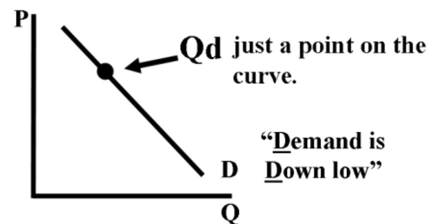
Law of Demand

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

Put an easier way: if price is the only factor, people will want to buy more when prices are low and want to buy less when prices are high

Demand
Vs
Quantity Demanded

Demand is a curve that represents how much of a product people are WILLING & ABLE to purchase at various prices. *it's the whole curve



Quantity demanded is how much they will purchase at ONE price, it's one dot on the curve

Normal Goods
vs.
Inferior Goods

Normal Good = good for which higher income increases demand
Examples Ipods, TV, anything considered nice or of good quality

Inferior Good = good for which higher income decreases demand
Examples: generic brands, 2nd hand goods, anything considered cheap or of lower quality

Complements
vs.
Substitutes

Complements = goods that you purchase together.
Example: peanut butter & jelly
Milk & Cereal, Chips & Salsa

Substitutes = goods that you instead of each other
Examples: Coke & Pepsi,
Gatorade & PowerAde

Demand Shifters

1. # of Consumers
2. Income - Normal Goods
3. Income - Inferior Goods
4. Preferences

↑# consumers →D↑
↓# consumers →D↓

↑Y→D↑ Normal Goods
↓Y→D↓ Normal Goods

↑Y→D↓ Inferior Goods
↓Y→D↑ Inferior Goods

↑ Preferences →D↑
↓ Preferences →D↓

Don't have to memorize, just be able to think it through as if you are in the situation as if you are the **customer**

Demand Shifters

5. Price of a substitute
6. Price of a complement
7. Expected Future Price
8. Expected Future Income

↑ P of Sub →D↑
↓ P of Sub →D ↓

↑ P of Comp →D↓
↓ P of Comp →D↑

↑ EFP →D↑
↓ EFP →D↓

↑ EFY →D↑
↓ EFY →D↓

Don't have to memorize, just be able to think it through as if you are in the situation as if you are the **customer**

Law of Supply

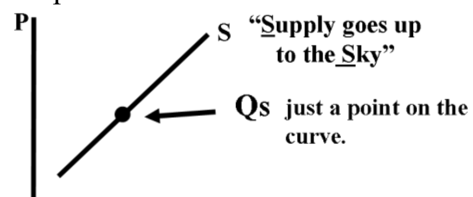
It's why the supply curve slopes upward

Holding all else equal, when the price of a good rises, producers increase their quantity supplied for that good

Put an easier way: if price is the only factor, people will want to make/sell more when prices are high and want to make/sell less when prices are low.

Supply vs. Quantity Supplied

Supply is a curve that represents how much of a product people are WILLING & ABLE to produce at various prices. *it's the whole curve



Quantity supplied is how much they will make at ONE price. It's one dot on the curve