**Lesson 1: Demand Analysis: the Consumer**

Law of demand: demand increases when price decreases

QD = 12 -0.5P -> P = 24 – 2QD ---- Inverse demand function

QD = 12 – 0.5P -----Demand function

**Demand curve graph --- based on inverse demand function**

**Slop = change in price / change in quantity demanded**

**Demand Elasticities**

TR – total revenue

P – price

QD – quantity demanded

TR = P \* QD

**How responsive QD is to any change in prices**

**Predicting Demand Elasticity**

* **Availability of close substitutes**
* **Proportion of income spent on a good – correlated positively**
* **Time elapsed since price change – you can adapt new products over time, the longer the time the more elastic demand**
* **The extent to which the good is viewed as necessary or optional – if necessary (pr. Milk) less elastic to price change, if optional pr. opera tickets) more elastic**