



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.



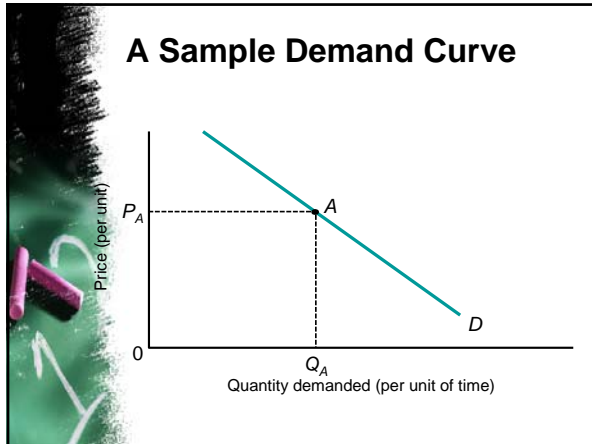
The Law of Demand

- 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.




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.



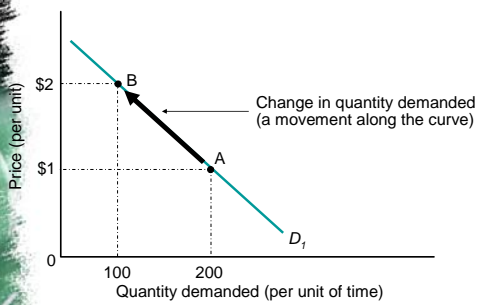
Shifts in Demand Versus Movements Along a Demand Curve

- A **movement along a demand curve** is the graphical representation of the effect of a change in price on the quantity demanded.

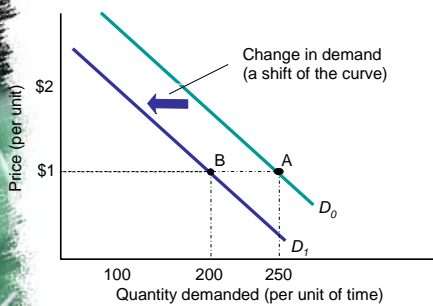
Shifts in Demand Versus Movements Along a Demand Curve

- A **shift in demand** is the graphical representation of the effect of anything other than price on demand.

Change in Quantity Demanded




Shift in Demand






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.

From a Demand Table to a Demand Curve

A Demand Table

	Price per cassette	DVD rentals demanded per week
A	\$0.50	9
B	1.00	8
C	2.00	6
D	3.00	4
E	4.00	2

A Demand Curve

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

	(1) Price per cassette	(2) Alice's demand	(3) Bruce's demand	(2) Cathy's demand	(3) Market demand
A	\$0.50	9	6	1	16
B	1.00	8	5	1	14
C	1.50	7	4	0	11
D	2.00	6	3	0	9
E	2.50	5	2	0	7
F	3.00	4	1	0	5
G	3.50	3	0	0	3
H	4.00	2	0	0	2

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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.
