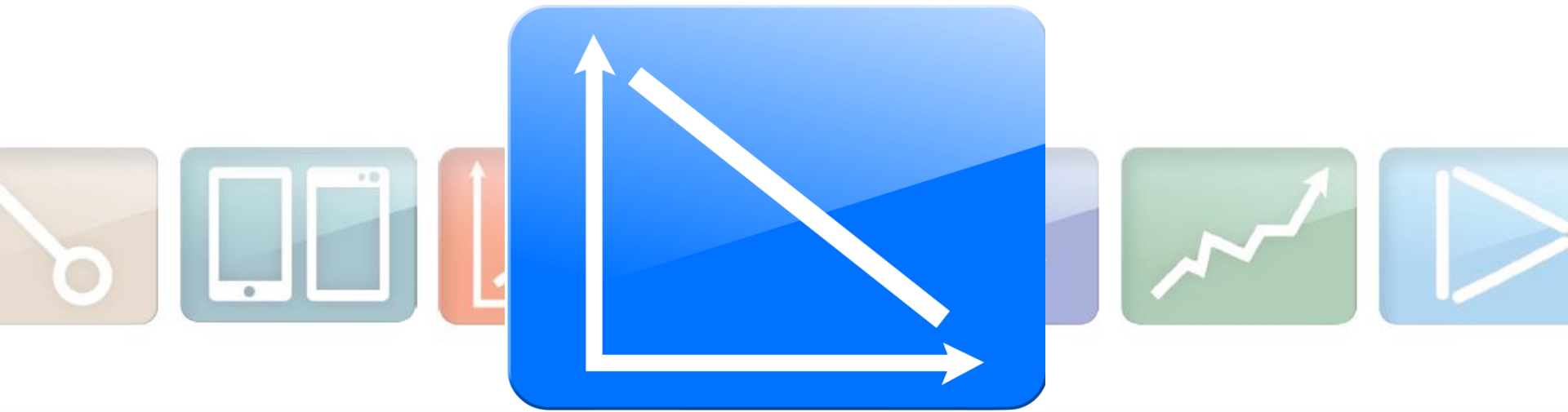
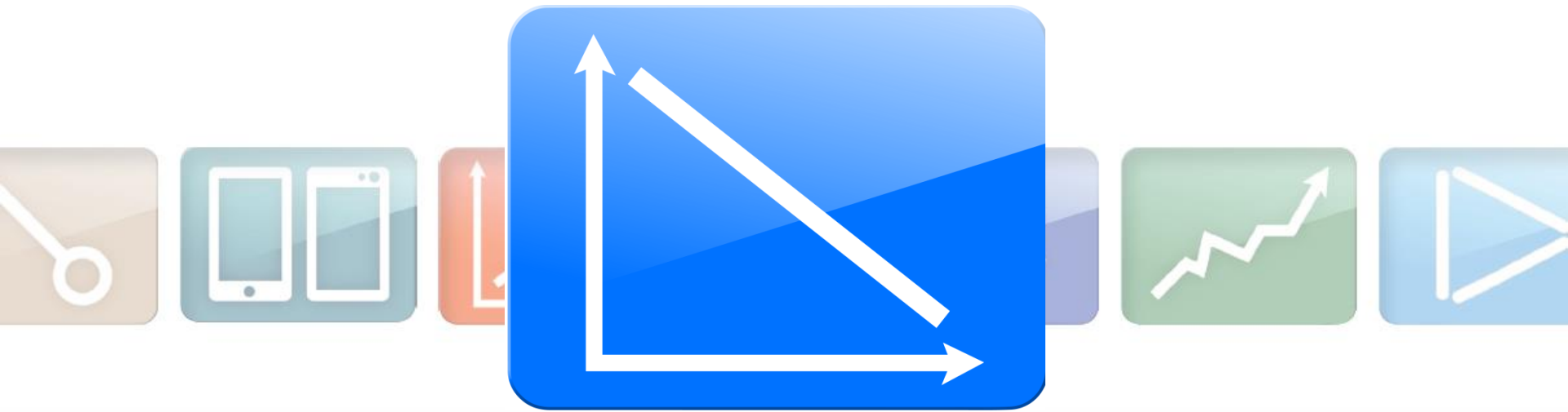


Demand



Introduction to Markets and Prices



Market



- **Definition:** Any place where, or mechanism by which, buyers and sellers interact to trade goods, services, or resources.

How Trade Happens in a Market



Sellers Don't Set Prices

Buyers Don't Set Prices

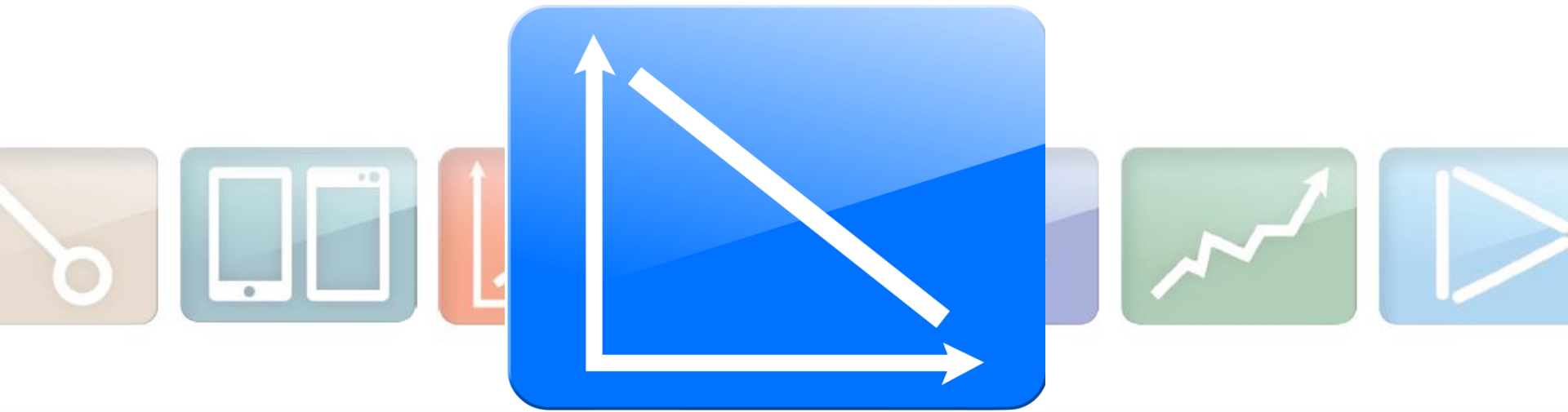


Key Insight

- Prices and quantities traded are determined by the interaction of buyers and sellers in a market.



The Demand Curve



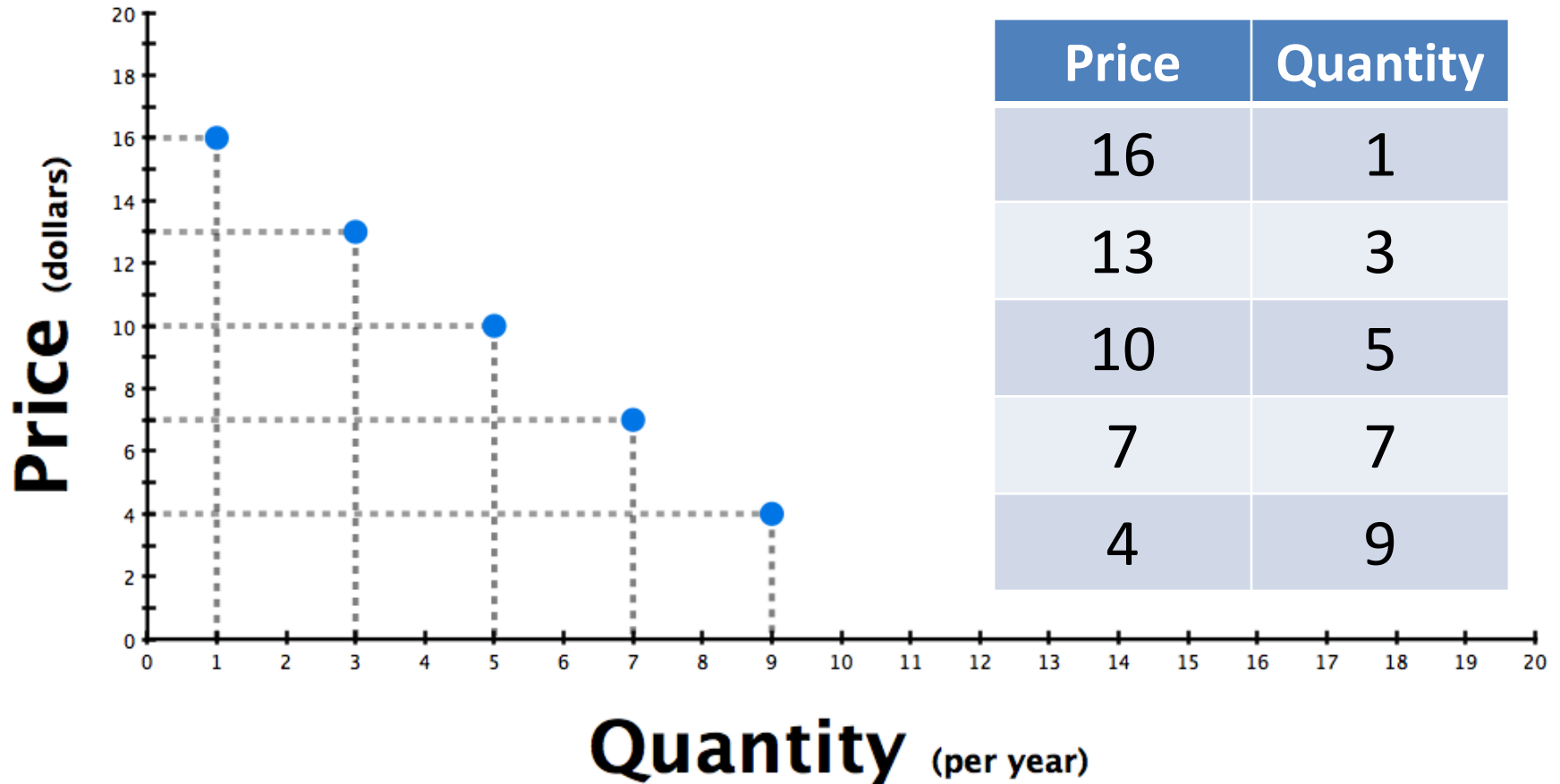
The Law of Demand

- **Definition**: A principle in economics which states that as the price of a good, service, or resource rises, the quantity demanded will decrease, and vice versa, all else held constant.

Demand Schedule

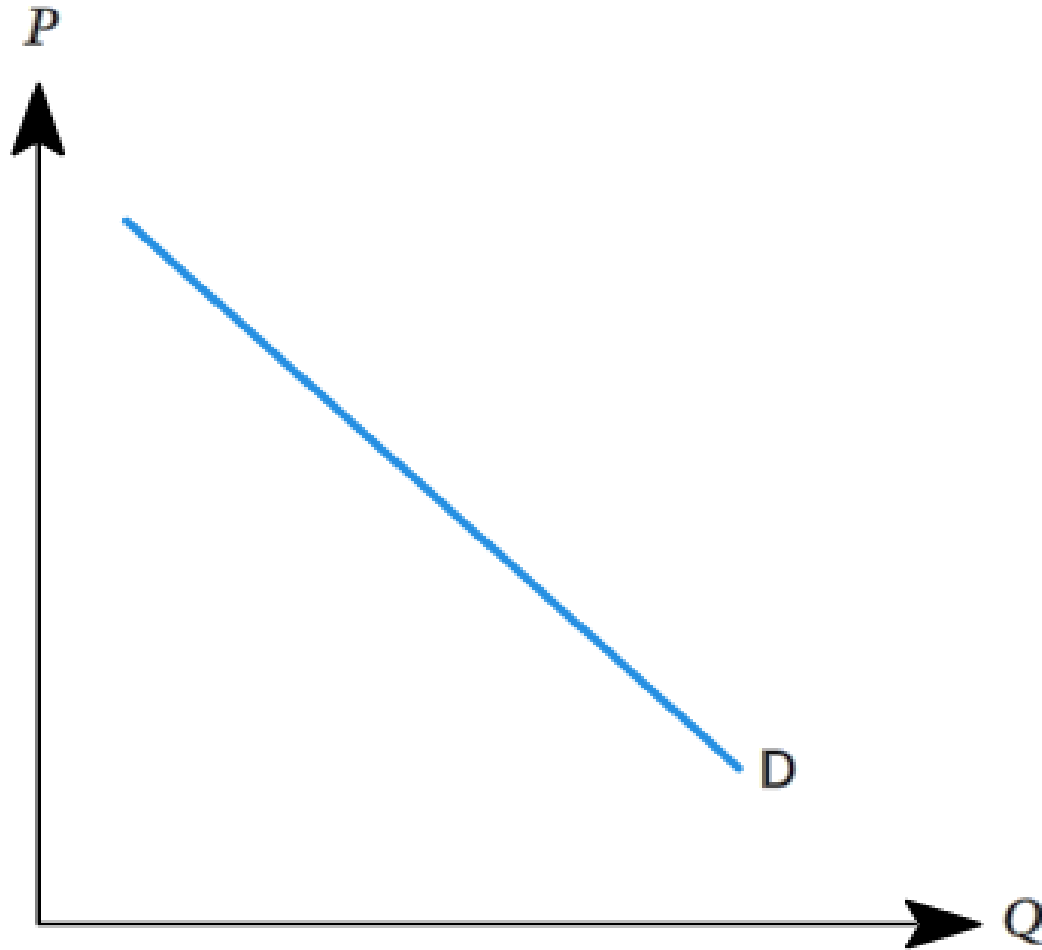
Price	Quantity
16	1
13	3
10	5
7	7
4	9

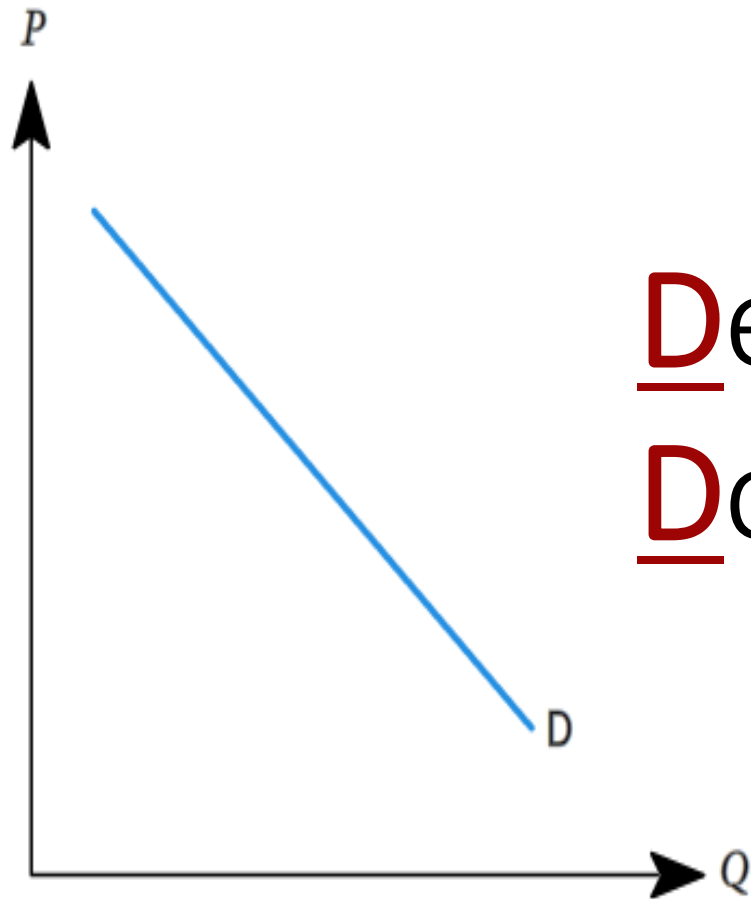
Demand for Movies



Price	Quantity
16	1
13	3
10	5
7	7
4	9

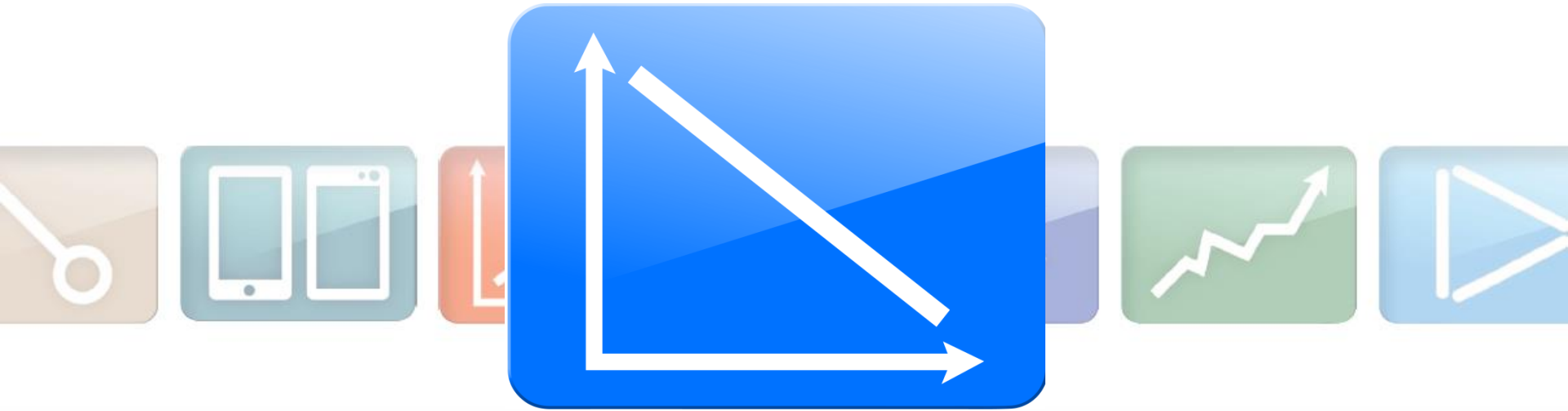
Demand Curve





Demand curves are
Downward-sloping

The Law of Demand - Marginal Benefit, Purchasing Power, and Substitutes



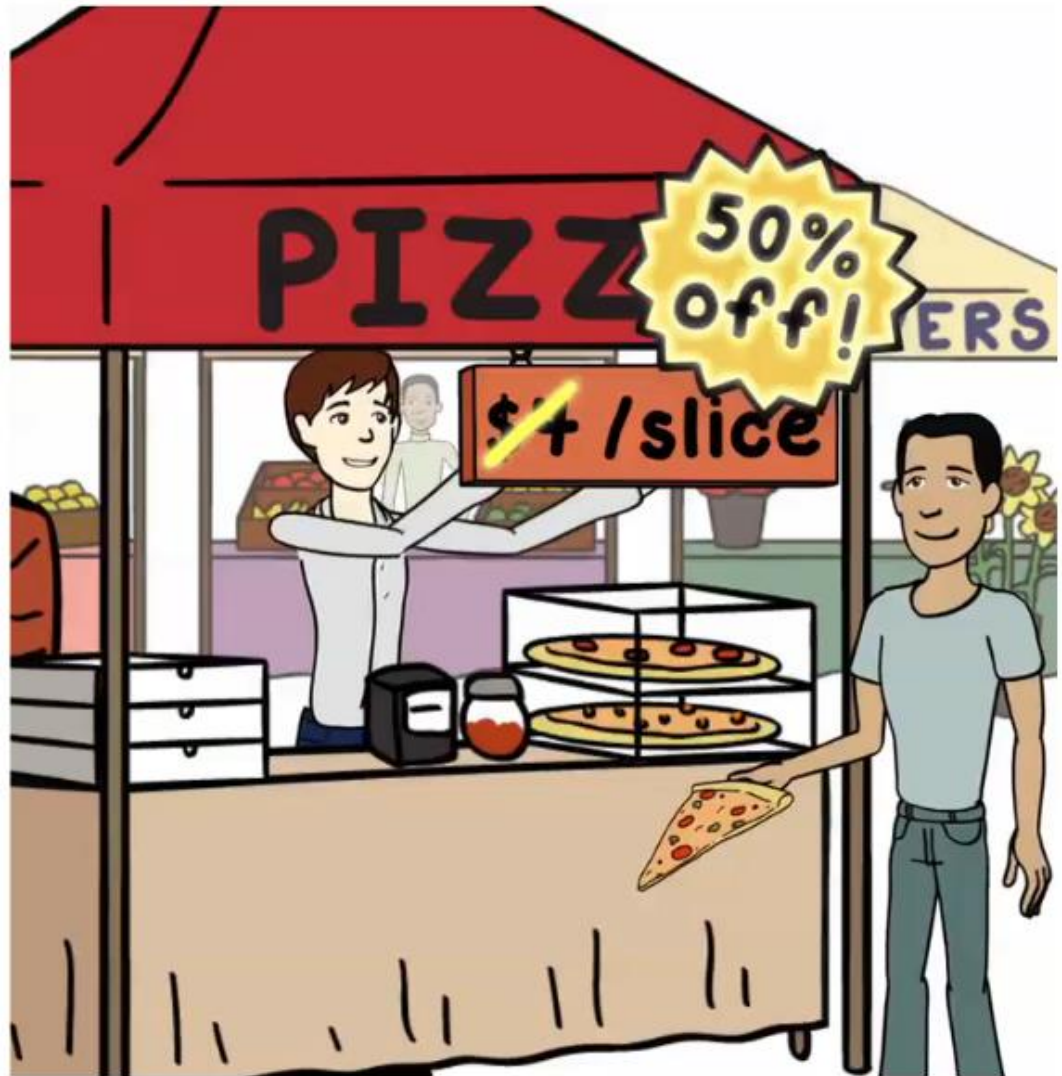
Three Reasons Demand Slopes Down

- Income Effect
- Diminishing Marginal Utility
- Substitution Effect

Reason 1: Income Effect

Price per Slice

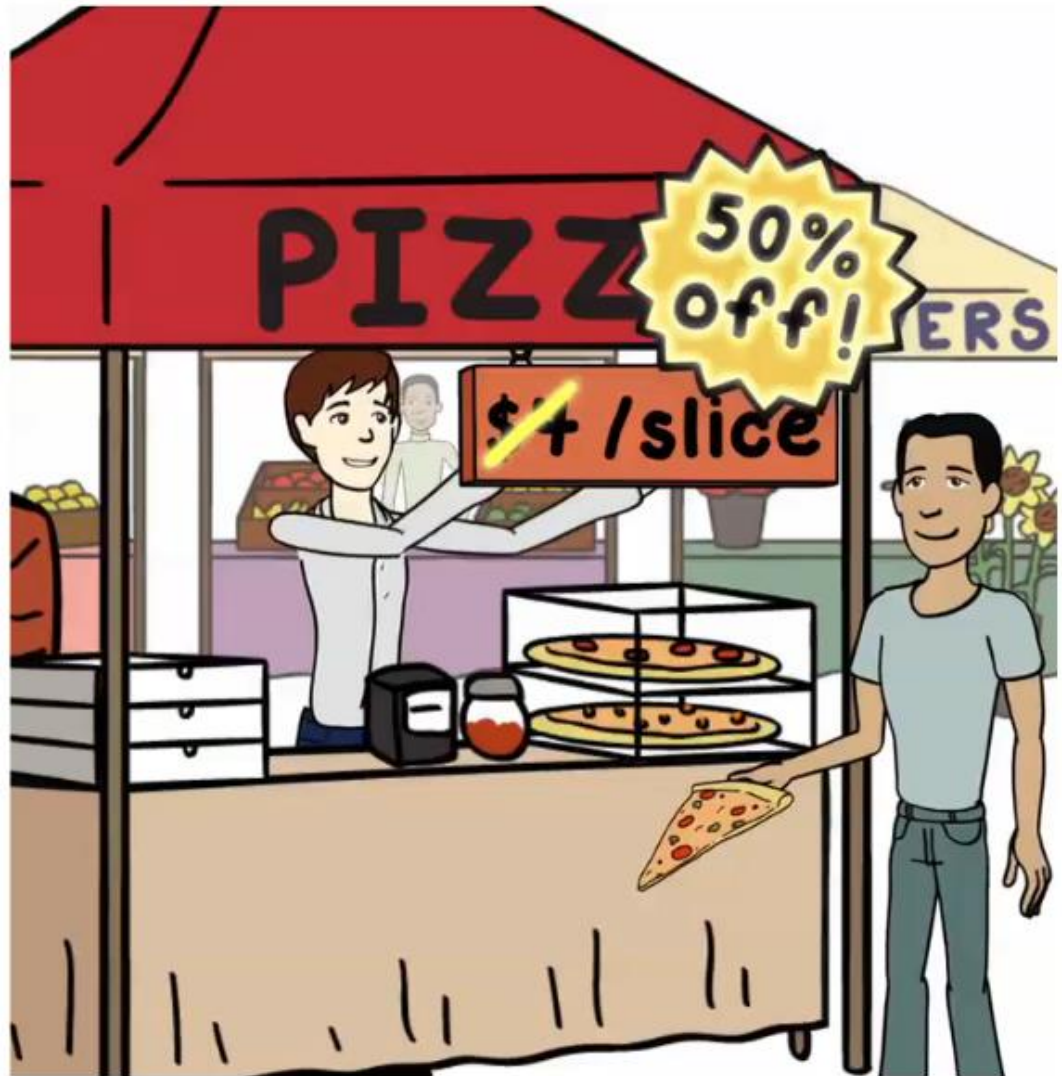
Purchasing Power



Reason 1: Income Effect

Purchasing Power

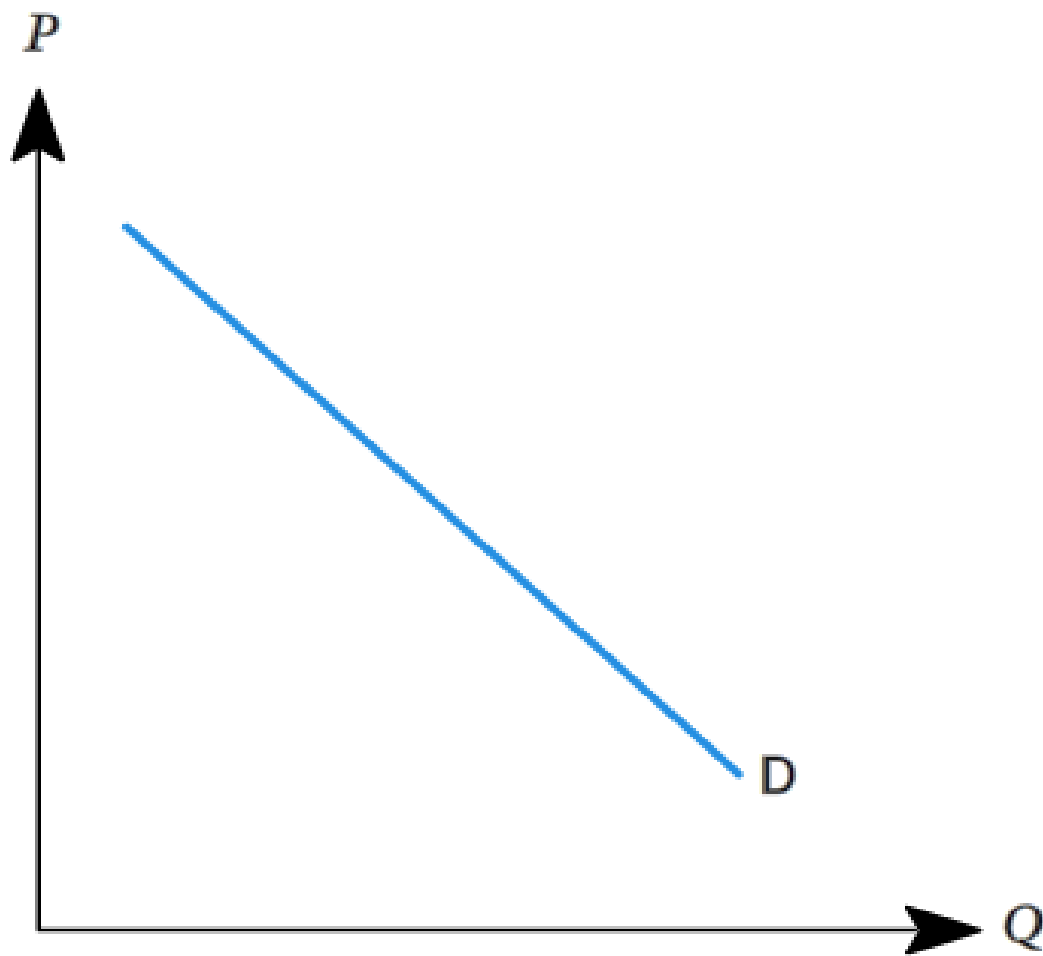
Price per Slice



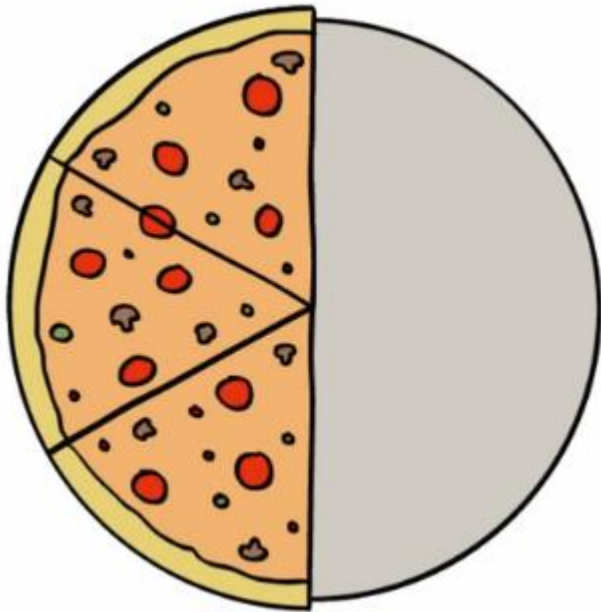
Income Effect

- Definition: The effect that a change in the price of a good, service, or resource has on the purchasing power of income.

Demand Curve



Reason 2: **Diminishing Marginal Utility**



- As people consume more of a good during a fixed time period, the satisfaction received from each additional unit falls.

Each additional slice of pizza you eat gives you a little less benefit.

Diminishing Marginal Utility

- **Definition**: The negative relationship between the quantity of a good, service, or resource and the marginal utility obtained from each additional unit consumed in a given period of time.

Reason 3: Substitution Effect

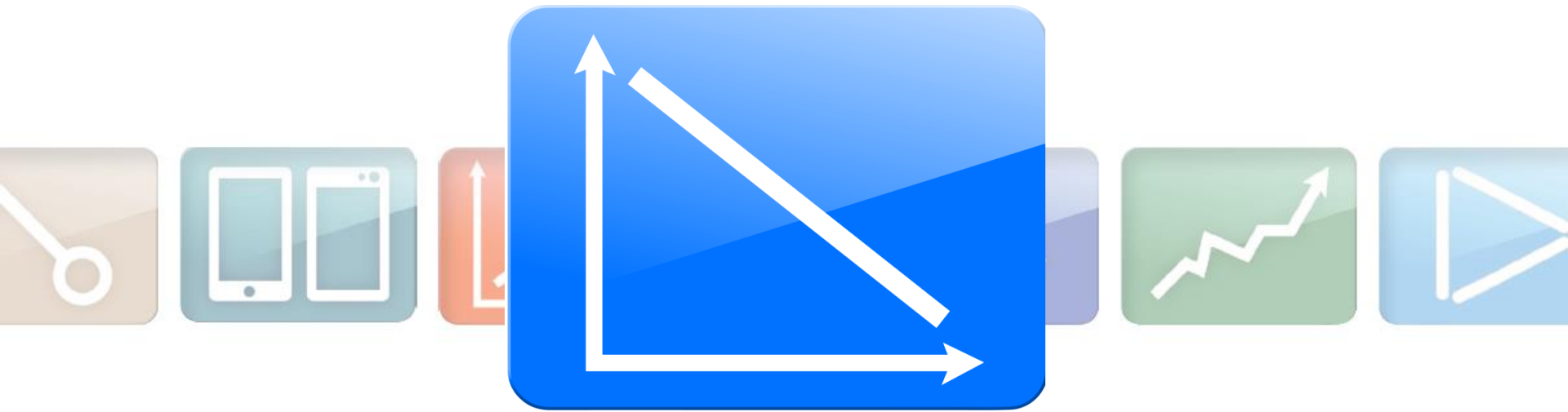
- If the price of pizza goes up do you still buy pizza, or do you eat elsewhere?



Substitution Effect

- **Definition**: The effect that a change in the price of one good, service, or resource has on the demand for another.

Market Demand



Individual Demand

Julia's Demand For Italian Dinners

Price	Quantity
15	1
10	3
5	5



Individual Demand

Martin's Demand For Italian Dinners

Price	Quantity
15	2
10	3
5	4



Multiple Individual's Demand

Julia's

P	Julia's Q
15	1
10	3
5	5



+



=

Martin's

Julia & Martin's Q	Martin's Q
3	2
6	3
9	4

Multiple Individual's Demand

Julia's

P	Julia's Q		P	Martin's Q
15	1	+	15	2
10	3		10	3
5	5		5	4

=

Martin's

Julia & Martin's Q
3
6
9



Multiple Individual's Demand

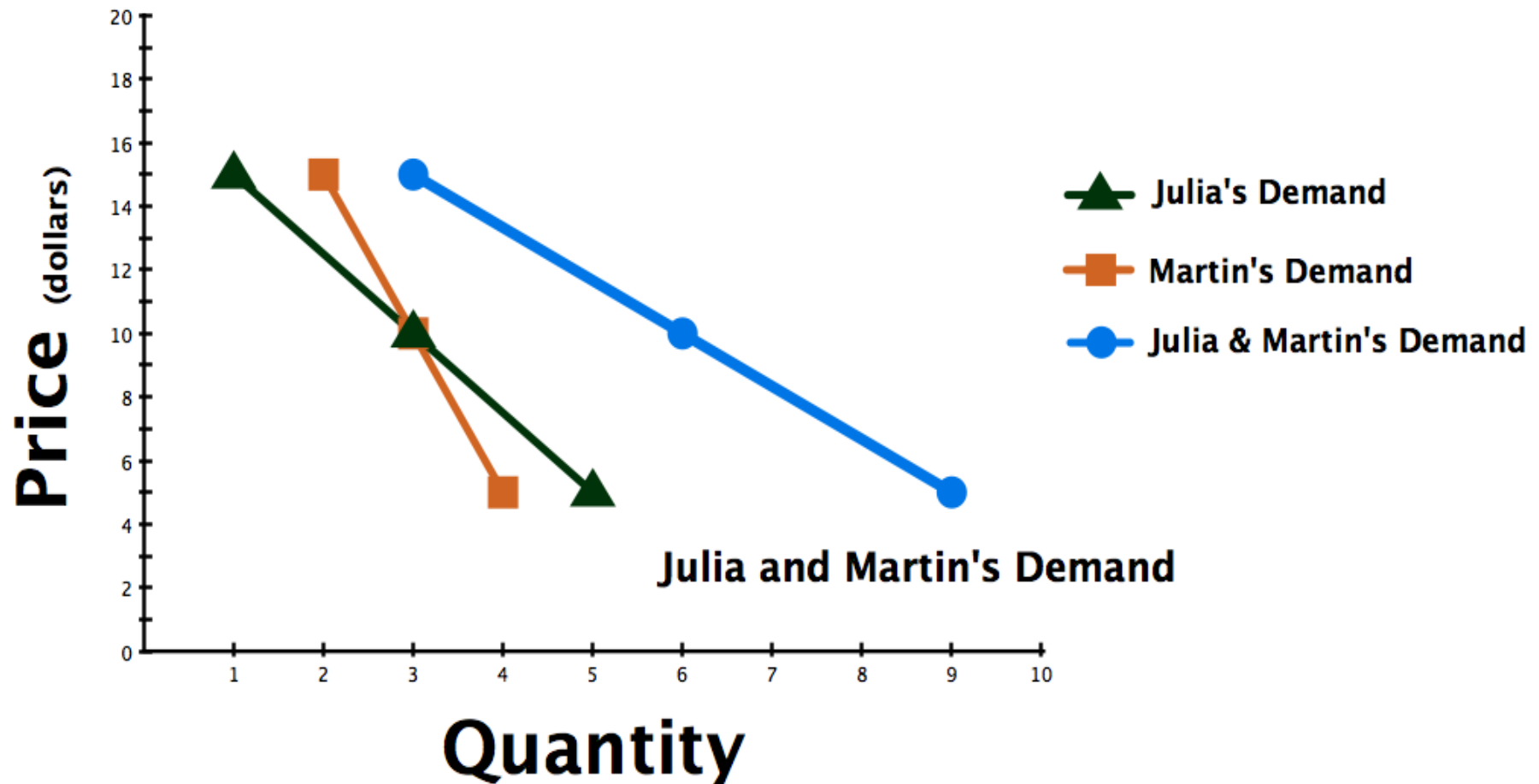
Price	Julia's Q	Martin's Q	Julia & Martin's Q
15	1	2	3
10	3	3	6
5	5	4	9

Price	Quantity
15	3
10	6
5	9



The Market Demand Curve is Individual Demand Curves Added Together

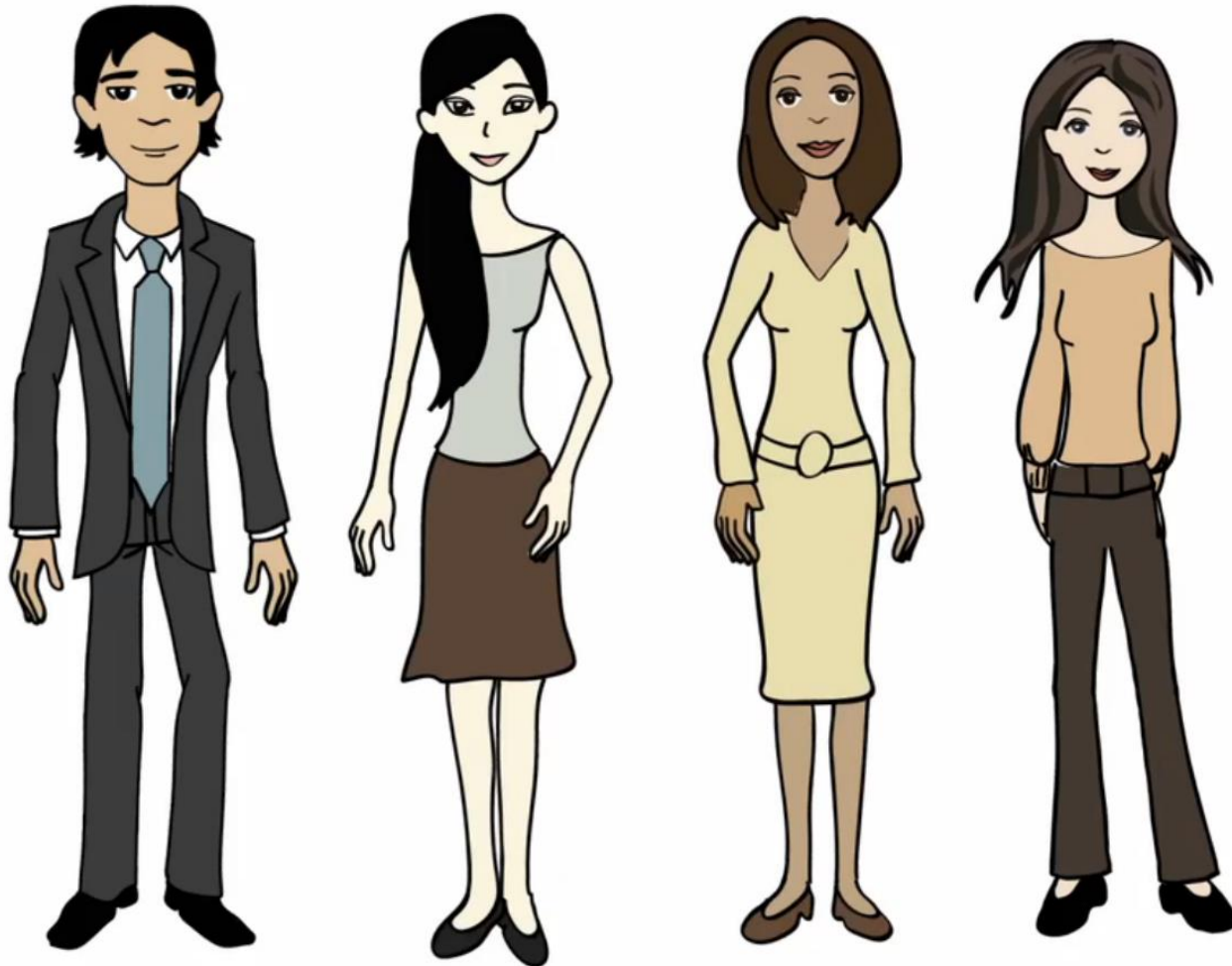
Demand for Italian Dinners



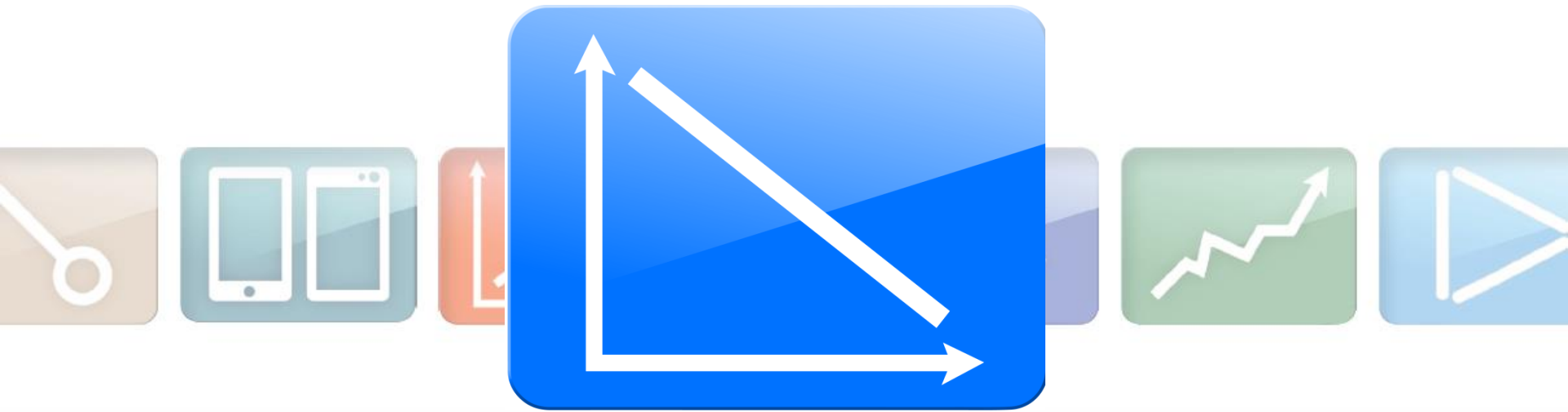
Market Demand

- **Definition**: The overall or total demand for a good, service, or resource. It represents the summation of individual demand curves, whether they represent individuals, communities, states, or nations.

Market Demand



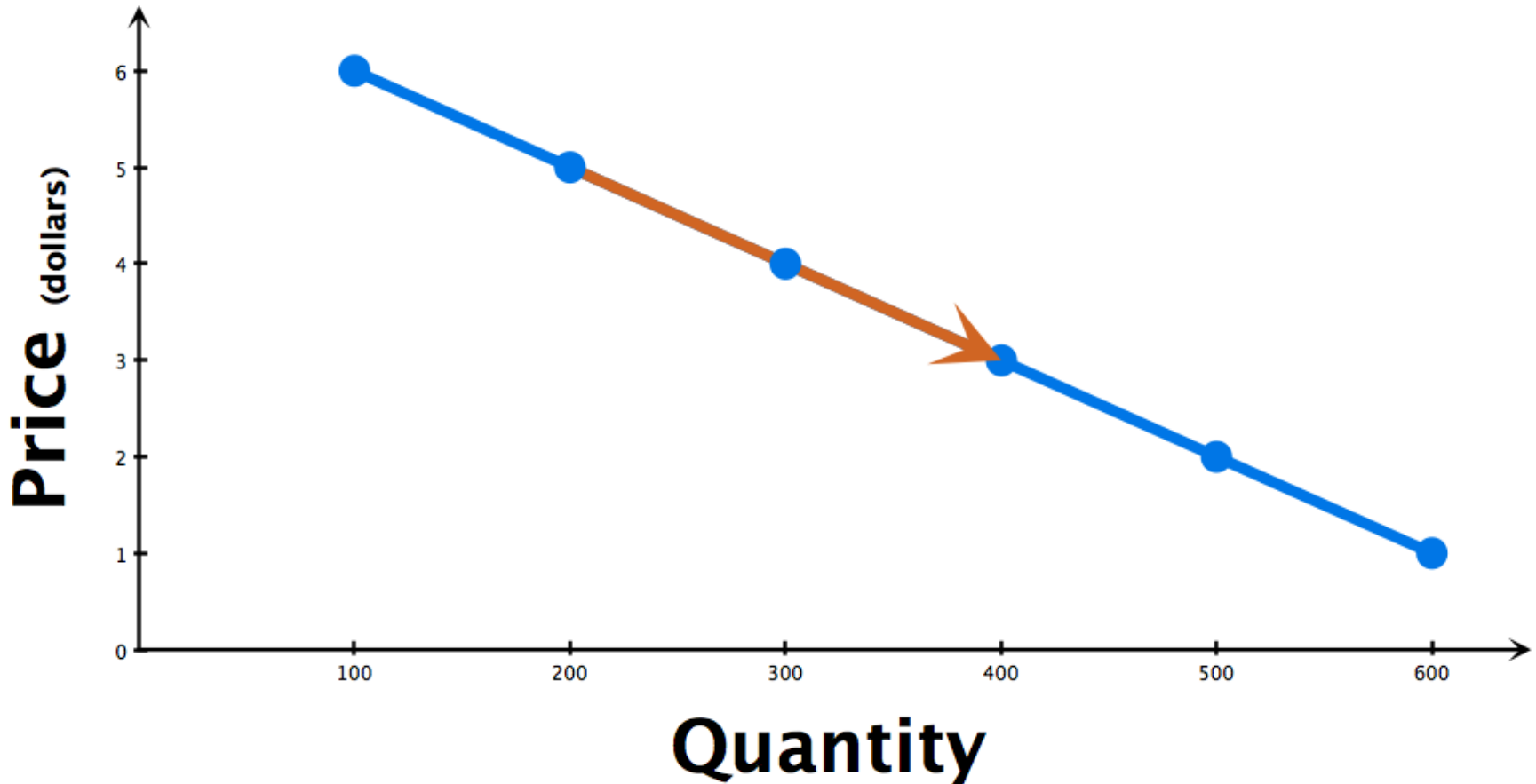
Change in Demand



What happens on
the demand curve
when the price
drops from \$5 to
\$3?

Change in Quantity Demanded

Demand for Gasoline



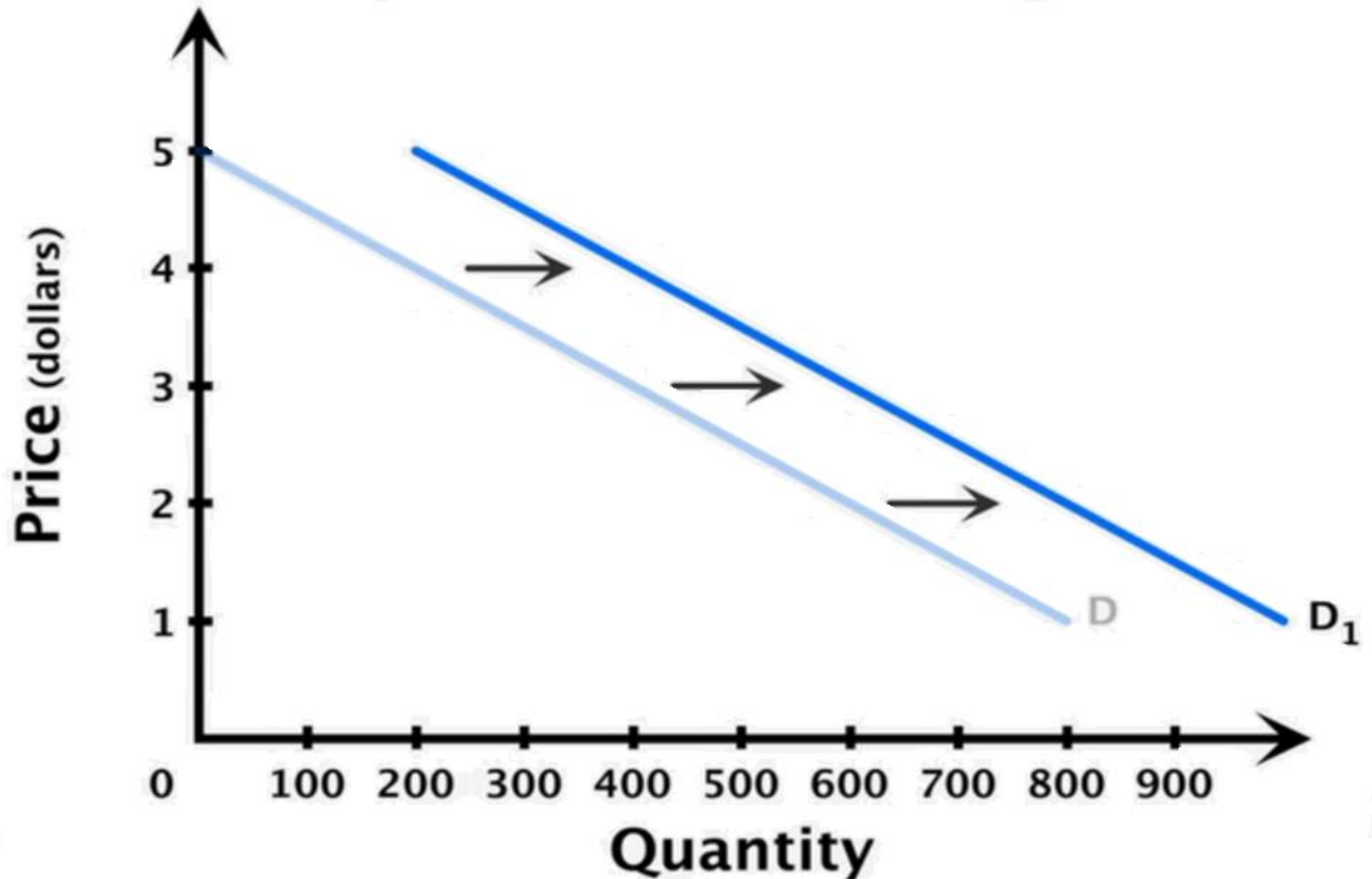
Law of Demand

- **Definition:** A principle in economics which states that as the *price* of a good, service, or resource *rises*, the *quantity demanded will decrease*, and vice versa, ***all else held constant.***

Change in Demand

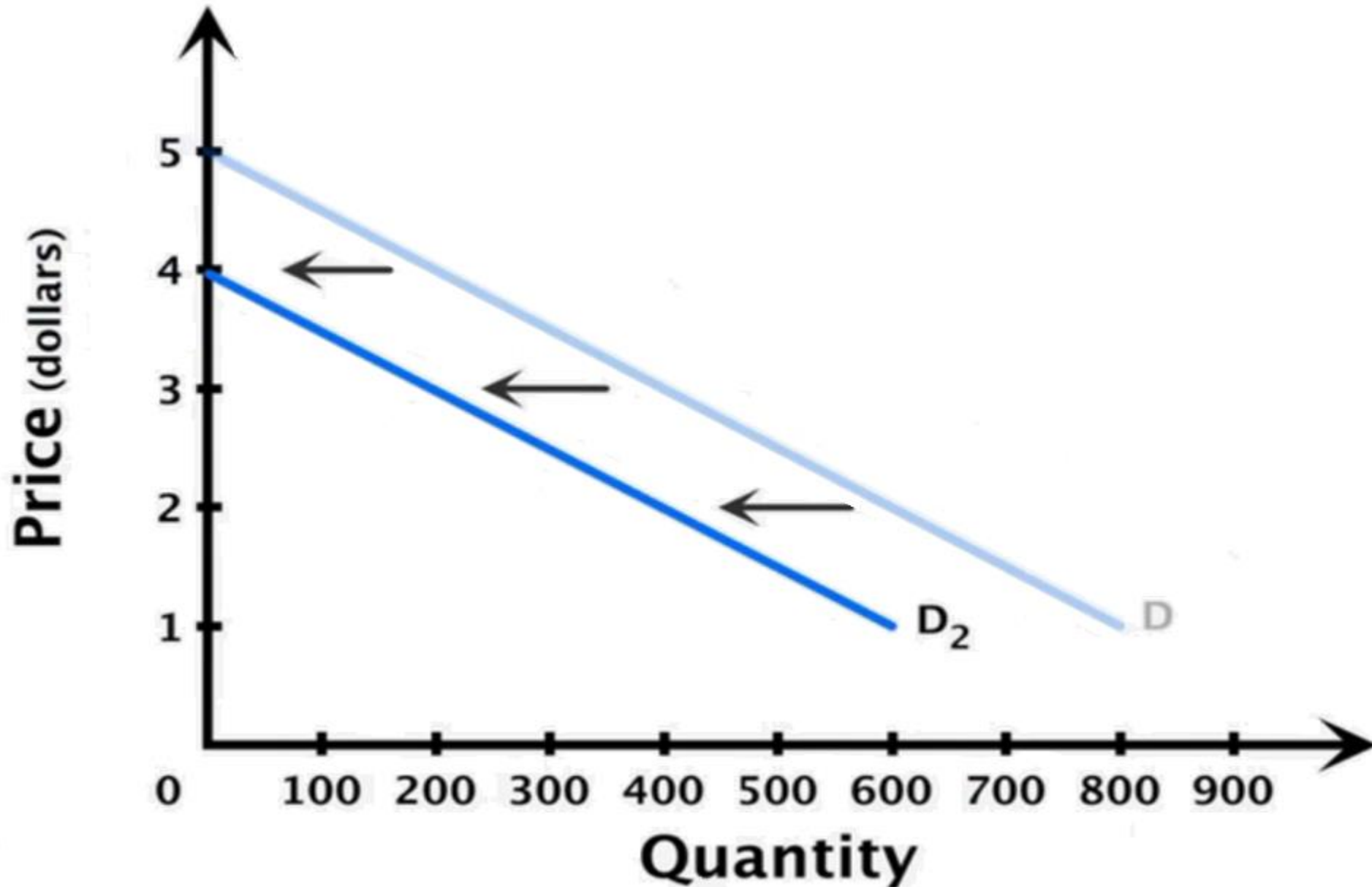


Increase in Demand



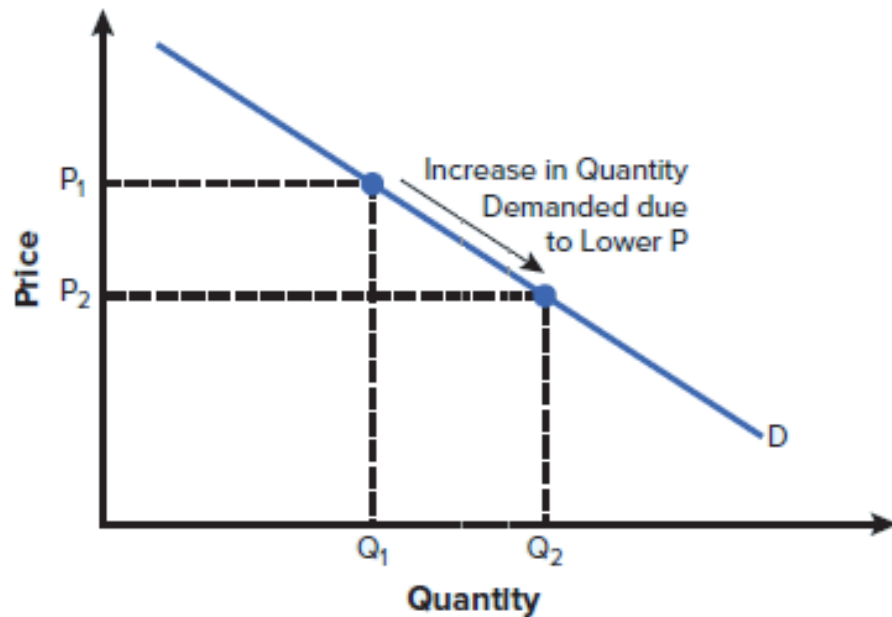


Decrease in Demand

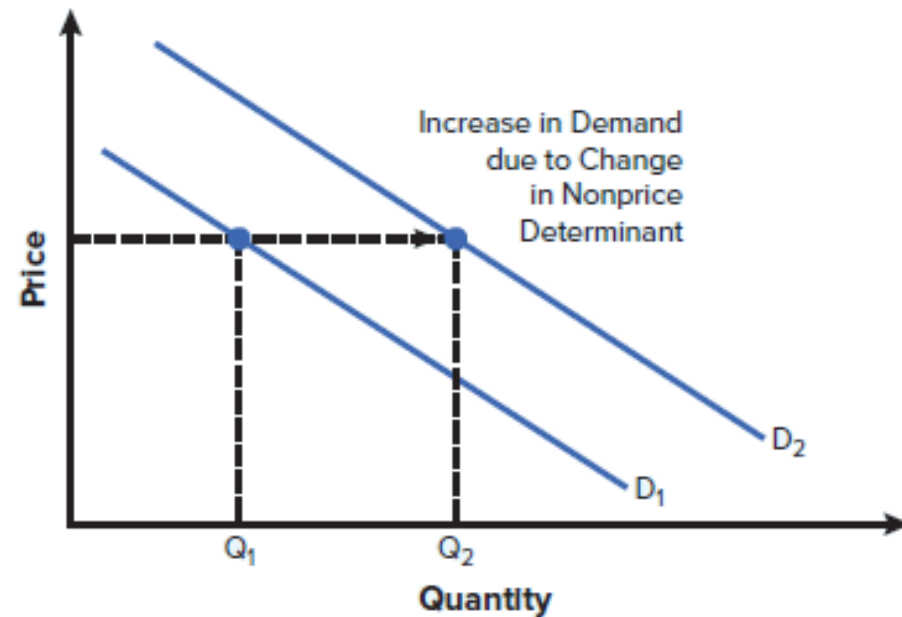


Increase in Quantity Demanded vs. Increase in Demand

Increase in Quantity Demanded

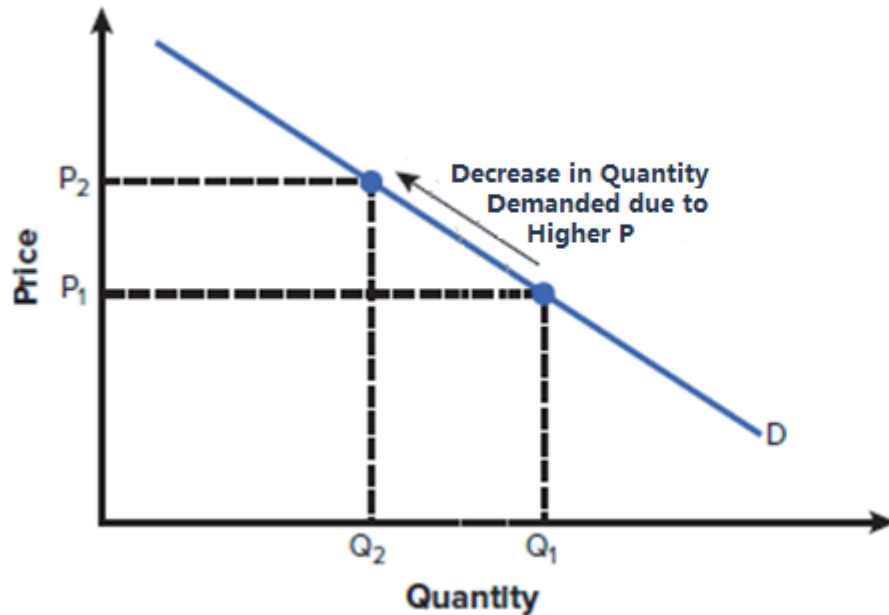


Increase in Demand

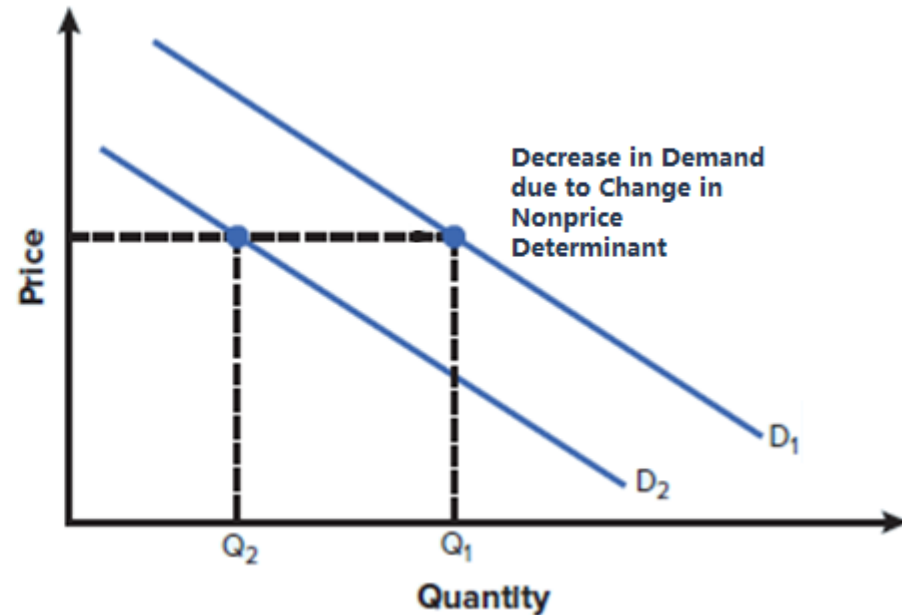


Decrease in Quantity Demanded vs. Decrease in Demand

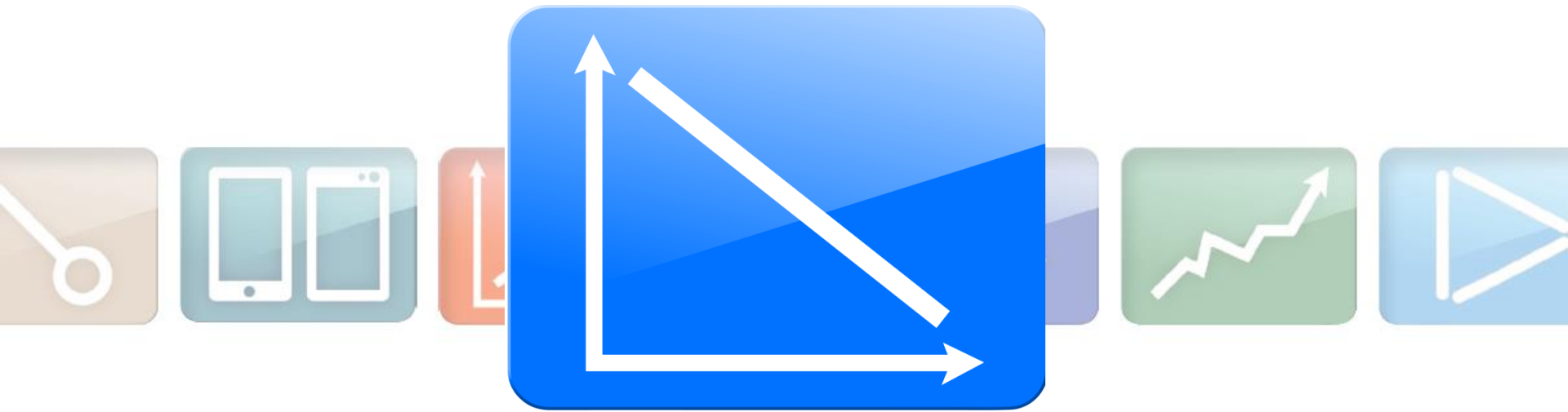
Decrease in Quantity Demanded



Decrease in Demand



Determinants of Demand - Income



How Income Determines Demand






1) Normal

2) Inferior



1) Normal Good

- Definition: A good for which there is a direct relationship between the demand for the good and income.

Normal Good

	Income	Demand
Normal		

Interior Good



	Income	Demand
Normal		

2) Inferior Good

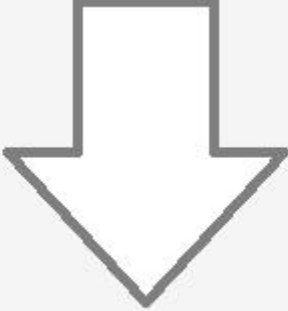
- Definition: A good for which there is an inverse relationship between the demand for the good and income.



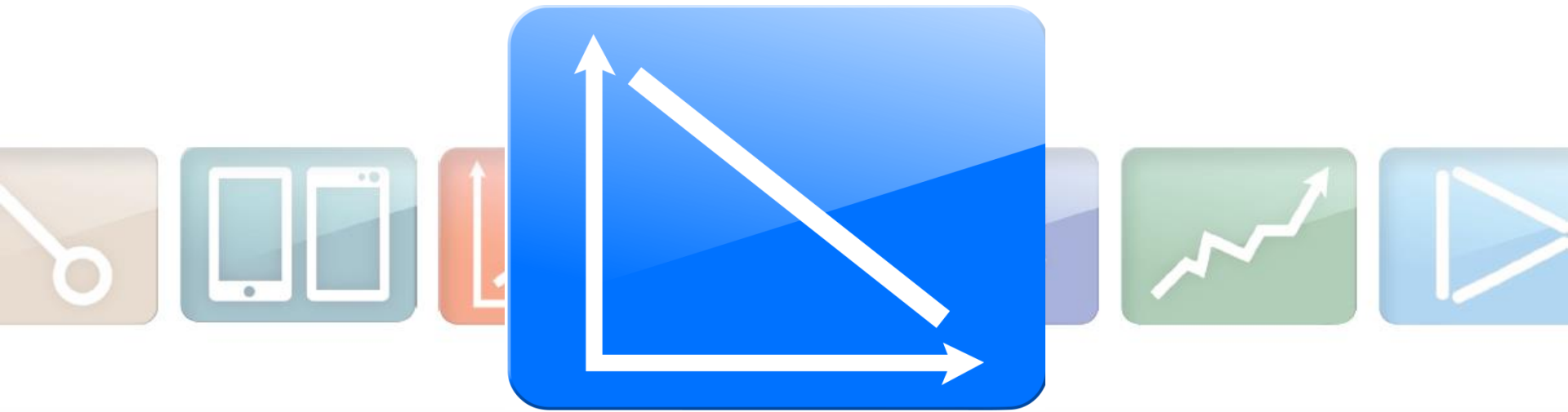
Inferior Good

	Income	Demand
Inferior		

Normal Good

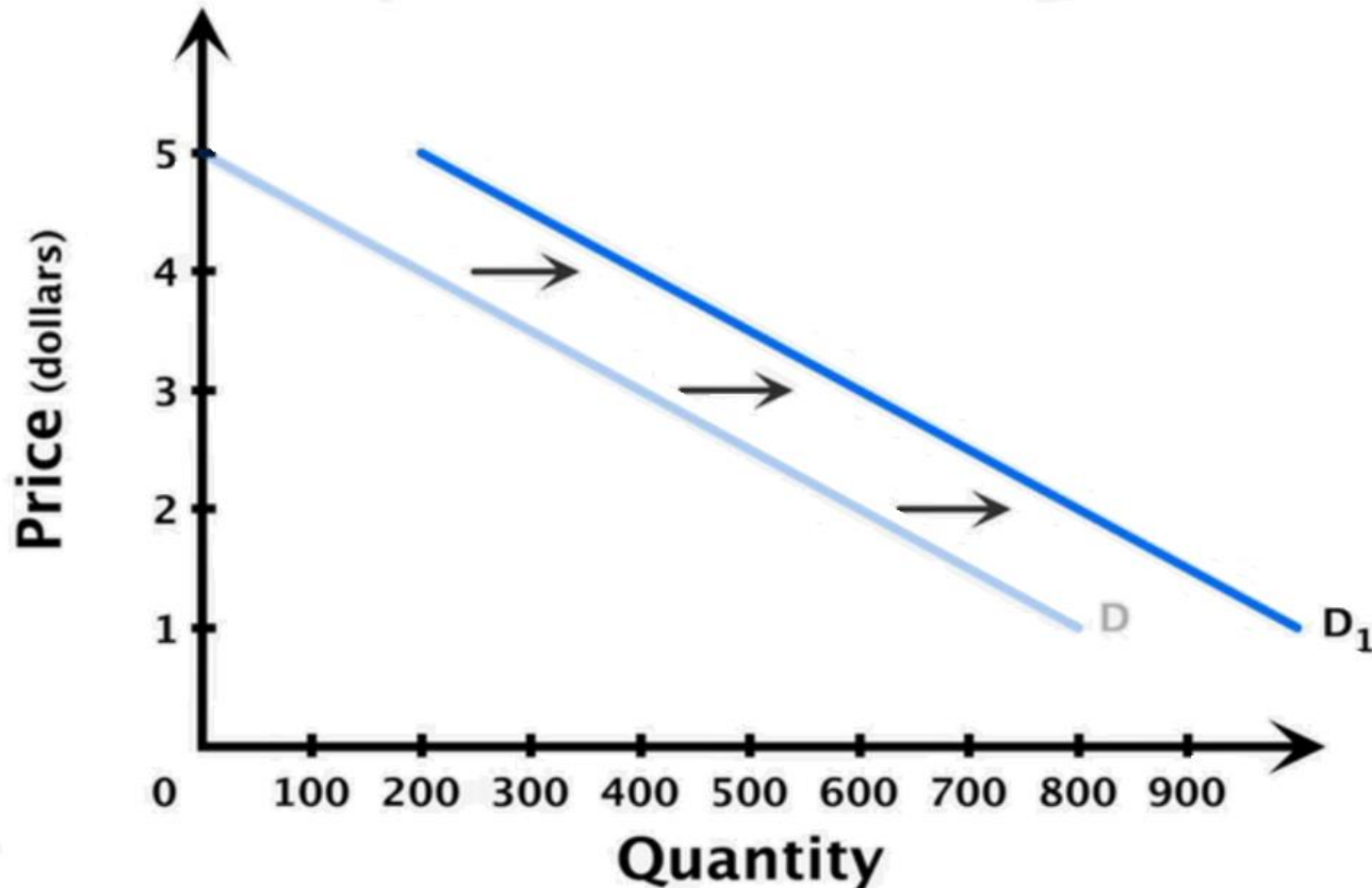
	Income	Demand
Inferior		

Determinants of Demand - Tastes and Preferences, Number of Buyers, and Expectations



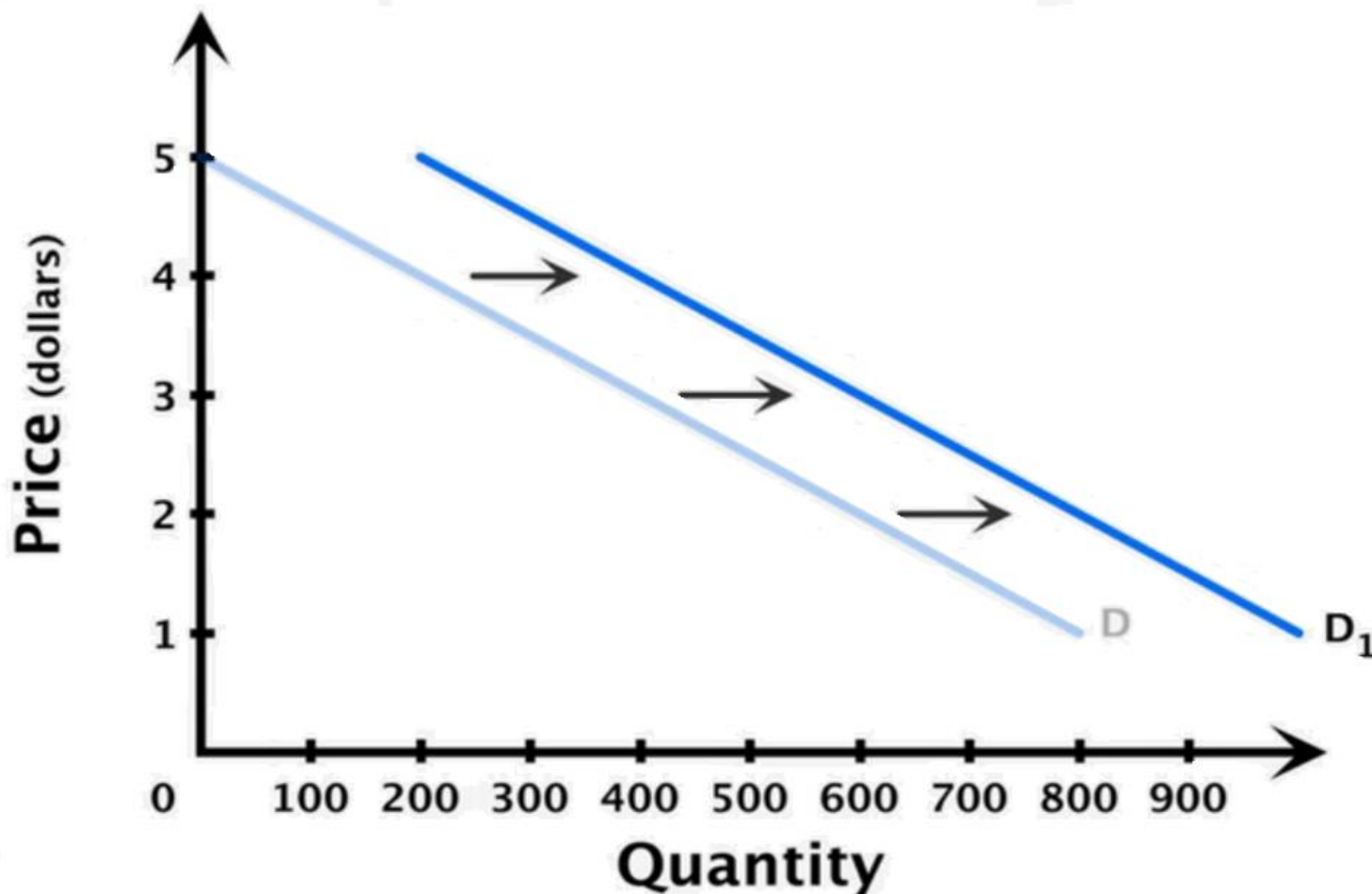
Tastes and Preferences

Increased preference for the good or service



Number of Buyers

Increase in the number of buyers



Expectations



Expectations: Income

- What do you do if you fear the economy is going to crash in the near future and you may lose your job?

Save \$

Expectations: Availability

- What do you do if you fear a good you desire will not be available in the future?

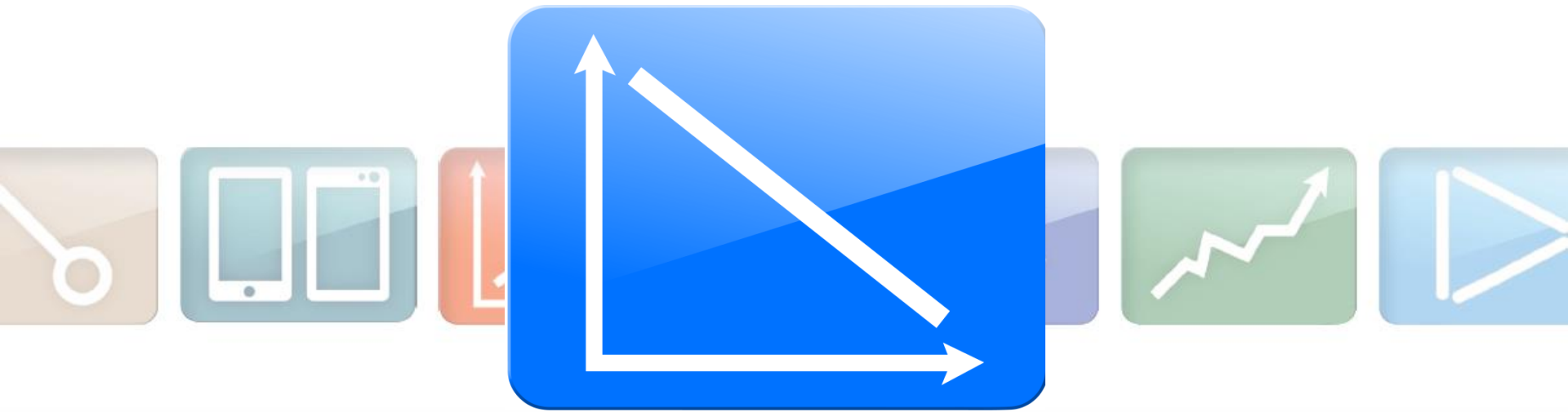
Buy Now!

Expectations: Future Prices

- What do you do if you fear the price is going to go up in the future?

Buy Now!

Determinants of Demand - Substitutes and Complements



Related Goods

- Substitutes
- Complements

Substitutes

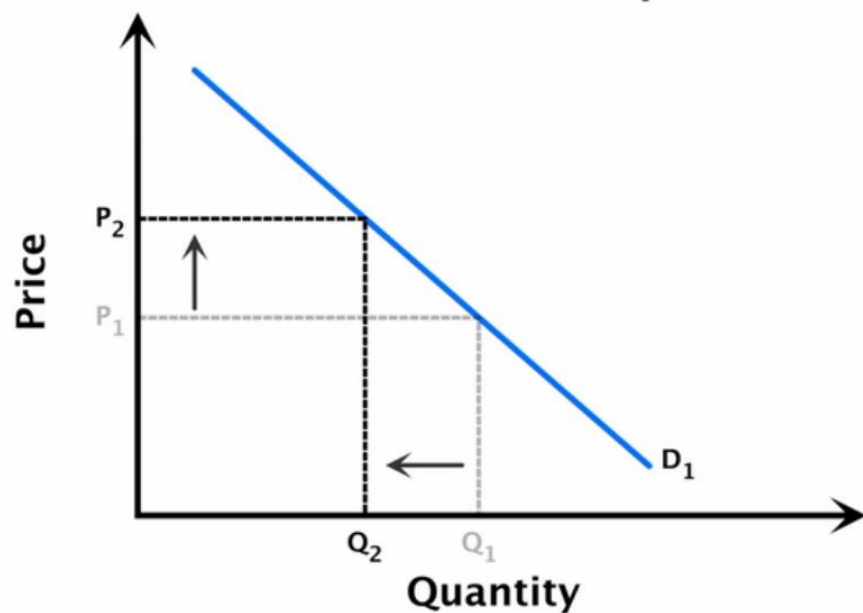
- Definition: Goods, services, or resources that are viewed as replacements for one another.

What do you think will happen?

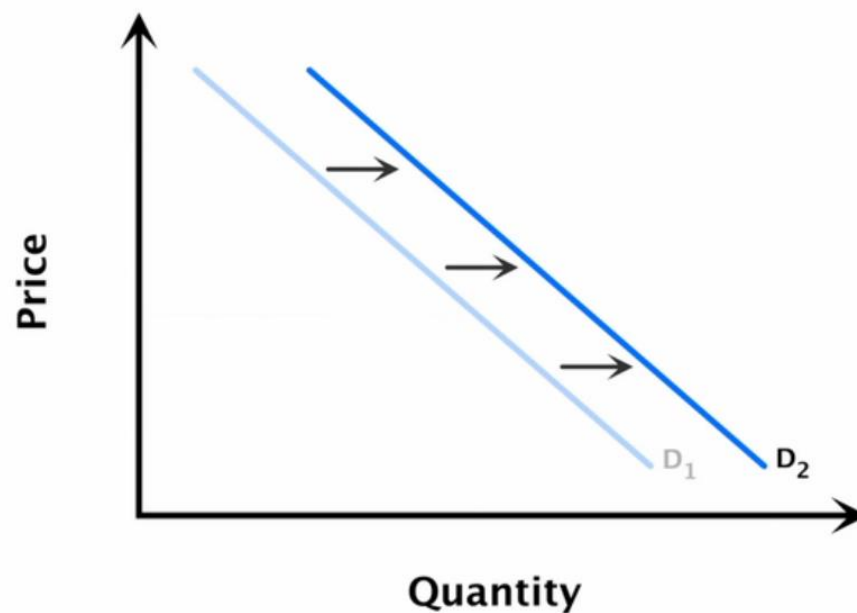
If bus prices rise,
the demand for the
subway will...
rise!

Increase in Demand: Substitutes

The Demand for Pepsi



The Demand for Coca-Cola



Complements

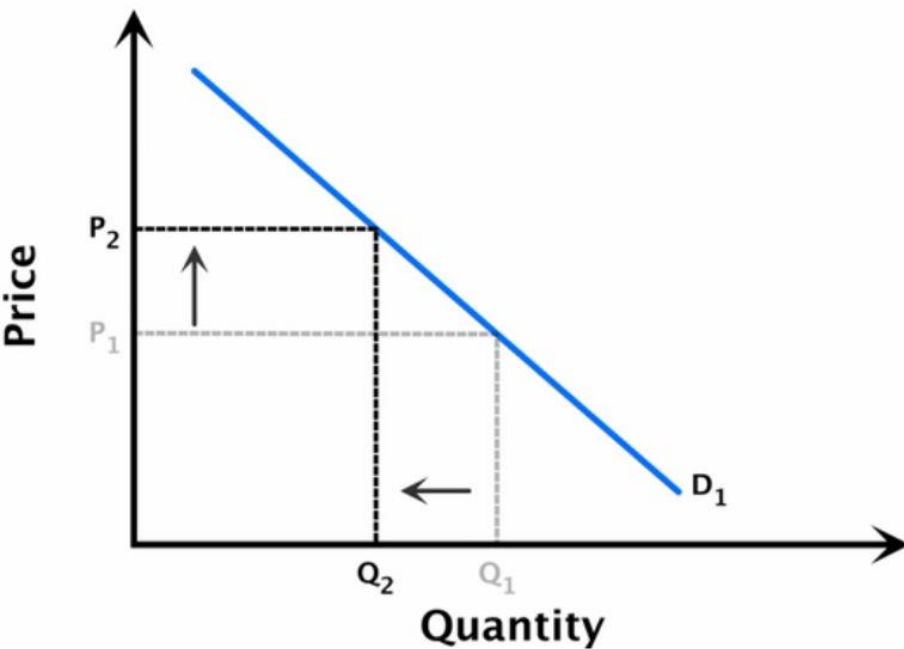
- Definition: Goods, services, or resources that are used or consumed with one another.

What do you think will happen?

If dorm prices rise,
the demand for college
classes will...
decrease!

Decrease in Demand: Complements

The Demand for Peanut Butter



The Demand for Jelly

