

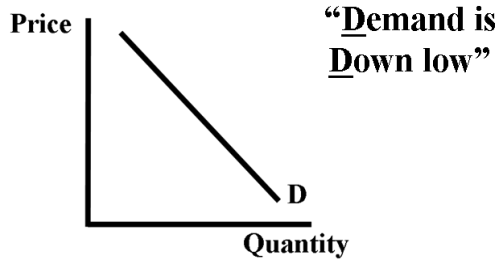
Make up: FOR CREDIT, copy onto your own paper.

When you are finished, save a tree and return this page to the handout files

Demand Notes

Law of Demand:

Holding all else equal, when the price of a good rises, consumers decrease their quantity demanded for that good.



To be on the demand curve a person must be **WILLING** and **ABLE** to purchase the product or service.

Definitions:

Qd- is the amount that will be purchased at a specific **P**. (one dot)
D- it is a schedule of quantities of goods and services that will be purchased at various prices at a specified time, all other things held constant. (the entire curve)

Eight Determinants(shifters) of Demand:

- # of consumers
 $\uparrow \# \text{ consumers} \rightarrow D \uparrow$
 $\downarrow \# \text{ consumers} \rightarrow D \downarrow$
- Income - Normal Goods
 Normal Good = good for which higher income = $\uparrow D$
 $\uparrow Y \rightarrow D \uparrow$ Normal Goods
 $\downarrow Y \rightarrow D \downarrow$ Normal Goods
- Income - Inferior Goods
 Inferior Good = good for which higher income = $\downarrow D$
 $\uparrow Y \rightarrow D \downarrow$ Inferior Goods
 $\downarrow Y \rightarrow D \uparrow$ Inferior Goods
- Preferences
 $\uparrow \text{ Preferences} \rightarrow D \uparrow$
 $\downarrow \text{ Preferences} \rightarrow D \downarrow$

5. Price of related products: Substitutes

Sub = products purchased instead of each other

Ex: Coke & Pepsi

$\uparrow P \text{ of Sub} \rightarrow D \uparrow$
 $\downarrow P \text{ of Sub} \rightarrow D \downarrow$

6. Price of related products: Complements

Comp = products purchased Together Ex: chips & salsa

$\uparrow P \text{ of Comp} \rightarrow D \downarrow$
 $\downarrow P \text{ of Comp} \rightarrow D \uparrow$

7. Expected future prices by consumers

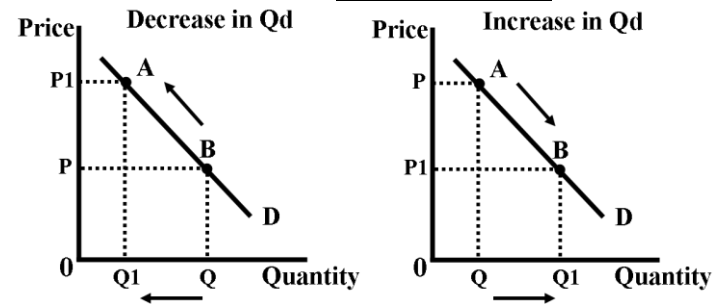
Timing: what happens to D when info is heard, NOT in future

$\uparrow \text{ EFP} \rightarrow D \uparrow$
 $\downarrow \text{ EFP} \rightarrow D \downarrow$

8. Expected future income by consumers

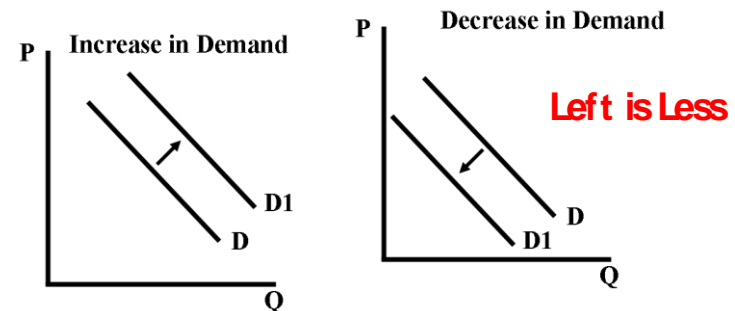
$\uparrow \text{ EFY} \rightarrow D \uparrow$
 $\downarrow \text{ EFY} \rightarrow D \downarrow$

Graph Changes



Price is the only thing that changes Qd (dot)

Price DOES NOT change D (entire curve)



* Increase/decrease happens along Q line, not P

* Only the 8 shifters can change Demand

Price is not a shifter