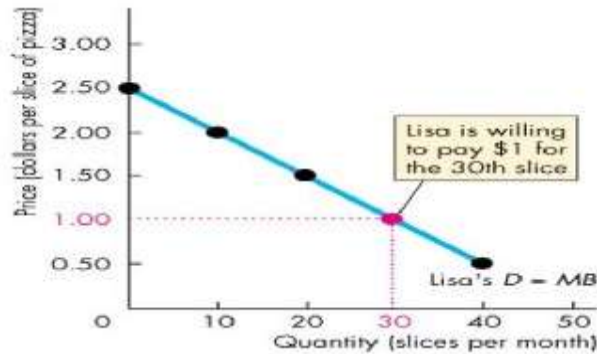


Law of Demand and quantity demand:

- The "**law of demand**" states that changes in the quantity demanded of a good are **inversely** related to changes in its price
- Change **the Price** of the good → Change in **quantity demanded** → **Movement** along the demand curve



1) <u>Substitution effect</u>	2) <u>Income effect</u>
The portion of a change in quantity demanded that is due to a change in the relative price of the good - If the price of meat increases, - then the higher price may encourage consumers to switch to alternative food sources, such as buying vegetables. $P_{\text{meat}} \uparrow$ $Q_{\text{d.meat}} \downarrow$ $Q_{\text{d.vegetables}} \uparrow$	The portion of a change in quantity demanded caused by a change in a consumer's income when the price of a product changes - If the price of meat increases, - it means that after buying some meat, they will have lower spare income - Therefore, consumers will buy less meat because of this income effect. $P_{\text{meat}} \uparrow$ Income $\downarrow$ $Q_{\text{d.meat}} \downarrow$

Questions on this part

- For "an increase in the quantity demanded" but not "an increase in demand" to occur, there must be a-----
- A) rightward shift of the demand curve.
B) movement along the demand curve.
 C) rightward shift of the demand curve *and* a movement along the demand curve.
 D) All of the answers are true
- Apples are a normal good, so if the price of an apple increases from 50¢ to 60¢, the quantity of apples demanded decrease because of-----**
- A) the substitution effect only.
 B) the income effect only.
 C) a change in income.
D) the substitution and income effects.

- Which of the following influences people's buying plans and does *not* shift the demand curve?

A) the price of the good

B) the prices of related goods

C) income

D) preferences

- When the price of a good falls, the income effect for a normal good implies that people buy-----

A) less of that good because the relative price of the good has fallen.

B) more of that good because the relative price of the good has risen.

C) less of that good because they cannot afford to buy all the things they previously bought.

D) more of that good because they can afford to buy more of all the things they previously bought.

- The "law of demand" refers to the fact that, all other things remaining the same, when the price of a good rises-----

A) the demand curve shifts rightward.

B) the demand curve shifts leftward.

C) there is a movement down along the demand curve to a larger quantity demanded.

D) there is a movement up along the demand curve to a smaller quantity demanded.

- The quantity demanded of a good or service is the amount that -----

A) a consumer would like to buy but might not be able to afford.

B) is actually bought during a given time period at a given price.

C) consumers plan to buy during a given time period at a given price.

D) firms are willing to sell during a given time period at a given price.

- The quantity demanded is-----

A) always equal to the equilibrium quantity.

B) independent of the price of the good.

C) the amount of a good that consumers plan to purchase at a particular price.

D) independent of consumers' buying plans.

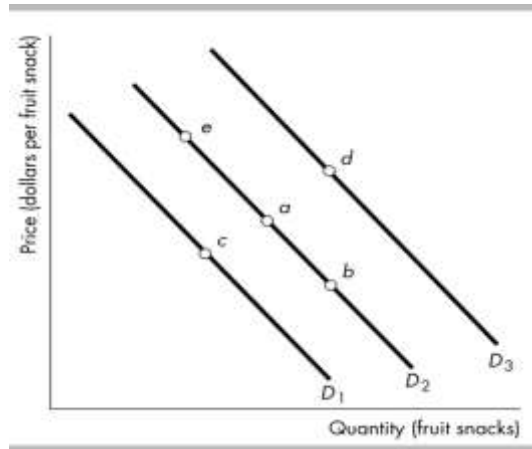
- When graphing a demand curve for corn, we are showing the relationship between the quantity demanded of corn and the-----

A) money price of apple.

B) relative price of corn.

C) income effect.

D) substitution effect.



- The figure above shows the demand for fruit snacks. Which movement reflects a decrease in quantity demanded but NOT a decrease in demand?

A) from point a to point e

B) from point a to point b

C) from point a to point c

D) from point a to point d

- As the price of peanuts falls, the quantity of peanuts demanded increases.
True
- The "law of demand" states that changes in the quantity demanded of a good are inversely related to changes in its price. True
- The "law of demand" states that, other things remaining the same, the quantity demanded of any good is- positively related to its price. False
- A movement along the demand curve shows a change in demand. False,
- An increase in the price of apple leads to shift the Demand curve for apple.
False
- The law of demand states that, other things remaining the same, the higher the price of a good, the smaller is the quantity of the good demanded. TRUE

Factors: (POINT)

- Change **Factors** → Change in **demand** → **Shift** the demand curve.

At given price level, the Main factors that change demand are:

- **P**rices of other goods (substitute **(+)** or complementary **(-)**)
- **O**utlook (Expected future prices **(+)** - Expected future income and credit **(+)**)
- **I**ncome (Normal good **(+)**, inferior good **(-)**)
- **N**umber of potential customers (Population) **(+)**
- **T**aste (Preferences) for a good **(+)** / against the good **(-)**



• Questions on this part

- **A recession occurs and people's incomes decrease. Knowing that an iPad is a normal good, you predict that the demand for an iPad-----**

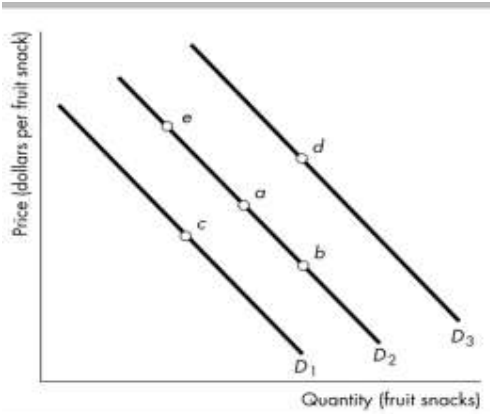
- A) increases.
- B) **decreases.**
- C) might increase or decrease.
- D) remains unchanged.

- **People buy more of good 1 when the price of good 2 rises. These goods are----**

- A) complements.
- B) **substitutes.**
- C) normal goods.
- D) inferior goods.

- **A complement is a good-----**

- A) of lower quality than another good.
- B) **used in conjunction with another good.**
- C) used instead of another good.
- D) of higher quality than another good.



The figure above shows the demand for fruit snacks. Which movement reflects an increase in demand?

- A) from point *a* to point *e*
- B) from point *a* to point *b*
- C) from point *a* to point *c*
- D) from point *a* to point *d***

- Suppose people buy more of good 1 when the price of good 2 falls. These goods are substitutes. **False**
- Preferences influence people's buying plans and leads to a movement along the demand curve. **False**
- The price of cereal rises. As a result, people have cereal for breakfast on fewer days and eat eggs instead. This behavior is an example of the substitution effect. **True**
- The demand curve for a normal good shift leftward if income decreases or the expected future price decreases. **True**
- For consumers, chocolate cookies and doughnuts are substitutes. So, an increase in the price of chocolate cookies will lead to a rightward shift in the demand curve for doughnuts. **TRUE**