Name:

Date:

School:

Facilitator:

3.02 Demand

Total Points: 24

# I. Demand I: “What is Demand?”

**Demand**

Remember from the introduction that “demand” in economics has three parts. People must what two things in order to purchase a good or service for demand to be created?

1.
2.

**Individual Demand Schedule**

Demand schedule is a list that illustrates the possible       demanded of a good/service at the      that might work in the market at a particular time.

**Demand Schedule Example**

The demand schedule below illustrates that a certain consumer would not buy any cupcakes at a price of $25 or $30, but he would buy one if the price dropped to      , and even more would be sold if the price was only      .

|  |  |
| --- | --- |
| Price Per Cupcake | Quantity Demanded |
| $30 | **0** |
| $25 | **0** |
| $20 | **1** |
| $15 | **3** |
| $10 | **5** |
| $5 | **8** |

**Individual Demand Curve**

The demand schedule information from the cupcake example can also be shown in graph form.

This graph is called the      , which is just a graph showing the quantity of demand for a certain individual at each price that might be used in the market at a given time.

**Demand Curve Example**

The demand curve slopes      .

This shows that people are normally willing to buy less of a product at a high price and more at a low price.

According to the law of demand,       and price move in opposite directions.

**Law of Demand**

The       means that the quantity demanded of a good/service varies inversely with its price. In other words, when the price is high the quantity demanded goes down.

      is something that discourages people from buying. The higher the price the less of a product people will buy.

**Market Demand Curve**

We already talked about an *individual* demand curve (remember the cupcake example from earlier); sometimes we need to know the quantities demanded by *everyone* who is *interested* in buying a product.

This kind of demand curve is called the      .

**Demand and Marginal Utility**

Earlier in the course, we said that utility is the amount of       one gets from using a product. So, marginal utility is the extra usefulness/satisfaction one gets from getting or using one *more* unit of a product.

**Diminishing Marginal Utility**

We buy things because we feel the product is useful to us, but as we use more and more of a product we experience      .

The principle of diminishing marginal utility states that the satisfaction we gain from buying a product lessens as we buy more of the same product.

As we use more of a product, we are not willing to pay as much for it. Therefore, the demand curve is downward sloping.

**Review What You Learned**

Explain the relationship between the demand schedule and demand curve.

Explain how the slope of the demand curve can be explained by the principle of diminishing marginal utility.

# II. Demand II: “Factors Affecting Demand”

**Introduction**

A number of factors will cause demand to increase or decrease.

We learned before that the demand curve is just a representation of the quantities that people are willing to buy at all possible market prices.

However, something might happen to change people’s willingness and/or ability to buy.

These changes are usually of two types:

**Change in the Quantity Demanded**

The *change in quantity demanded* shows a change in the amount of a product purchased when there is a change in *price.*

* + The income effect means that as prices drop, consumers are left with extra real income and are able to purchase more goods/services.
	+ The substitute effect means that price can cause consumers to substitute one product with another similar but cheaper item.

Look at the graph to the right. Notice that as the price goes down the       goes up.

**Change in Demand**

A      is when people buy different amounts of the product at the same prices.

A change in demand can be caused by:

* +
	+ A change in taste.
	+ A price change in a related product (either because it is a substitute or complement). Complements are related goods because the use of one increases the use of the other.
	+ Consumer expectations.
	+

**Review What You Learned**

Explain the difference between a change in quantity demanded and a change in demand.

Explain how a change in price affects the demand for a product’s substitute(s).