

# Demand

2.1



**If you just opened a business selling T shirts, what kind of information would you need to know?**

**Discuss with your partner**



# Definitions

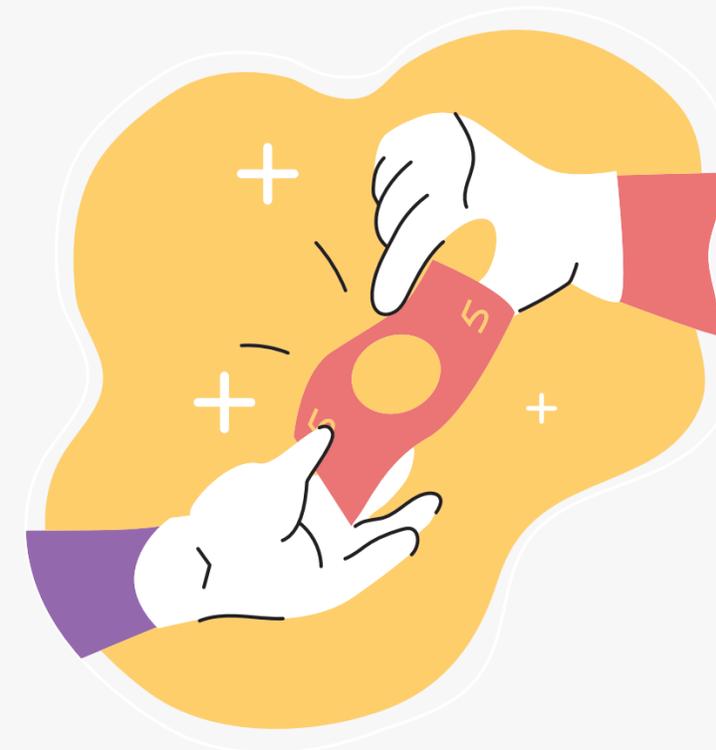
## Market

- Where people who are willing and able to purchase a good, service or resource can carry out an exchange with those who are willing and able to provide that same good, service, or resource.
  - Maybe a physical place, but most of the time in Economics, it's not.
    - Factor Market
    - Product Market



## Demand

- The ABILITY and WILLINGNESS to purchase a quantity of a good or service at a certain price.



# Types of Demand

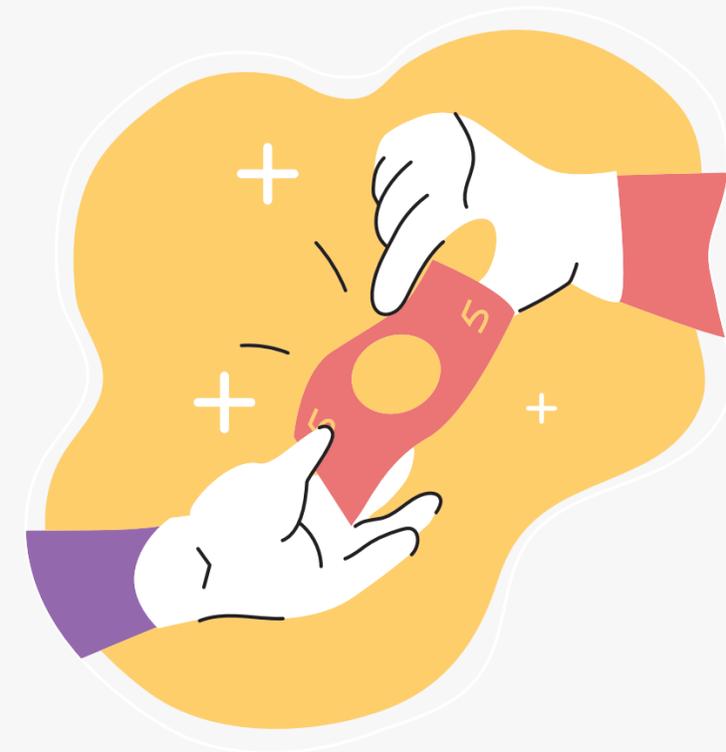
## Individual

Individual demand is the demand of one person for a product.



## Market

The market demand is the sum of all the individual demands for a product at every price.

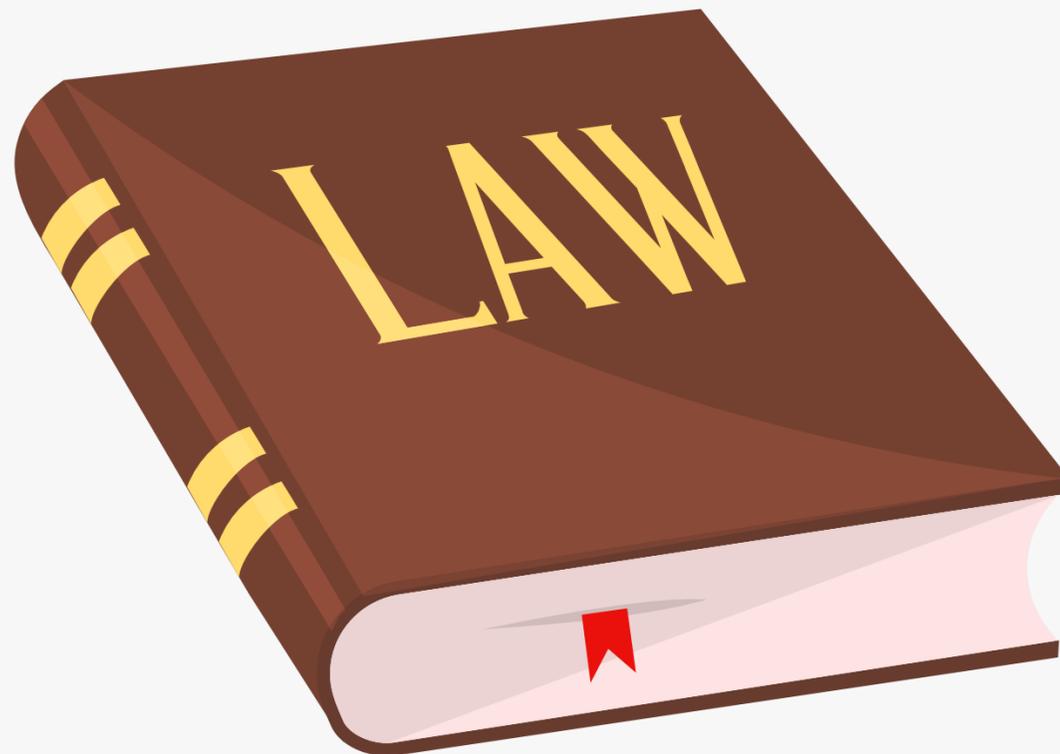


# Law of Demand

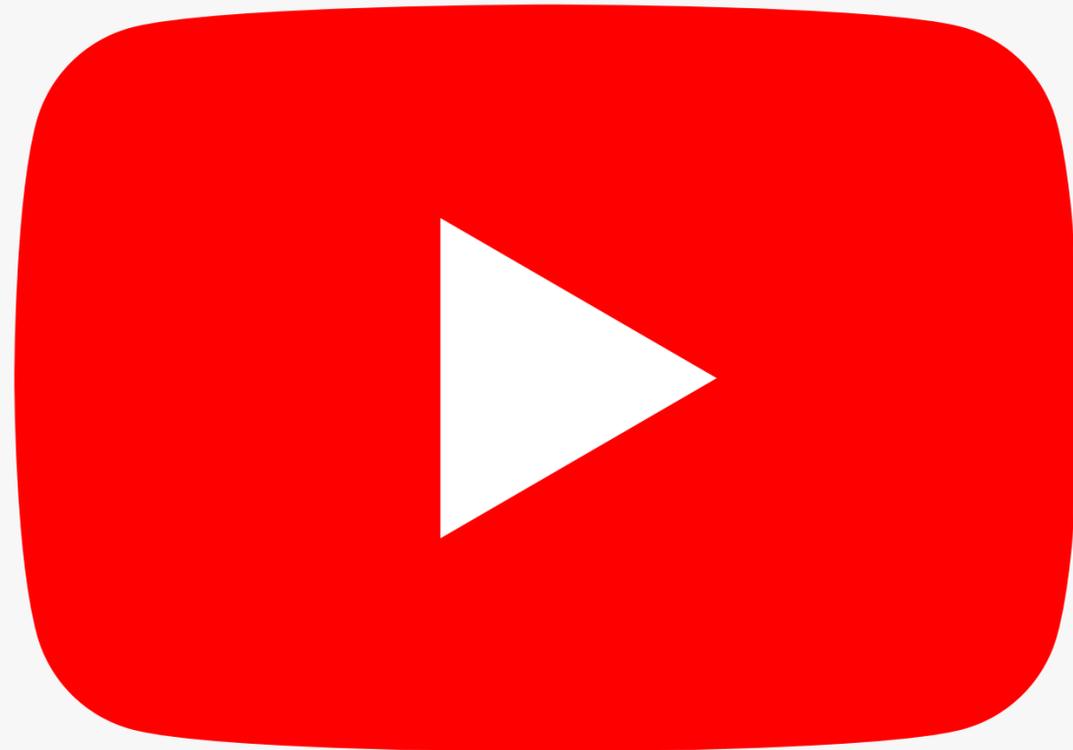
An inverse relationship between price and quantity demanded.

As the price of a good rises, the quantity demanded will usually fall, ceteris paribus. (& vice versa)

**Example:** Higher price = Lower Quantity Demanded

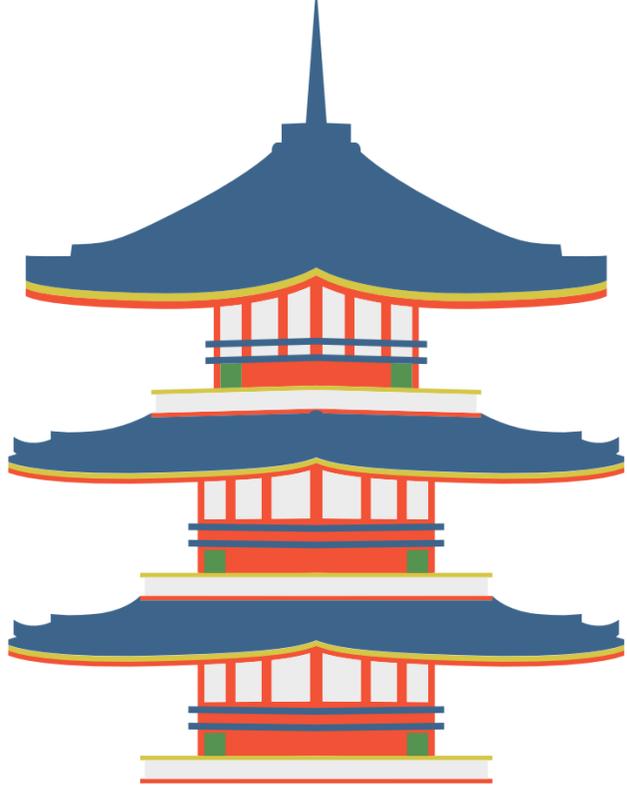


# Video



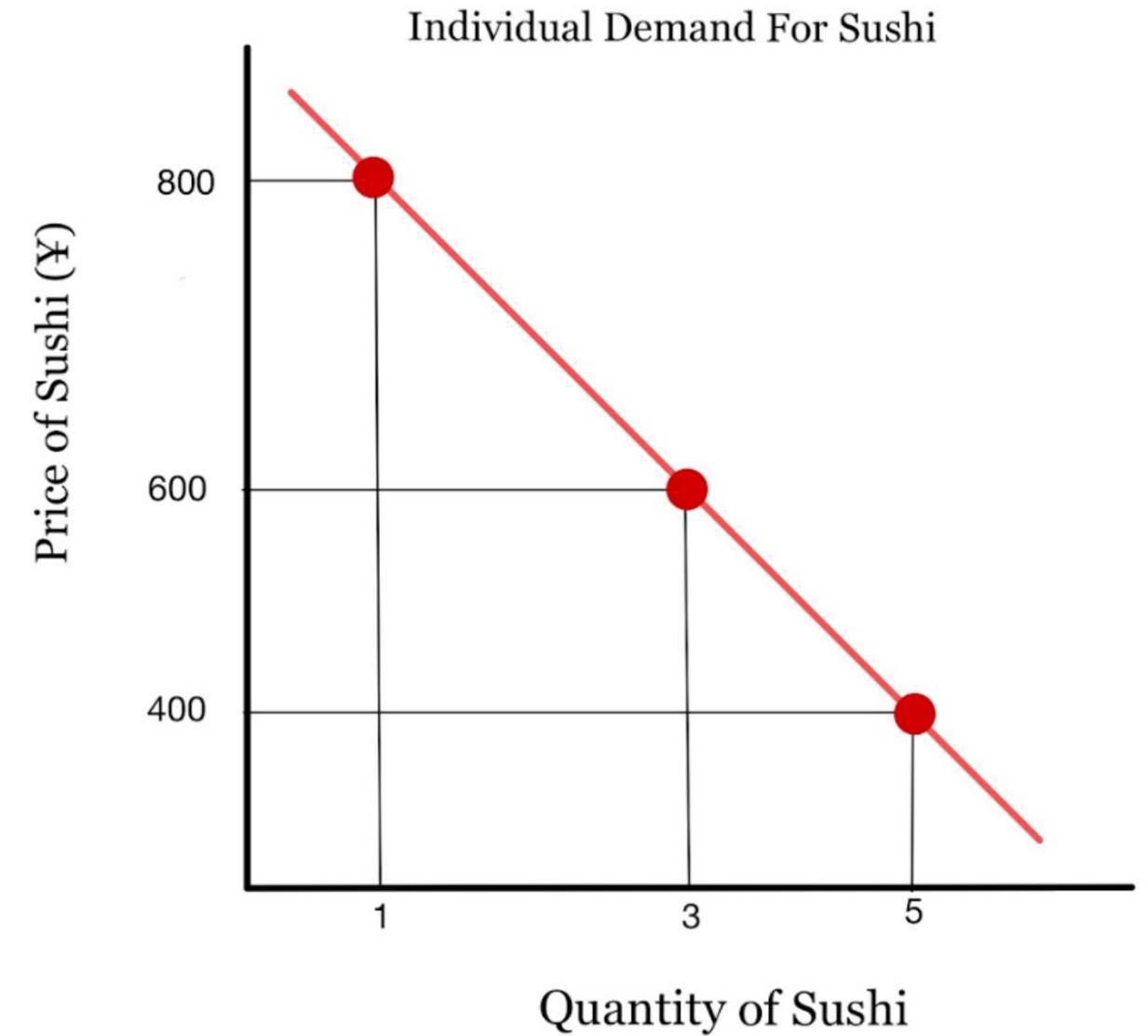
THE LAW OF DEMAND

# Demand Schedule



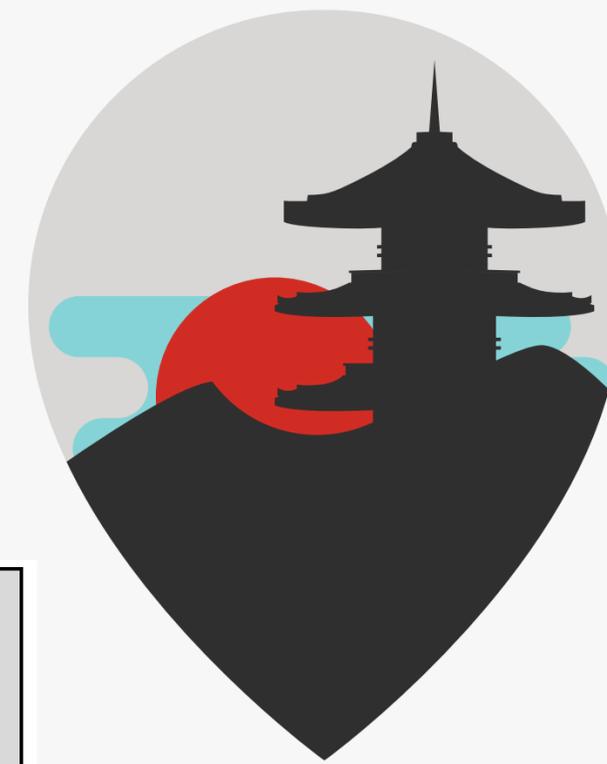
## Individual

Price of Sushi	Quantity Demanded
800	1
700	2
600	3
500	4
400	5

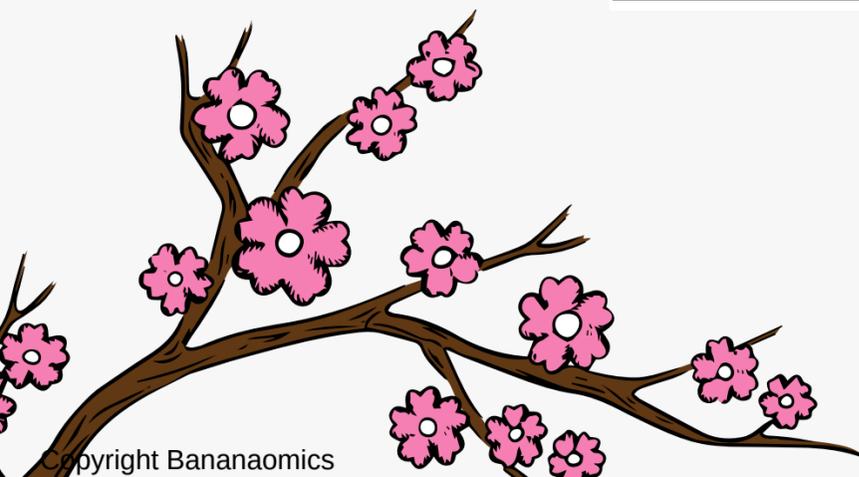


# Demand Schedule

## Market



Price of Sushi	Quantity Demanded by Consumer 1	Quantity Demanded by Consumer 2	Market Demand
800	1	2	3
700	2	4	6
600	3	6	9
500	4	8	12
400	5	9	14



# Why?

HL ONLY

The Law of Demand occurs for three main reasons.

## 1. Income Effect

- As prices fall, "real income" (the amount their money is really worth) increases.
- If the price goes down for a product, the purchasing power increases for consumers –allowing them to purchase more.
- **Example:** If a pizza costs \$2 and my income is \$10, how many pizzas can I buy? What if the price of people drops by 50%?

## 2. Substitution Effect

- As prices fall, the product becomes more attractive compared to other products whose prices remain unchanged. Therefore, consumers will purchase more of the cheaper product by substituting it for the more expensive product.

## 3. Law of Diminishing Marginal Utility

- The principle is that as additional units of a good or services are consumed, the marginal utility will decline.
- In other words, the more you buy of ANY GOOD the less satisfaction you get from each new unit consumed.
- When you receive less satisfaction, you stop buying



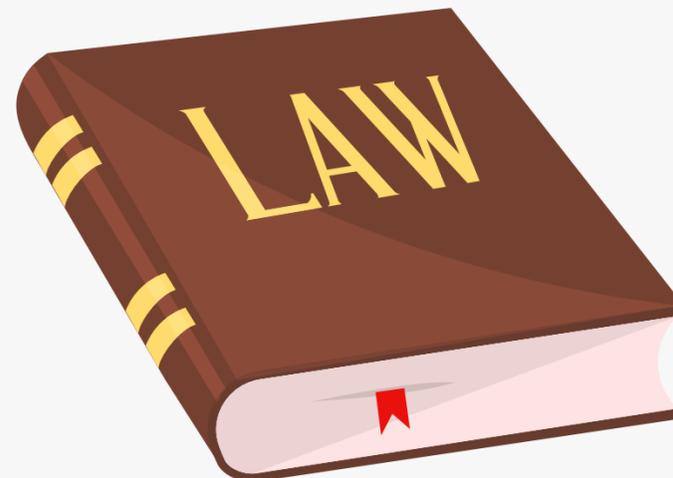
# Law of Diminishing Marginal Utility

The principle is that as additional units of a good or services are consumed, the marginal utility will decline.

The law of diminishing marginal utility states that as people consume additional units of a good or service, the marginal utility declines.

Consumers get less and less satisfaction from each additional unit.

**REMEMBER: UTILITY = SATISFACTION**



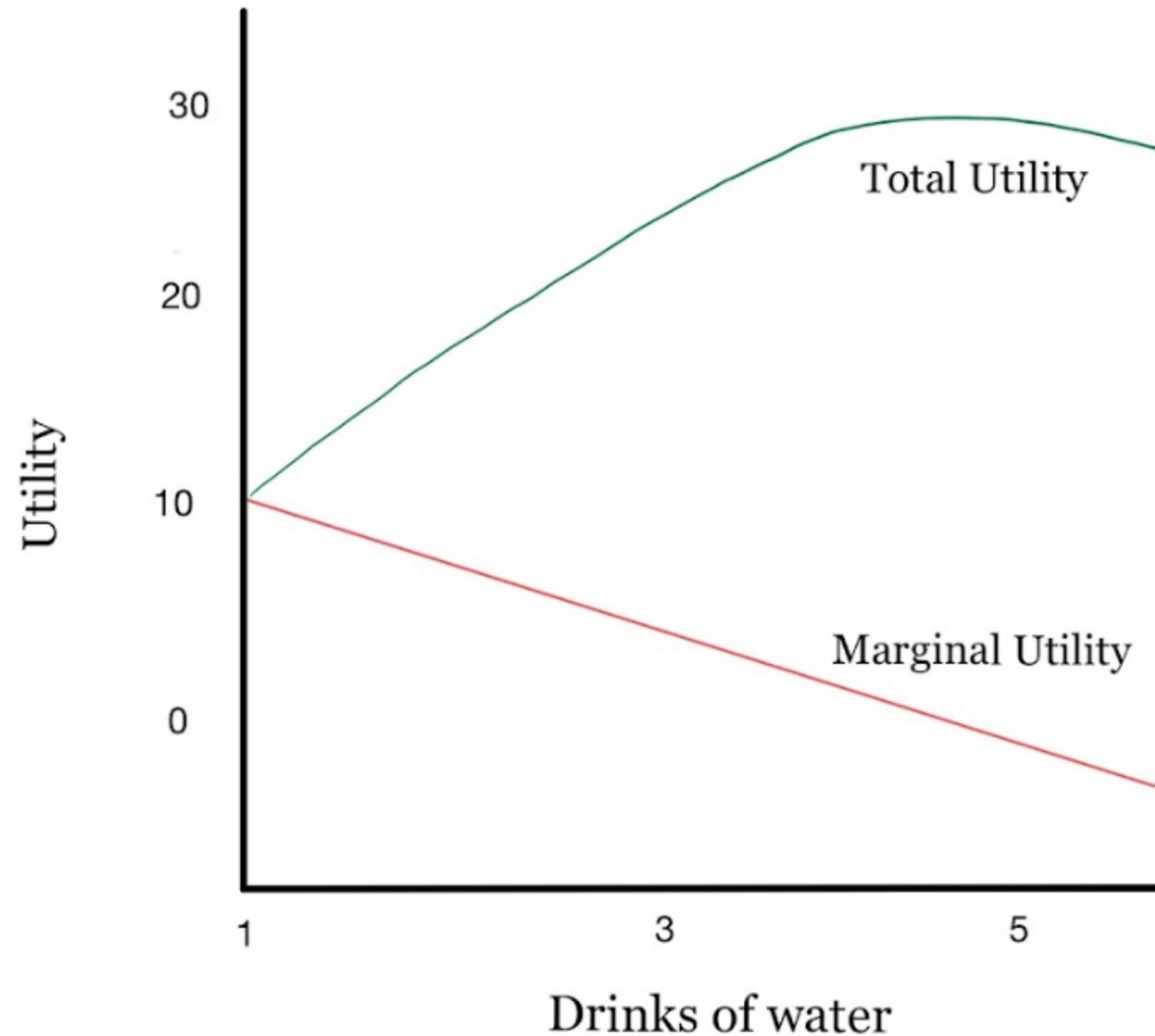
# Law of Diminishing Marginal Utility

Marginal and Total Utility for drinking water

Drinks of Water	Marginal Utility	Total Utility
1	10	10
2	8	18
3	6	24
4	4	28
5	0	28
6	-1	27



# Law of Diminishing Marginal Utility



# **Movements and Shifts on the Demand Curve**

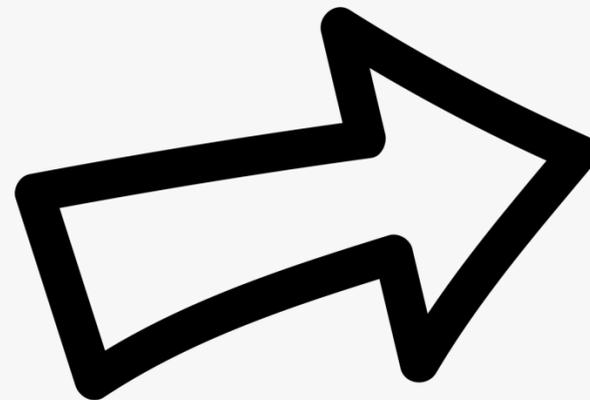
# Changes to the Demand Curve

## 1. "Change in Quantity Demanded"

- Any change in price of a product simply moves ALONG the demand curve

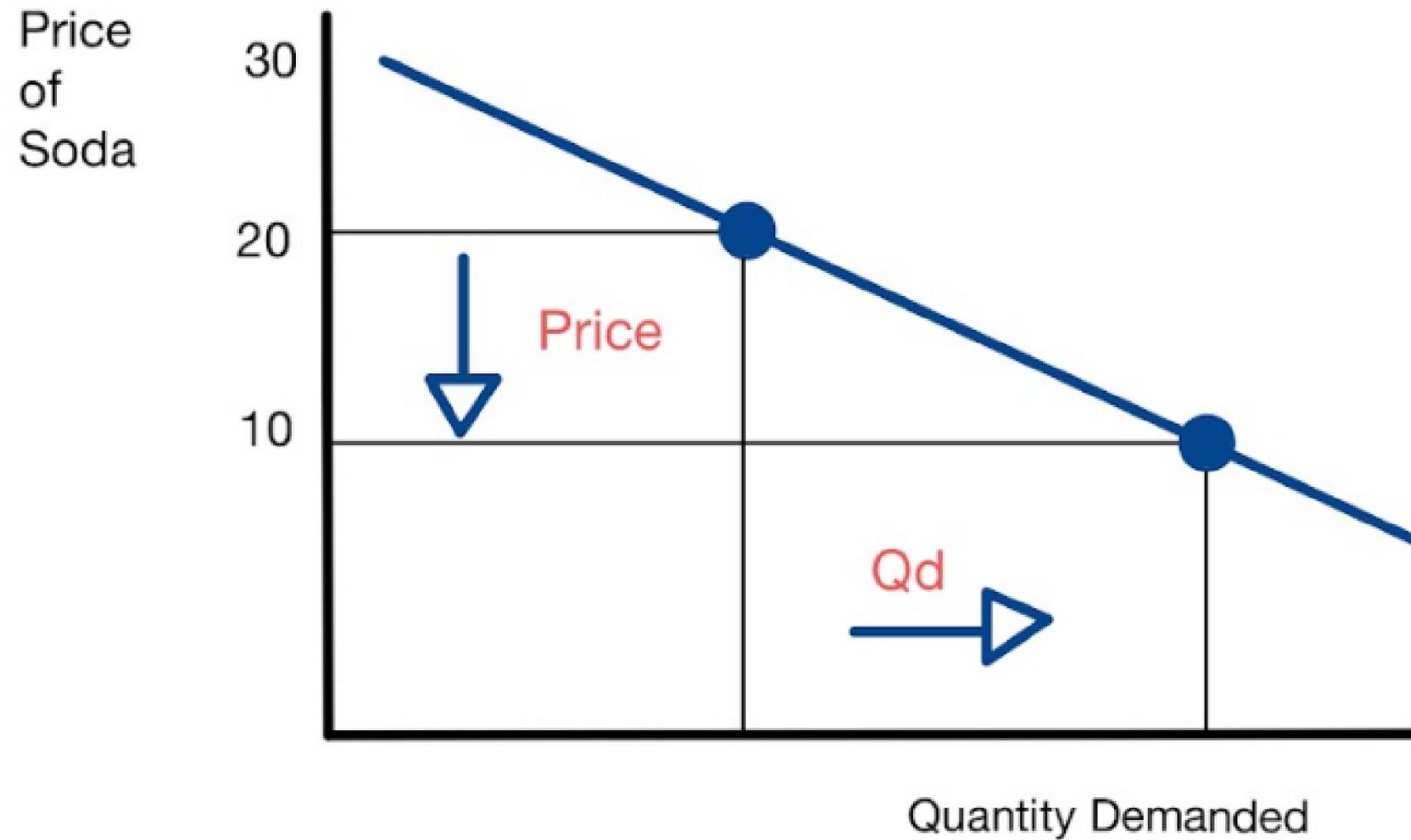
## 2. "Change in Demand"

- The entire demand curve shifts.
- Something other than price has caused a change to the demand curve
  - **Technical Term:** Non-Price Determinant of Demand
  - **Example:** Change in Income



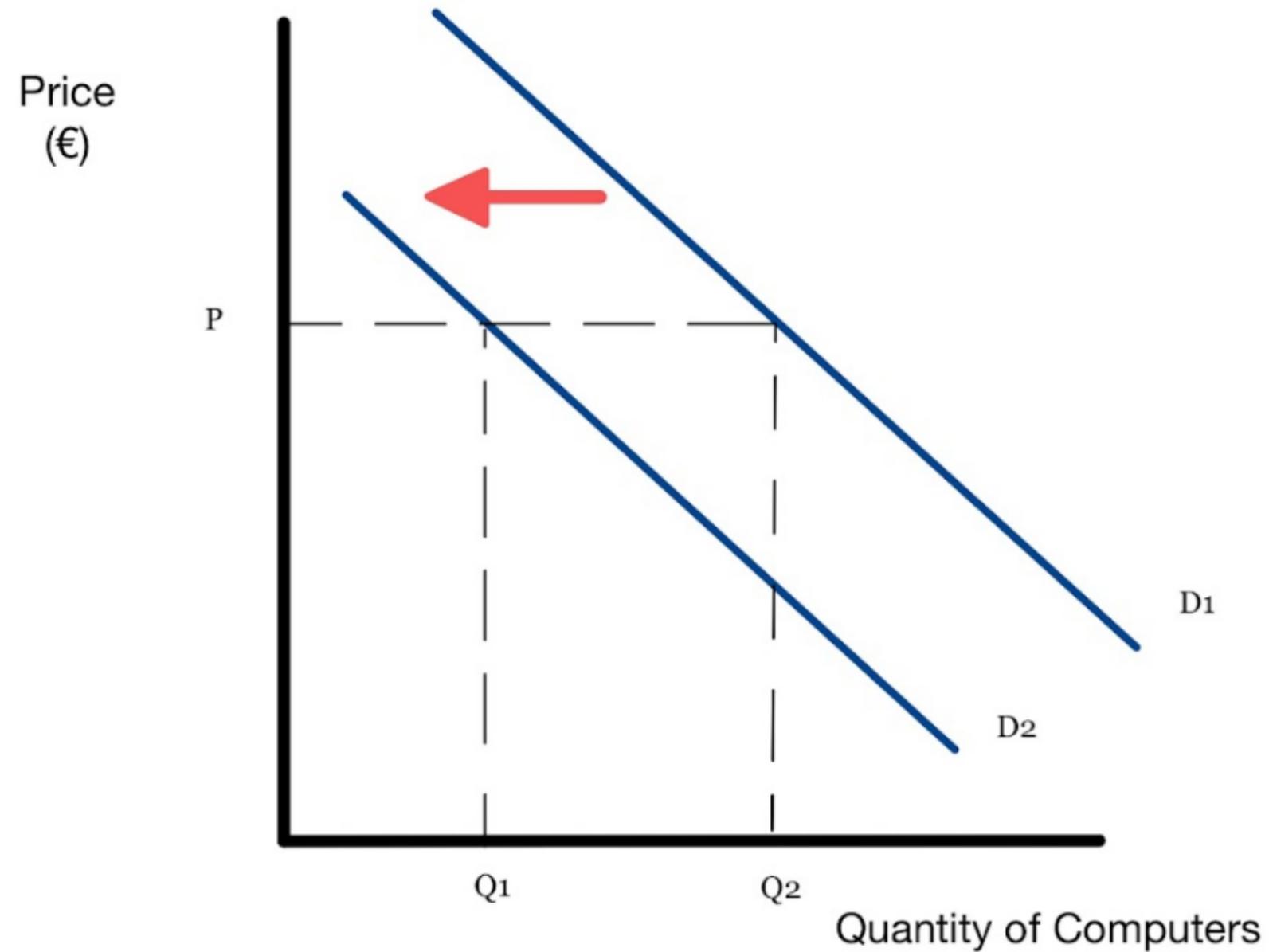
# Change in Quantity Demanded

## Change in Price of a Product

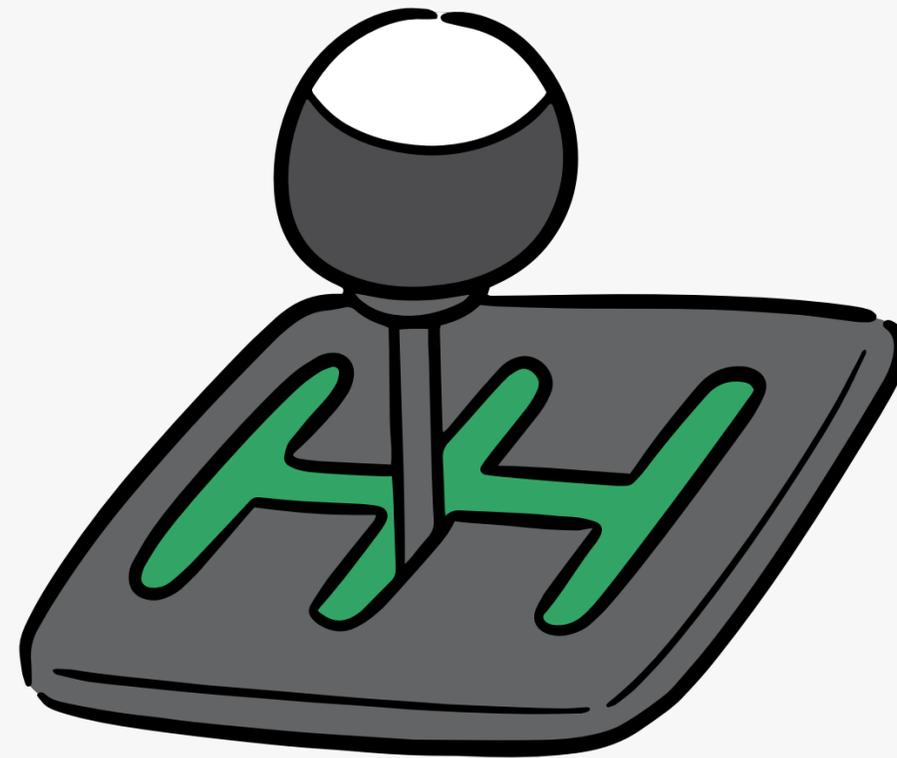


# Change in Demand

Change in **NON-PRICE** determinant



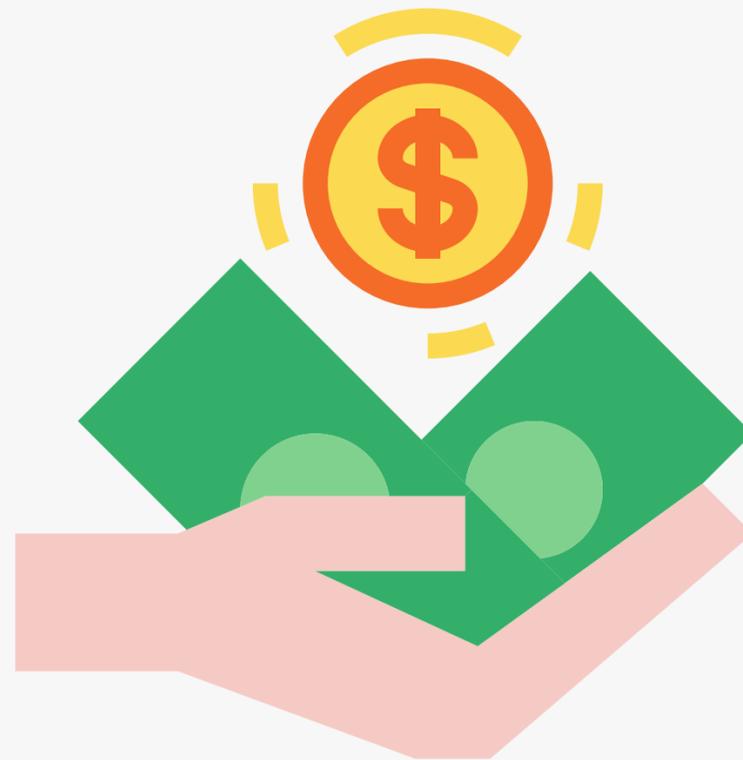
# 5 Demand Shifters



# 5 Shifters of Demand

1

Income



# Income

The amount of income people have, and changes in their income, is an important factor influencing the demand for a good or service. The effect on the demand curve will depend on the type of good considered: **normal goods** and **inferior goods**.

## Normal Goods

As income increases, Demand increases.



## Inferior Goods

As income decreases, Demand increases. These tend to be lower quality, less expensive goods.



# 5 Shifters of Demand

**1** Income

**2** Price of Related Goods

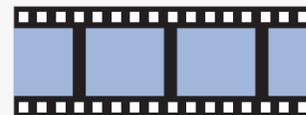
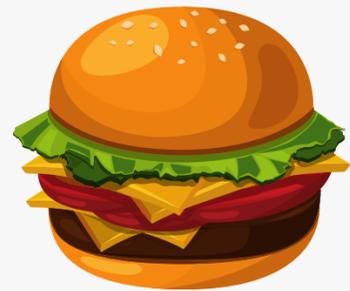


# Related Goods

Goods can be **substitutes** for each other, **complementary** to each other or not related at all. When they are related in some way, a change in the price of one will result in a change in the demand of the other.

## Complements

Two goods that are typically purchased or used together.



## Substitutes

Two goods that are similar.

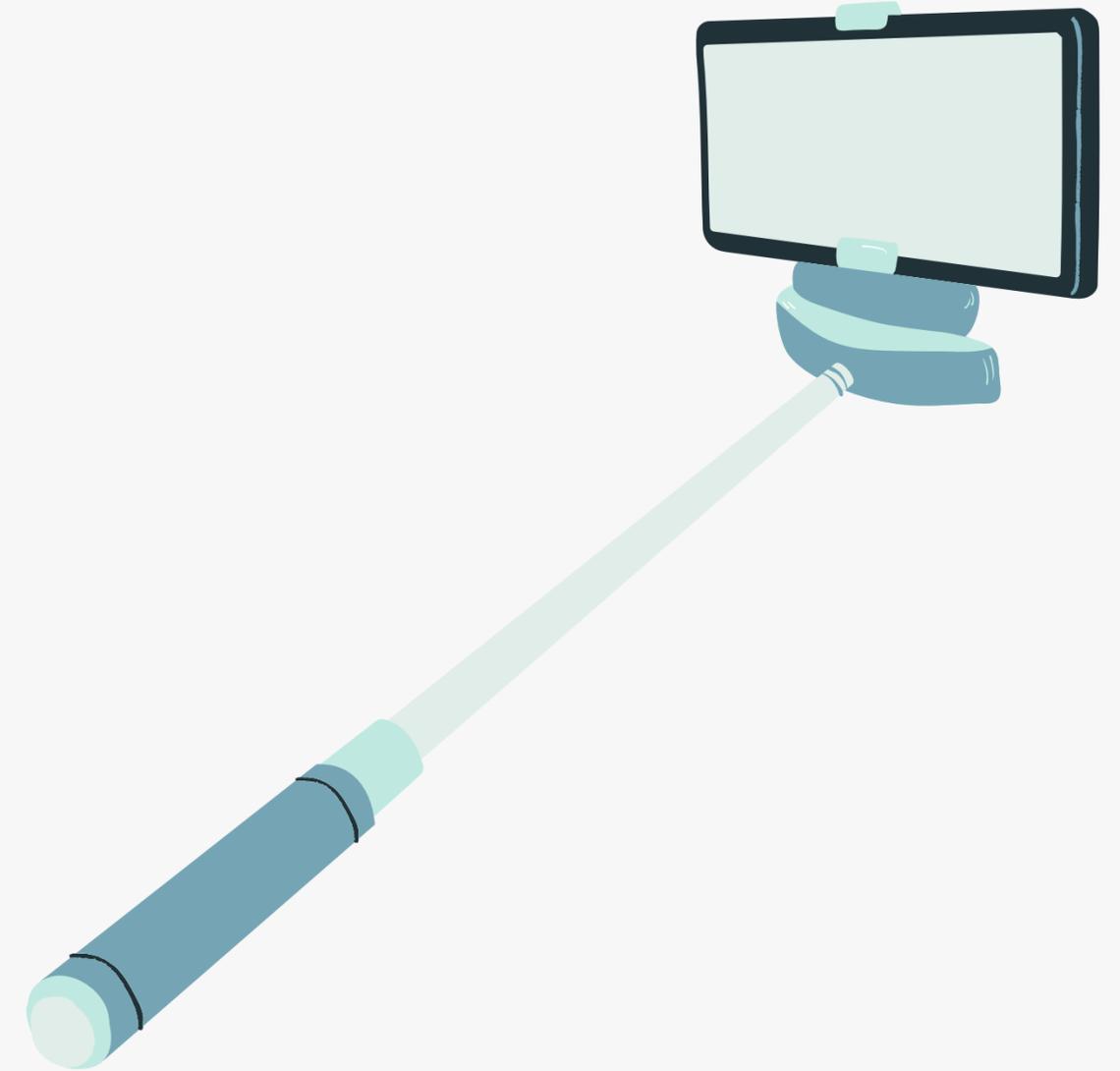


# 5 Shifters of Demand

**1** Income

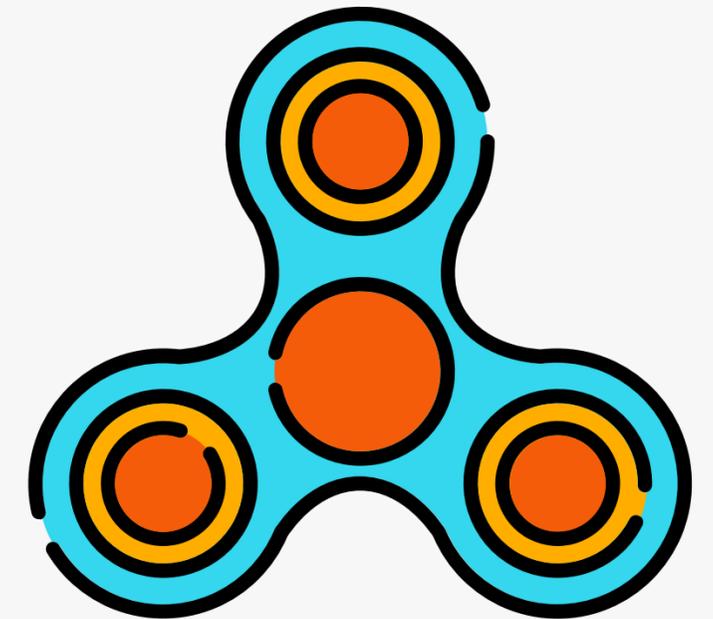
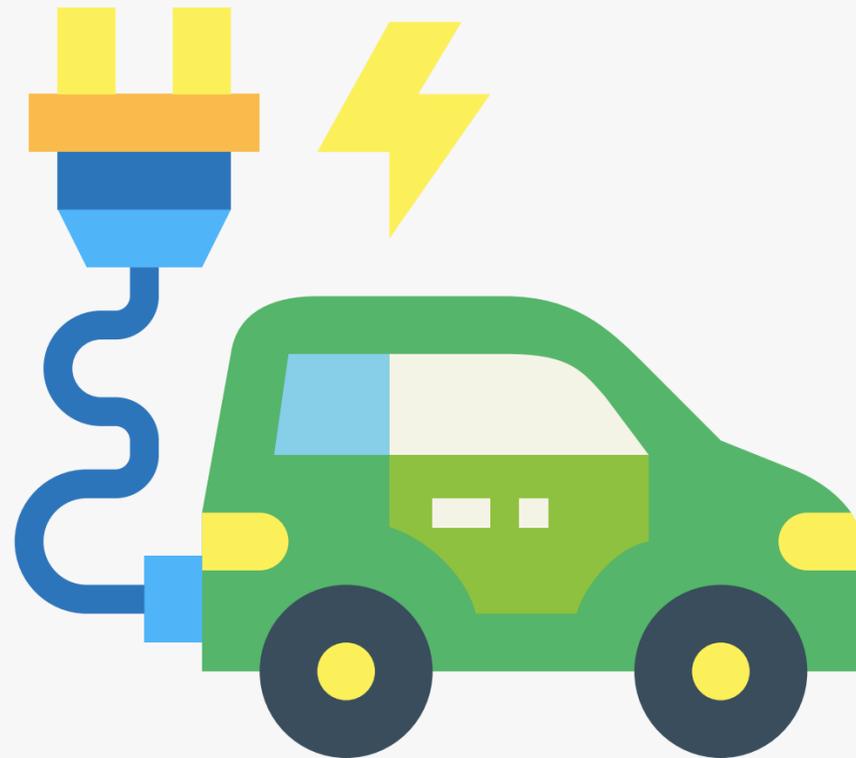
**2** Price of Related Goods

**3** Tastes and Preferences



# Tastes and Preferences

When goods become more or less popular because of fashion, current events or promotion campaigns, demand is affected and the demand curve may shift to the right or to the left.



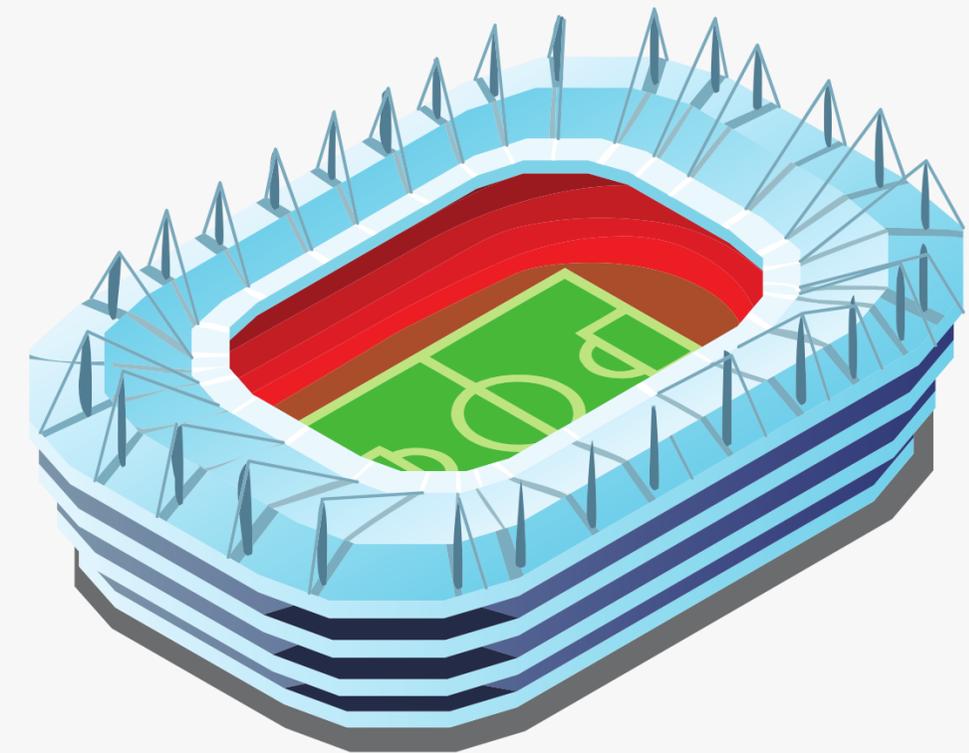
# 5 Shifters of Demand

**1** Income

**2** Price of Related Goods

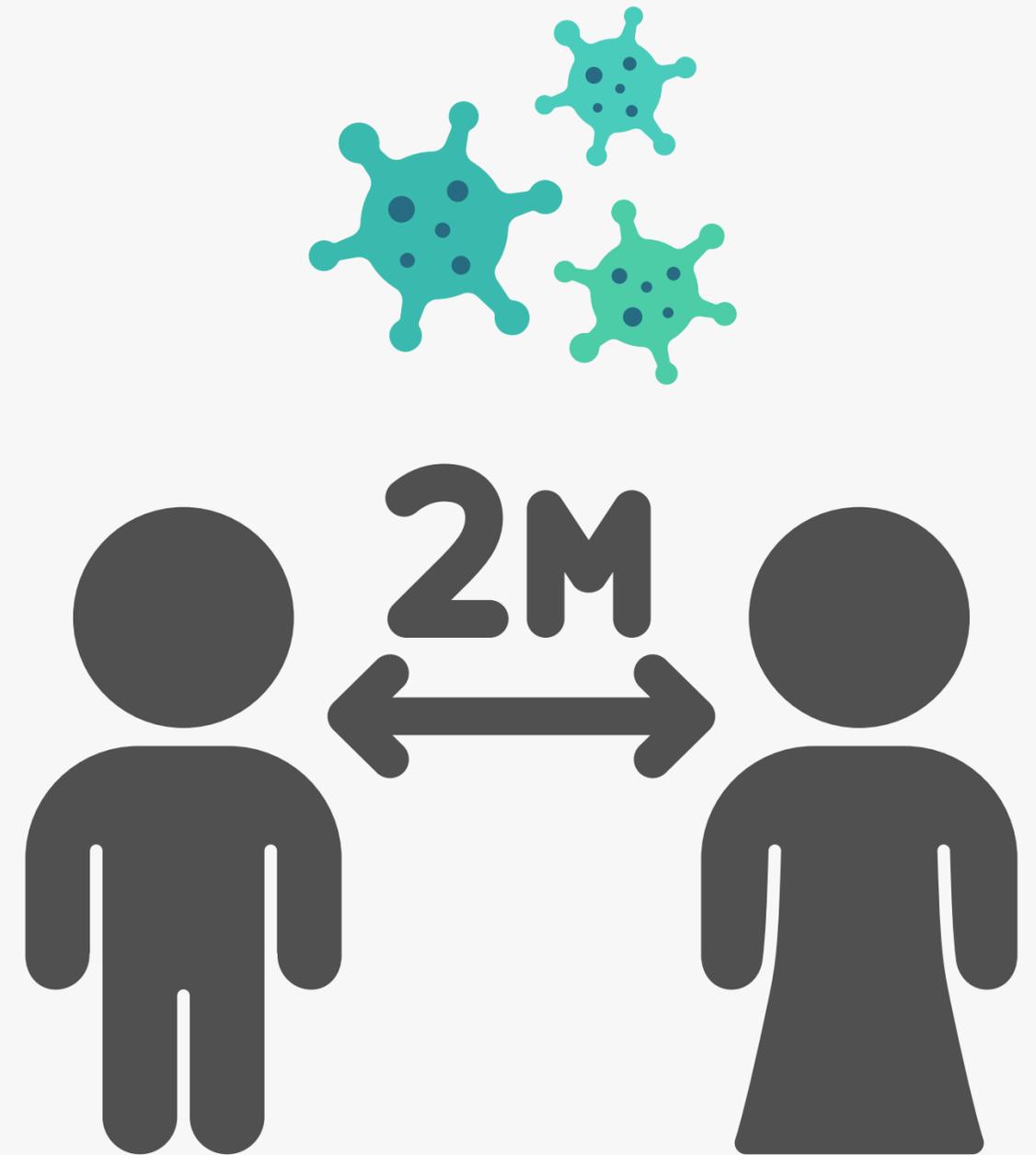
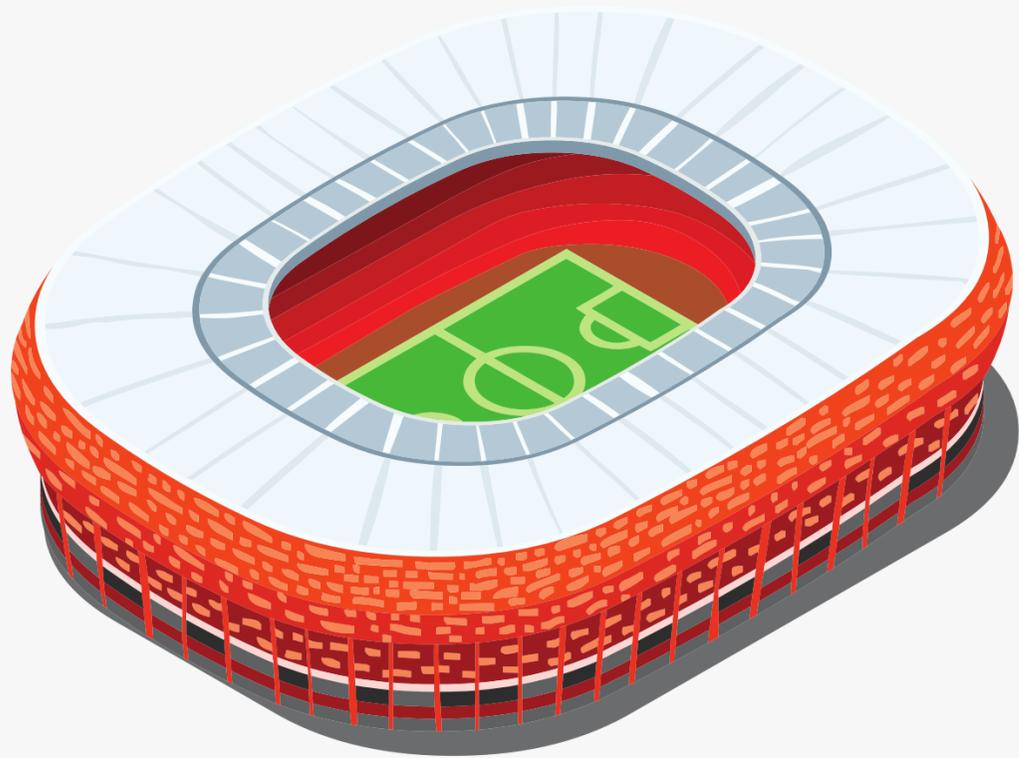
**3** Tastes and Preferences

**4** Number of Consumers



# Number of Consumers

When goods become more or less popular because of fashion, current events or promotion campaigns, demand is affected and the demand curve may shift to the right or to the left.



# 5 Shifters of Demand

-  **Income**
-  **Price of Related Goods**
-  **Tastes and Preferences**

-  **Number of Consumers**
-  **Future Expectations**

# Future Expectations

Expectations about the future can also affect the demand for goods and services.

## Future Price

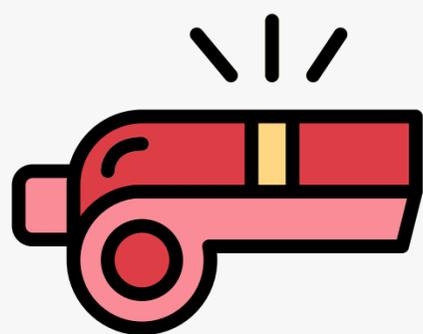
if people expect prices of goods and services to increase in the near future, they may decide to purchase more of the good now



## Future Economy

If consumers expect the economy to do well, meaning consumers expect to keep their jobs and increase their incomes in the near future, they may increase their consumption of goods and services Vice Versa





**Practice**

**Identify the determinant (shifter) then decide if demand will increase or decrease**

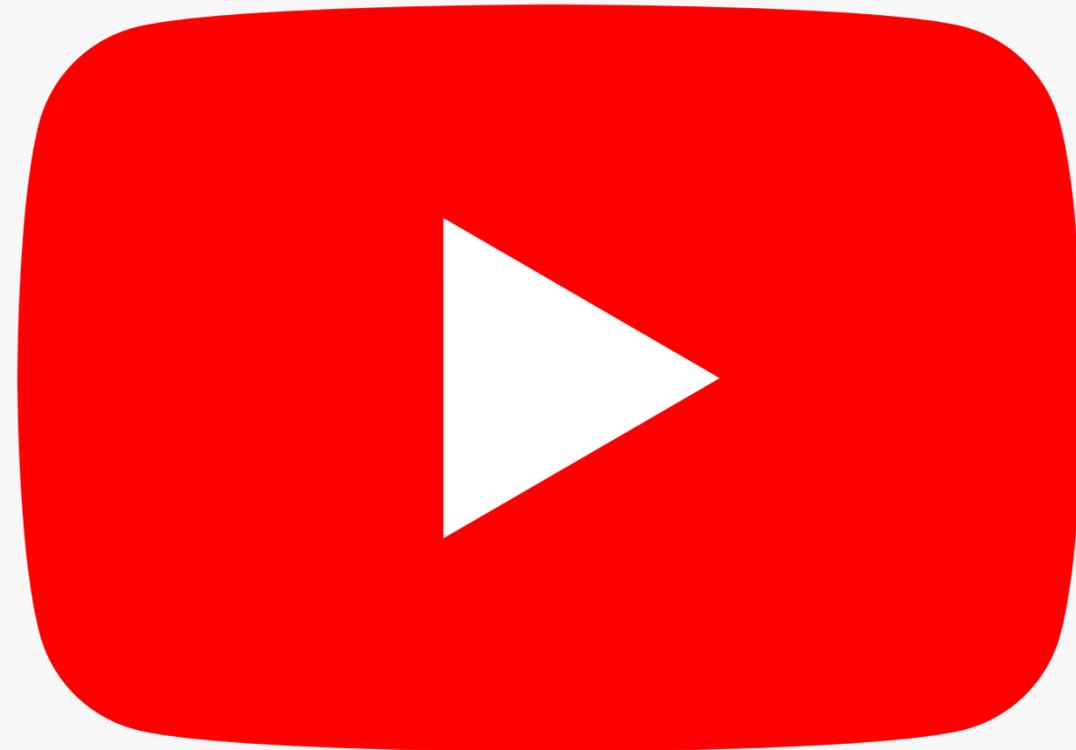
Tacos (a normal good)

1. Population boom
2. Incomes fall due to recession
3. Price of hamburger, a substitute, decreases
4. Price increases to \$5 for tacos
5. New health craze- "No ground beef"
6. Taco restaurants announce that they will significantly increase prices NEXT month
7. Price of salsa, a complement, increases
8. Restaurants lower price of tacos to \$.50

# Results

Shifter	Increase or Decrease
Number of Consumers	Increase
Income	Decrease
Substitute	Decrease
No Shift Occurs	Decrease Qd
Taste and Preferences	Decrease
Future Expectations	Increase
Related Goods	Decrease
No Shift Occurs	Increase Qd

# Review



# Practice Question



# Paper 1 Part A

M14/3/ECONO/SP1/ENG/TZ2/XX

- (a) Explain **three** factors that could lead to an increase in demand for cigarettes. *[10 marks]*



# Check Answers

(a) Explain *three* factors that could lead to an increase in demand for cigarettes.

[10 marks]

Answers **may** include:

- definition of demand
- diagram showing a rise in the demand for cigarettes
- an explanation of three of the possible factors that could increase the demand for cigarettes such as a rise in consumer income, promotion or advertising of cigarettes by producers and population or demographic changes
- examples to support the explanations of a rise in demand for cigarettes.

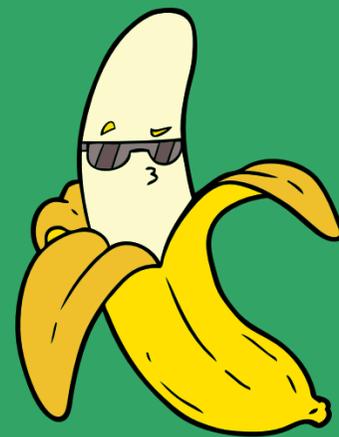
## Paper 1 (SL/HL)

### Part (a) 10-mark question

Marks	Level descriptor
0–10	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"><li>• The response indicates little understanding of the specific demands of the question.</li><li>• Economic theory is stated but it is not relevant.</li><li>• Economic terms are stated but they are not relevant.</li></ul>
3–4	<ul style="list-style-type: none"><li>• The response indicates some understanding of the specific demands of the question.</li><li>• Relevant economic theory is described.</li><li>• Some relevant economic terms are included.</li></ul>
5–6	<ul style="list-style-type: none"><li>• The response indicates understanding of the specific demands of the question, but these demands are only partially addressed.</li><li>• Relevant economic theory is partly explained.</li><li>• Some relevant economic terms are used appropriately.</li><li>• Where appropriate, relevant diagram(s) are included.</li></ul>
7–8	<ul style="list-style-type: none"><li>• The specific demands of the question are understood and addressed.</li><li>• Relevant economic theory is explained.</li><li>• Relevant economic terms are used mostly appropriately.</li><li>• Where appropriate, relevant diagram(s) are included and explained.</li></ul>
9–10	<ul style="list-style-type: none"><li>• The specific demands of the question are understood and addressed</li><li>• Relevant economic theory is fully explained.</li><li>• Relevant economic terms are used appropriately throughout the response.</li><li>• Where appropriate, relevant diagram(s) are included and fully explained</li></ul>

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