Demand - the desire, ability, and willingness to buy a product.
Section 1

The Factors of Demand

1. You must have the **desire** for the product
2. You must be **able** to make a purchase
3. You must be **willing** to make a purchase
4. Purchases made during a **given time period**
Introduction to Demand

- In a Market Economy people and firms act in their own best interest to answer the basic WHAT, HOW and FOR WHOM questions.
- Demand is measured for each individual and demand will vary from person to person.
The Law of Demand

- The Law of Demand states that the quantity demanded of a good will be greater at lower prices than will be demanded at higher prices.
- Thus the quantity demanded varies inversely with its price.
Demand Schedules & Curves

- A **Demand Schedule** is simply a list of the quantities consumers demand at various prices.
- A **Demand Curve** is a graphic illustration of the relationship between price and the quantity demanded.
- A **Market Demand Curve** shows the quantities demanded by everyone who is interested in purchasing the product.
**Demand Schedule & Curve**

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.99</td>
<td>0</td>
</tr>
<tr>
<td>$0.89</td>
<td>2</td>
</tr>
<tr>
<td>$0.79</td>
<td>4</td>
</tr>
<tr>
<td>$0.69</td>
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</tr>
<tr>
<td>$0.59</td>
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</tr>
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<td>$0.49</td>
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<tr>
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<tr>
<td>$0.29</td>
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</tr>
<tr>
<td>$0.19</td>
<td>16</td>
</tr>
<tr>
<td>$0.09</td>
<td>18</td>
</tr>
</tbody>
</table>
Supporting The Law of Demand

• **Marginal Utility** is the extra usefulness or satisfaction a person gets from acquiring or using one more unit of a product.

• **Diminishing Marginal Utility** is the principle that as additional units of a product are consumed during a given time period, the additional satisfaction decreases.
Movement from point a to b shows a change in quantity demanded. Movement along the demand curve shows a change in the quantity purchased in response to a change in price.
Changes in Quantity Demanded

- The **Income Effect** is the change in quantity demanded because of a change in price that alters consumers’ real income.
  - When the price changes the consumer has more or less income to spend. The price change makes the consumer seem richer or poorer. He now has more or less money to purchase more or less items.

- The **Substitution Effect** is the change in quantity demanded because of the change in the relative price of the product.
  - Consumers have a tendency to replace more costly items with a less costly ones.
Factors Affecting Demand

Sometimes people will decide to buy more or less of a product while the price of the product remains the same. This is called a change in demand.

1. **Income**
2. **Tastes**
3. **Substitutions**
4. **Complements**
5. **Number of Consumers**
Changes in consumers income can cause a change in demand. When your income goes up, you can afford to buy more products at each and every price.
Changes in Consumer Tastes

- Consumers do not always want the same things. Advertising, news reports, fashion trends, the introduction of new products, and even changes in the season can affect consumer tastes. Sometimes tastes and preferences change by themselves over time.

- A change in consumer’s attitudes (tastes and preferences) can cause demand to increase or decrease.
Substitute Products

- **Substitute Products** are products whose uses are similar enough that one can replace the other.
How Demand Changes with Substitutes

- When the price of a substitute decreases the demand for the product decreases. The reason is that people will switch to the substitute thus reducing demand for the product.
- When the price of the substitute increases the demand for the product increase. This is caused by others switching to the product from the substitute.
The movement in the graph shows that the quantity demanded of butter decreased because the price of margarine decreased.
Complementary Products

Complementary Products are products that are used together. If two goods are complementary products, a decrease in the price of one can increase the demand for the other and visa versa.
Complemented products need to be viewed as a single item. If the price of one of the products rise the total cost of the pair rises. If one of the complements decreases in price the total price of the items decrease.

For Example: If one of the complements decreases in price the demand for the complemented product Increases.
“Expectations” refers to the way people think about the future and the purchasing decisions made with those expectations.

Examples:
- New technology coming next year
- U.S.D.A. reports a major crop failure
Increase in Population

- An increase or decrease in the **Number of Consumers** will shift the **market** demand curve.
- An increase shifts the curve to the right and a reduction shifts the curve to the left.
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5. **Number of Consumers**
Elasticity measures the relative responsiveness of the change in quantity demanded as a result of a change in the product’s price.
Elastic Demand

Demand is **Elastic** when a given change in price causes a relatively **larger** change in the quantity demanded.

*Note! The more substitutes that are available, the more price elastic is demand. The term **elastic** implies responsiveness.*

*If the value of elasticity is greater than 1, the product is elastic.*
Demand Inelasticity means that a given change in price causes a relatively smaller change in the quantity demanded.

Note! If there are few, if any, substitutes available the product will be inelastic. If the value of elasticity is less than 1 the product is inelastic.
Unit Elastic

- **Unit Elasticity** means that a given price change causes a proportional change in the quantity demanded.
Elastic – Inelastic – Unitary

- Measuring Elasticity

\[
\text{Price Elasticity} = \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}
\]

\[
\begin{align*}
1 > & \quad \text{Inelastic} \\
1 < & \quad \text{Elastic} \\
1 = & \quad \text{Unitary}
\end{align*}
\]
What determines the price elasticity of demand?

1. **Time period** considered (can the purchase be delayed)
2. The number of **substitute** products that are available
3. The importance of the product in the **consumer’s budget**
4. If the consumer uses a **large portion of their income** the product tends to be elastic.