## Demand

1. Demand

|  |  |
| --- | --- |
| Price | Quantity |
| 10 | 0 |
| 9 | 1 |
| 8 | 2 |
| 7 | 3 |
| 6 | 4 |
| 5 | 5 |

* 1. Schedule showing the various quantities of a particular good or service which consumers are *willing and able* to purchase in a given time period(t) at various prices.

1. Law of Demand
   1. Definition: Negative, or inverse relationship between price of product and the quantity demanded.
   2. Income Effect
      1. Reduction in price increasing purchasing power of real income. Consumers respond by buying more of that product.
      2. Example: If gas is $3/gallon and you buy 10 gallons, if it goes down to $2/gallon you then have $10 more in your wallet than you did on previous fill-ups.
   3. Substitution effect
      1. Consumers will substitute away from the more expensive product for a cheaper one.
      2. Example: If the price of butter goes up, people will reduce the consumption of butter and substitute it with margarine.
   4. Law of Diminishing Marginal Utility(MU)
      1. Declining extra satisfaction, as you consume more of a good each and every unit gives you less satisfaction.
      2. Example: A movie isn’t as good as the first time if you have seen it 2 times
      3. Example: Having 10 chipotle burritos isn’t as good as the first
   5. Change in demand
      1. A change in any other influences of demand outside of price.
   6. Change in quantity demanded
      1. A change in the quantity demanded is the change in price of product
   7. Non-price determinants
      1. Income
      2. Tastes & Preferences
      3. Prices of related goods
         1. Substitutes
            1. The price of pepsi effects coke
            2. The price of American Airlines effects Delta
            3. The price of Ford effects Chevy
         2. Compliments
            1. Hot dog and hot dog buns
            2. Computers and software
            3. Golf clubs and golf balls
            4. Cars and gasoline
      4. Expectations
         1. If you believe the price of the product is going to go up, you might buy it now.
   8. Normal goods
      1. As your income goes up, your demand goes up.
   9. Inferior goods
      1. As your income goes up, your demand goes down.
      2. Examples: Ramen noodles, SPAM,, frozen pizza, generic brand products, and bus pass.