Demand

Chapter 4-1

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.

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.

A Sample 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 demanded 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

<table>
<thead>
<tr>
<th>Price (per unit)</th>
<th>Quantity demanded (per unit of time)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2</td>
<td>100</td>
</tr>
<tr>
<td>$1</td>
<td>200</td>
</tr>
</tbody>
</table>

### Shift in Demand

- **Change in demand** (a shift of the curve)

### 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.
  - 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.
Taxes and Subsidies

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

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

- The curve represents the maximum price that you will pay for various quantities of a good – you will happily pay less.

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

#### Table

<table>
<thead>
<tr>
<th>Price per cassette</th>
<th>(1) Alice's demand</th>
<th>(2) Bruce's demand</th>
<th>(3) Cathy's demand</th>
<th>Market demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.50</td>
<td>9</td>
<td>6</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>$1.00</td>
<td>8</td>
<td>5</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>$1.50</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
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<td>6</td>
<td>3</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>$2.50</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>$3.00</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
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<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>$4.00</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

#### Graph

- The graph illustrates the demand curve for each individual and the market demand.

### 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.