Laughing Curve

Q. What do you get when you cross the Godfather with an economist?
A. An offer you can't understand.

Demand

Chapter 3-3

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 demanded** 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.

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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.

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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.

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

Change in quantity demanded (a movement along the curve)

![Diagram showing change in quantity demanded](image)

Shift in Demand

Change in demand (a shift of the curve)

![Diagram showing shift in demand](image)

Determinants of Demand

- Income
- Tastes
- Number of buyers
- Prices of related goods
- Expectations

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

Price per cassette

<table>
<thead>
<tr>
<th>(1) Price per cassette</th>
<th>(2) Alice's demand</th>
<th>(3) Bruce's demand</th>
<th>(2) Cathy's demand</th>
<th>(3) Market demand</th>
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<tbody>
<tr>
<td>A $0.50</td>
<td>9</td>
<td>6</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>B 1.00</td>
<td>8</td>
<td>5</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>C 1.50</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>11</td>
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<tr>
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<td>3</td>
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<tr>
<td>E 2.50</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>F 3.00</td>
<td>4</td>
<td>1</td>
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<td>5</td>
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<tr>
<td>G 3.50</td>
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<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>H 4.00</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
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Aggregation of Demand (I)

Aggregation of Demand (II)

Factors that Shift Demand

<table>
<thead>
<tr>
<th>Number Of Buyers</th>
<th>Price of Related Goods</th>
<th>Tastes And Preferences</th>
<th>Expectations</th>
<th>Demographics</th>
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<tbody>
<tr>
<td>Consumer Income</td>
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<td>Price Related Goods</td>
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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)

Taxes and Subsidies

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