

Introduction to Economics

Lecture 2

MGM112
Demand

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Chapter
02

Objectives of Lecture (2)

- What makes the prices of oil and gasoline double in just one year?
- Will the price of gasoline keep on rising?
- Some prices rise, some fall, and some fluctuate.

This chapter explains how markets determine prices and why prices change.

Chapter
02

Demand

If you demand something, then you

- 1. Want it,
- 2. Can afford it, and
- 3. Have made a definite plan to buy it.

Chapter
02

Demand

The quantity demanded of a good or service is the amount that consumers plan to buy during a particular time period, and at a particular price.

Chapter
02

The Law of Demand

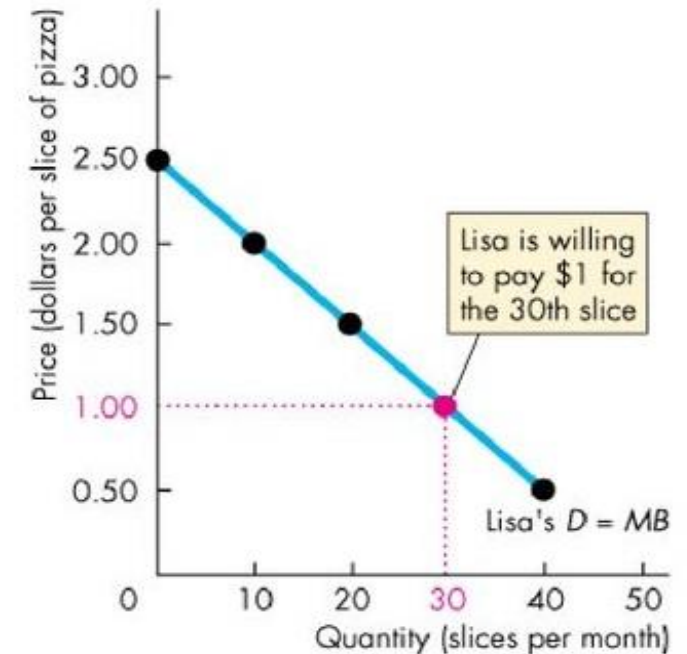
- The law of demand states:

- Other factors being constant (ceteris paribus), price and quantity demand of any good and service are inversely related to each other.
 - The higher the price of a good, the smaller is the quantity demanded;
 - The lower the price of a good, the greater is the quantity demanded.”

Chapter
02

The Law of Demand

- The law of demand is illustrated by:
 - A downward-sloping demand curve drawn with the quantity demanded on the horizontal axis and the price on the vertical axis
 - The slope is negative to show the negative relation between P & Qd



Chapter
02

The Law of Demand

- The law of demand results from:

- Substitution effect
- Income effect



Chapter
02

The Law of Demand

- The law of demand results from:
 - Substitution effect



Price of the orange
juice increased



Consumer's demand for the cheaper
alternative (cranberry juice) increased.

Chapter
02

The Law of Demand

- The law of demand results from:

- **Substitution effect**

- 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_{meat} ↑ $Q_{\text{d.meat}}$ ↓ $Q_{\text{d.vegetables}}$ ↑

Chapter
02

The Law of Demand

- The law of demand results from:

- **Income effect**

- 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 meat ↑ Income ↓ Qd.meat ↓

Chapter
02

The Law of Demand

- The law of demand results from:

SUBSTITUTION EFFECT

- When consumers react to an increase in a good's price by consuming less of that good and more of other goods.

INCOME EFFECT

- The change in consumption resulting from change in real income

Chapter
02

Change in Quantity Demanded

- The Price of the good is the only one factor that affects **Quantity demanded** $\Delta P \rightarrow \Delta Q_d$

Change the Price of the good $\rightarrow$ Change in quantity demanded $\rightarrow$ Movement along the demand curve

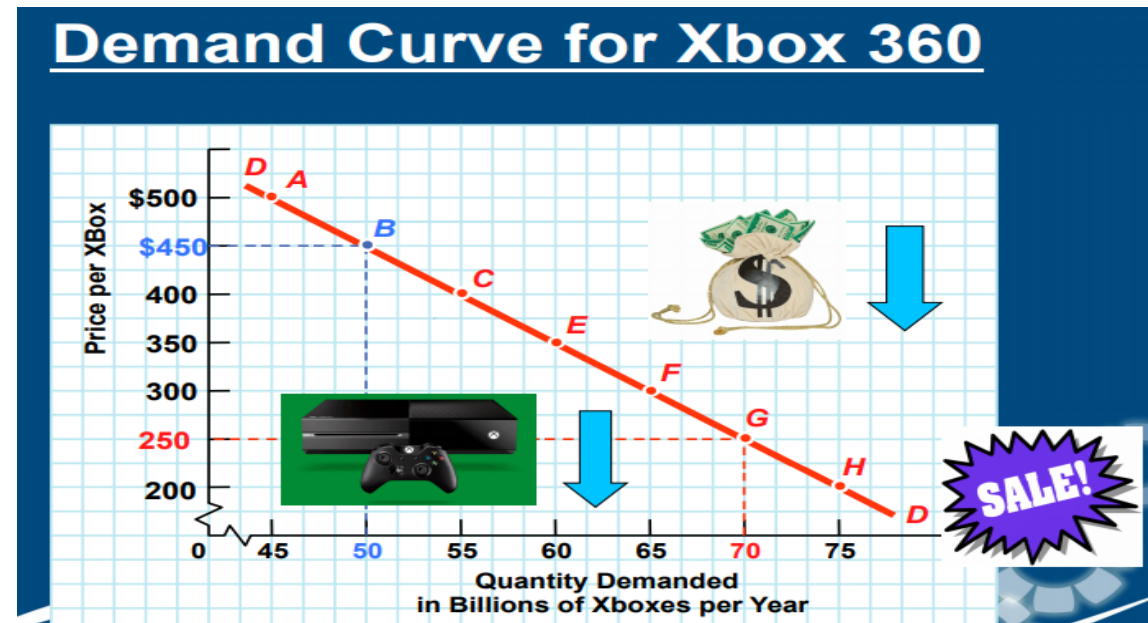
- $P \downarrow \rightarrow Q_d \uparrow \rightarrow$ Move down along demand curve
- $P \uparrow \rightarrow Q_d \downarrow \rightarrow$ Move up along demand curve

Chapter
02

Change in Quantity Demanded

- The Price of the good is the only one factor that affects Quantity demanded $\Delta P \rightarrow \Delta Q_d$

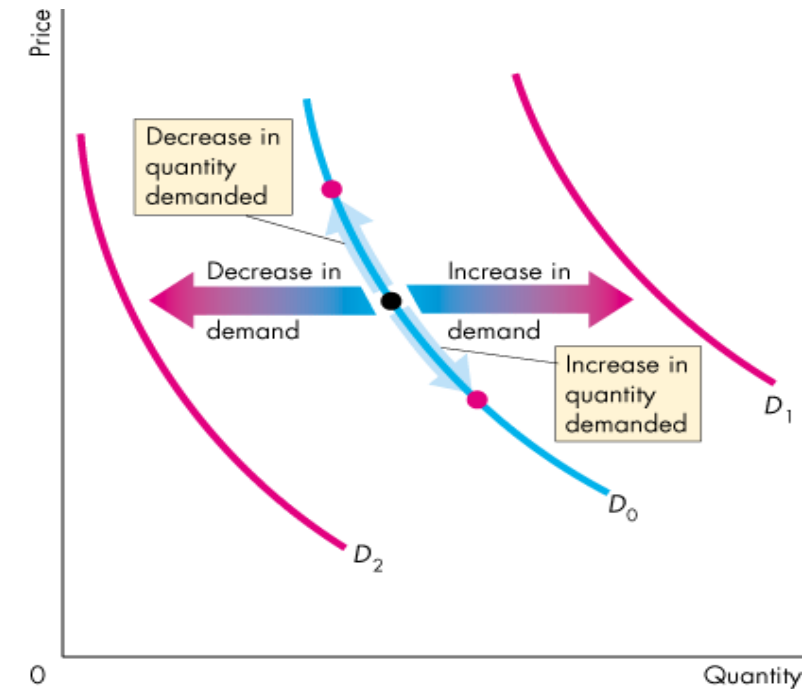
Point	P	Qd
A	500	45
B	450	50
C	400	55
E	350	60
F	300	65
G	250	70
H	200	75



Chapter
02

Change in Demand

- When price is constant, as the **other Factors** on buying plans change, **Demand** will change
- **Shift** demand curve at **given price level**
 - Factor changes $\rightarrow D \uparrow \rightarrow$ Shift Right
 - Factor changes $\rightarrow D \downarrow \rightarrow$ Shift Left



Chapter
02

Change in Demand

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

“P.O.I.N.T.”



Chapter
02

Change in Demand

- **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 (-)

“P.O.I.N.T.”

Chapter
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Change in Demand

1) Prices of other goods:



Chapter
02

Change in Demand

1) Prices of other goods:

Basis	Substitute Goods
Meaning	Substitute goods refer to those goods which can be used in place of one another to satisfy a particular want.
Nature of Demand	Substitute goods have competitive demand .
Relation	Price of one substitute good has positive relationship with quantity demanded of another substitute good.
Examples	(1) Tea and Coffee (ii) Coke and Pepsi.



P. coffee ↑ → Qd. coffee ↓ → D. tea ↑

- A rise in the price of a substitute(coffee),
- increases the demand for Tea
- The demand curve for tea **shifts rightward**, and vice versa

Chapter
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Change in Demand

1) Prices of other goods:

Complementary Goods

Complementary goods refer to **those goods which are used together** to satisfy a particular want.

Complementary goods have **joint demand**.

Price of a complementary good has **negative relationship** with quantity demanded of another complementary good.

- (i) Tea and sugar
- (ii) Car and Petrol.

P. sugar ↑ → Qd. sugar ↓ → D. tea ↓

- A rise in the price of a complement (sugar),
- decreases the demand for Tea
- The demand curve for tea **shifts leftward**, and vice versa



Chapter
02

Change in Demand

2) Outlook

- *Expected future prices of the good (+VE)*
 - If the expected future price of a good rises, current demand for the good increases and the demand curve shifts rightward, and vice versa

لو انا متوقع ان سعر العربية هيغلي كمان سنة , فبالتالى هروح مشتريها دلوقتي قبل ما تغلي فبكدة توقع زياد السعر فى المستقبل ادى الى زيادة الطلب على العربية دلوقتي

Chapter
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Change in Demand

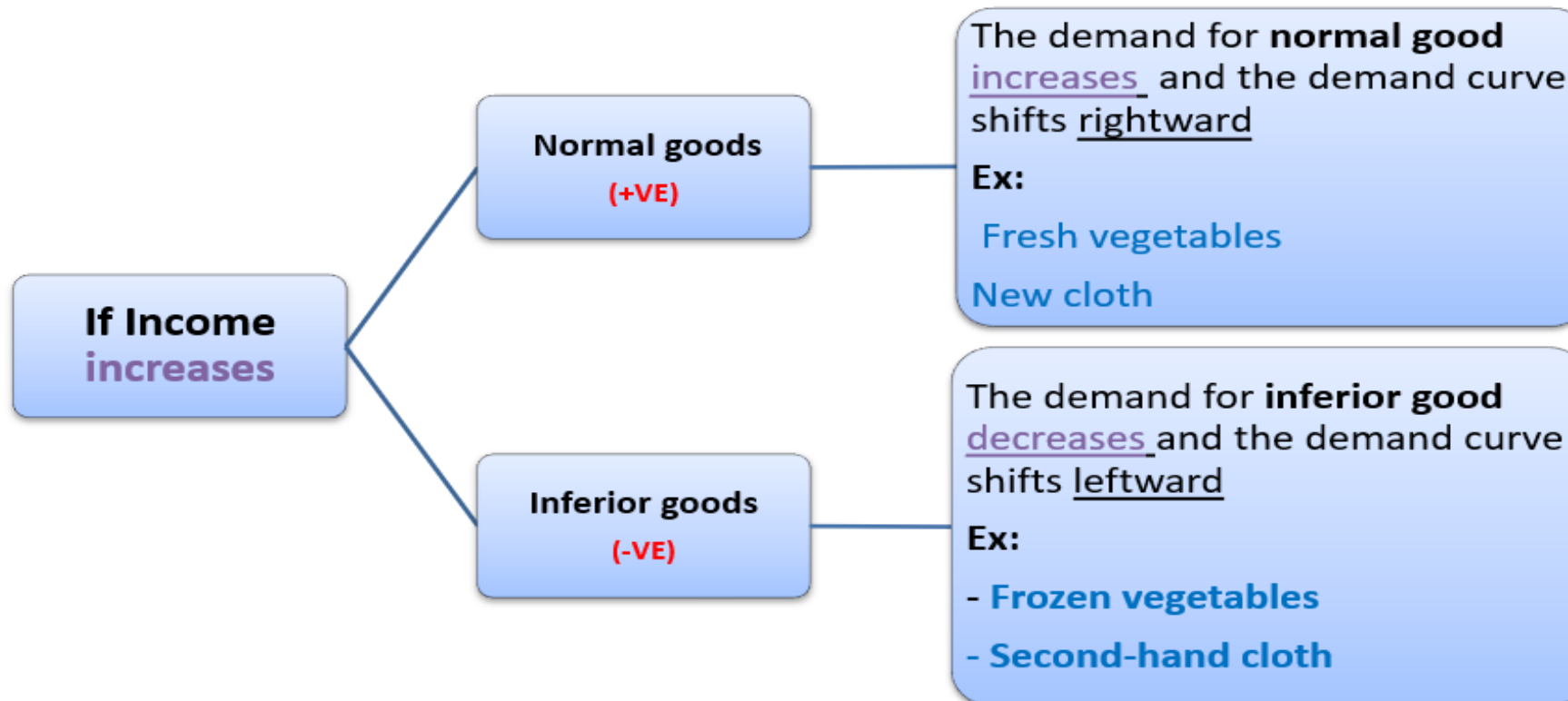
2) Outlook

- *Expected future income and credit. (+VE)*
 - When expected future income increases or when credit is easy to obtain, the demand might increase now and the demand curve shifts rightward, and vice versa

Chapter
02

Change in Demand

3) Income:



Chapter
02

Change in Demand

4) Number of potential customers (Population)

- *Number of potential customers (Population) (+VE)*
- An increase in population → increases the demand for all goods → and the demand curve shifts rightward, and vice versa

Chapter
02

Change in Demand

5) Tastes (People's preferences)

Tastes (People's preferences) :

- If people's preferences **for** a good rise → the demand increases → and the demand curve shifts rightward, and vice versa (+VE)
- If people's preferences **against** a good rise → the demand decreases → and the demand curve shifts leftward, and vice versa (-VE)

Chapter
02

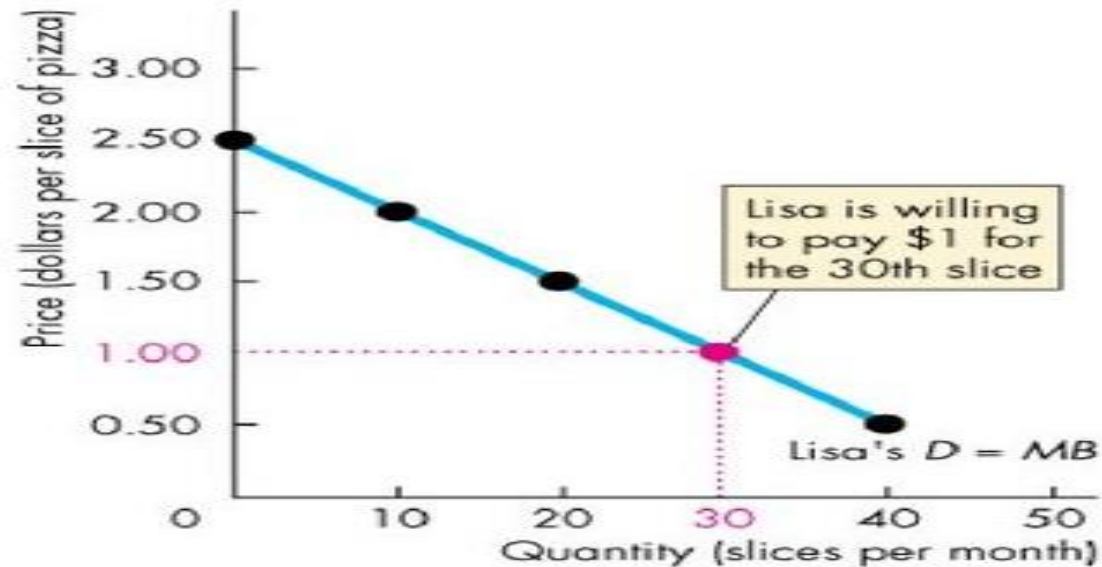
The demand curve & the willingness -and-ability-to-pay

- A demand curve is a willingness-and-ability-to-pay curve:
- The **price** indicates consumer's **Willingness to pay which** is equal to that consumer's **Marginal Benefit (MB)**. (WTP = P = MB)
- For any fixed quantity of a good available, the smaller the quantity available, the higher is the price that someone is willing to pay for another unit,

Chapter
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The demand curve & the willingness -and-ability-to-pay

- If available quantity of pizza 30 slices, Lisa is $WTP = MB = P = 1$
- If available quantity of pizza decreases to 10 slices, Lisa is $WTP = MB = P = 2$

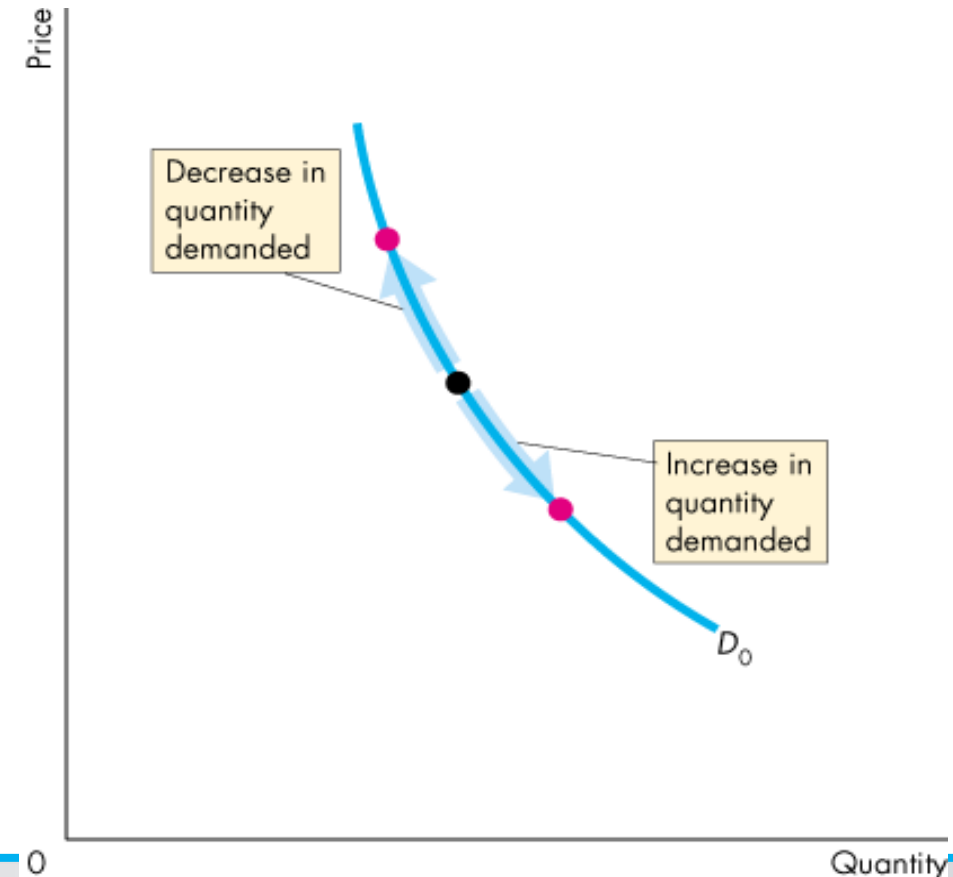


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A Change in the Quantity Demanded Vs a Change in Demand

Movement Along the Demand Curve

When the price of the good changes and everything else remains the same, the quantity demanded changes and there is a movement along the demand curve.

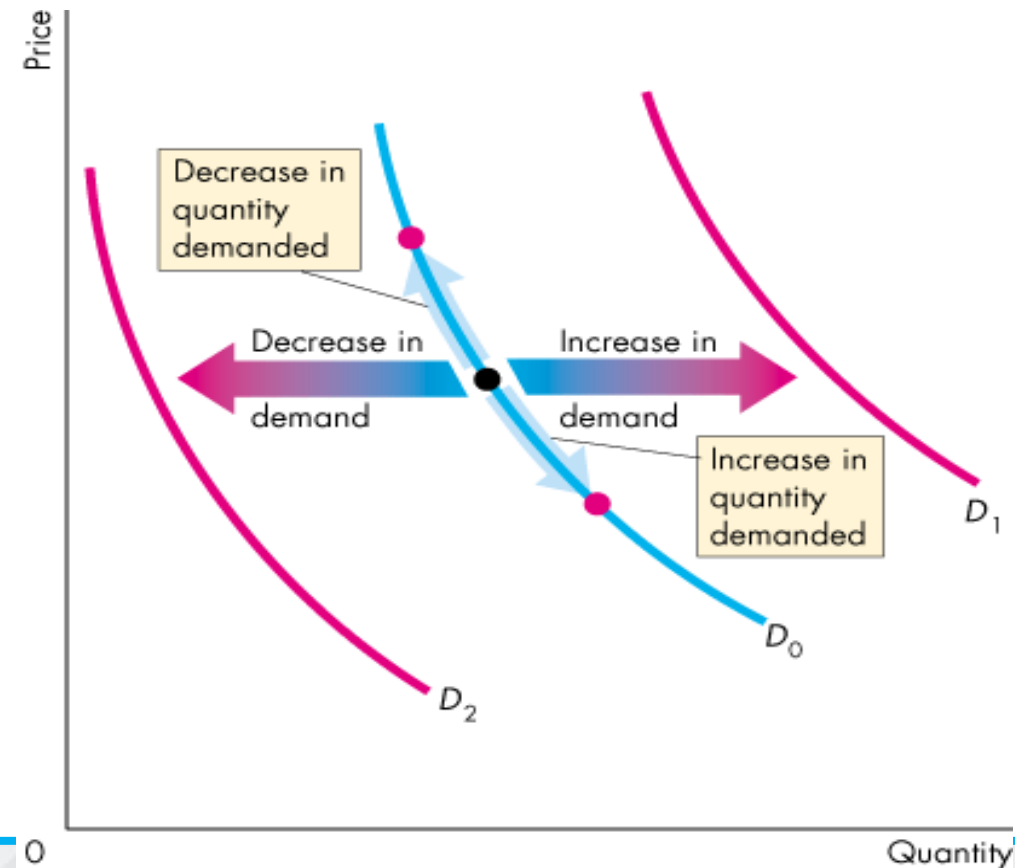


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A Change in the Quantity Demanded Vs a Change in Demand

A Shift of the Demand Curve

If the price remains the same but one of the other Factors on buyers' plans changes, demand changes and the demand curve shifts.



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A Change in the Quantity Demanded Vs a Change in Demand

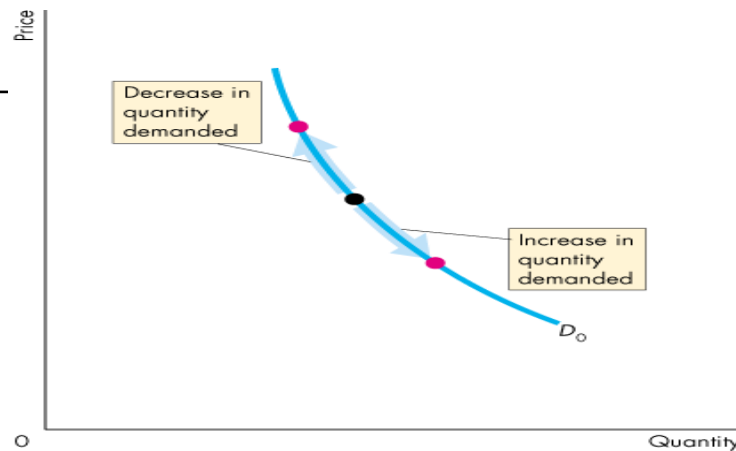
- **Why does demand not change when the price of good changes with no change in the other influences on buying plans?**
 - Because price does not influence or lead to shift in Demand curve, price is the only factor that leads to change the Quantity demanded and cause a movement along demand curve

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A Change in the Quantity Demanded Vs a Change in Demand

Change Quantity demanded

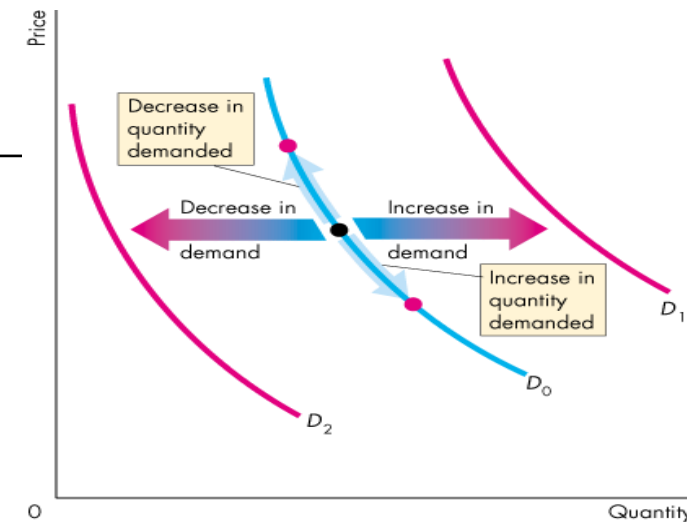
- Other factors constant, as the price change, Quantity demanded will change at opposite direction
- Movement along demand curve



Change Demand curve

When price is constant, as the other influences on buying plans change, Demand will change

Shift demand curve at given price level.



Think

Which of the following is consistent with the law of demand?

- A) An increase in the price of a DVD causes an increase in the quantity of DVDs demanded.
- B) An increase in the price of a soda causes a decrease in the quantity of soda demanded.**
- C) A decrease in the price of a gallon of milk causes a decrease in the quantity of milk demanded.
- D) A decrease in the price of juice causes no change in the quantity of juice demanded.



Think

The law of demand implies that if nothing else changes, there is-----

- A) a positive relationship between the price of a good and the quantity demanded.
- B) a negative relationship between the price of a good and the quantity demanded.**
- C) a linear relationship between price of a good and the quantity demanded.
- D) an exponential relationship between price of a good and the quantity demanded.



Think

In the market for magazines, the "income effect" means that-----

- A) magazines are usually purchased by people with higher-than-average incomes.
- B) a decrease in the price of a substitute product like books will make magazine readers feel a little poorer than they were before.
- C) an increase in the price of magazines will reduce the total purchasing power of magazine readers, making them able to afford fewer magazines.**
- D) an increase in the price of magazines will raise the relative price of magazines to books, causing magazine readers to read more books and fewer magazines.



Think

As the *relative* price of a good falls, the substitution effect implies that people buy----

- A) less of that good and more of its substitutes.
- B) more of that good and less of its substitutes.**
- C) less of that good and less of its substitutes.
- D) more of that good and more of its substitutes.



Think

For normal goods which of the following explains why demand curves slope downward?

- A) prices and income
- B) substitutes and complements
- C) resources and technology
- D) substitution effect and income effect**



Think

Each point on the demand curve reflects-----

- A) all the wants of a given household.
- B) the highest price consumers are willing and able to pay for that particular unit of a good.**
- C) the highest price sellers will accept for all units they are producing.
- D) the lowest-cost technology available to produce a good.



Think

Ham and eggs are complements. If the price of ham rises, the demand for eggs will-----

- A) increase or decrease but the demand curve for ham will not change.
- B) decrease and the demand curve for ham will shift rightward.
- C) not change but there will be a movement along the demand curve for eggs.
- D) decrease and the demand curve for eggs will shift leftward.**



Think

A change in which of the following shifts the demand curve for hamburgers?

- A) an increase in the price of the meat used to produce hamburgers
- B) an increase in the price of a hamburger
- C) a fall in the price of French fries, a complement for hamburgers**
- D) an increase in the number of hamburger restaurants



Summary outlines

1. Demand
2. The Law of Demand
3. Change in Quantity Demanded
4. Change in Demand Curve
5. The demand curve & the willingness -and-ability-to-pay.
6. A Change in the Quantity Demanded Vs a Change in Demand



Thank You