders buy more.
  - At lower prices, new demanders enter the market.