

2000  
nd House

Name: \_\_\_\_\_

Date: \_\_\_\_\_

# CHAPTER 4

## Demand

### Demand and the Law of Demand

To be sure you understand demand and the law of demand, fill in the blanks in questions 1–4.

- The two conditions of demand are Price and quantity.
- The law of demand says that as the price of a good increases, the quantity demanded of the good decreases.
- The law of demand says that as the price of a good decreases, the quantity demanded of the good increases.
- According to the law of demand, price and quantity demanded move in opposite / inverse / indirect direction(s).

### Demand Schedules and Demand Curves

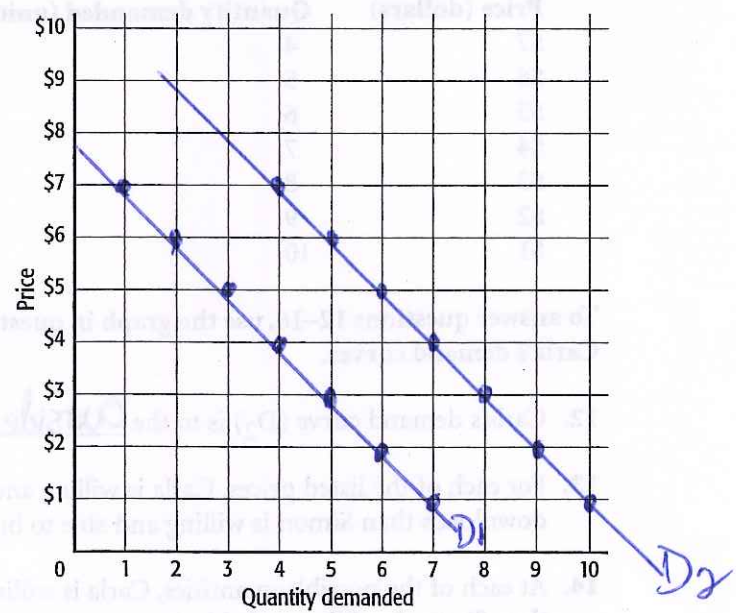
The law of demand can be represented in numbers using a **demand schedule** or it can be represented as a graph showing a **demand curve**.

Answer question 5 to illustrate the connection between a demand schedule and a demand curve.

- Use the demand schedule below to create a demand curve for Simon's consumption of music downloads on the grid shown. Label the curve  $D_1$ .

#### DEMAND SCHEDULE FOR SIMON

Price (dollars)	Quantity demanded (units)
\$7	1
\$6	2
\$5	3
\$4	4
\$3	5
\$2	6
\$1	7



Demand Curve Derived from Demand Schedule

Use the graph you created in question 5 to answer questions 6–10.

- The demand curve shows that at a price of \$7, Simon will buy 1 music download(s), and at a price of \$1, he will buy 7 music download(s).
- Simon's buying behavior demonstrates the law of demand.
- Simon's change in buying behavior at different prices is a change in quantity demanded.
- Simon is not willing to pay \$7 for every download because his utility (satisfaction) decreases as he downloads more and more music. Economists call this concept the law of diminishing marginal utility.
- How does the concept in question 9 explain the slope of the demand curve?

The Slope is always negative  
(indirect, inverse  
relationship between P & Q)

All people do not have the same demand for a good. Some people have a greater willingness and ability to purchase a good than other people do.

Use the information in question 11 to compare the demand curves of two different people for the same good.

- Use the demand schedule below to create a demand curve for Carla's consumption of music downloads. Draw the graph on the grid in question 5. Label the curve  $D_2$ .

**DEMAND SCHEDULE FOR CARLA**

Price (dollars)	Quantity demanded (units)
\$7	4
\$6	5
\$5	6
\$4	7
\$3	8
\$2	9
\$1	10

To answer questions 12–16, use the graph in question 5, which now shows both Simon's and Carla's demand curves.

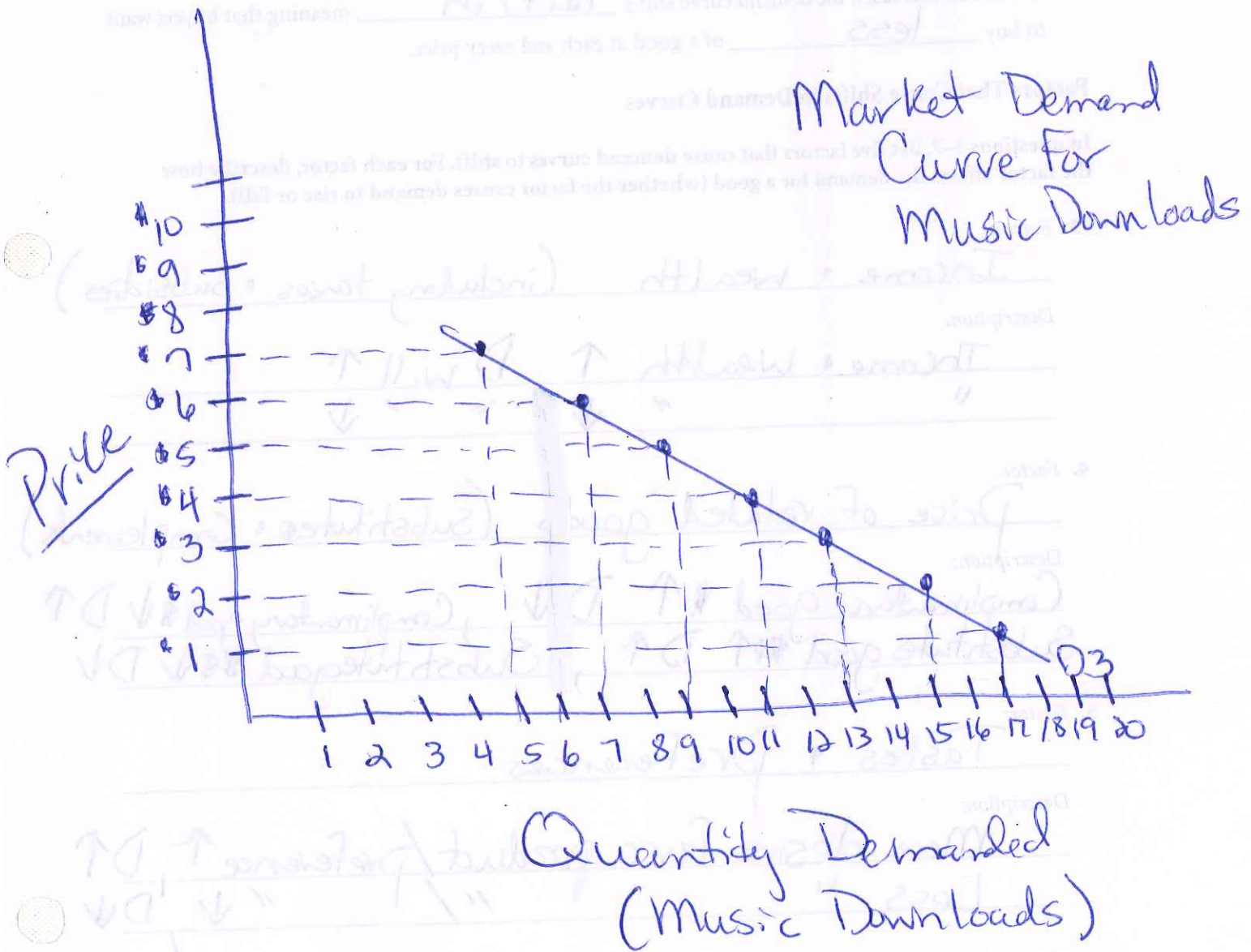
- Carla's demand curve ( $D_2$ ) is to the outside/right of Simon's demand curve ( $D_1$ ).
- For each of the listed prices, Carla is willing and able to buy more music downloads than Simon is willing and able to buy.
- At each of the possible quantities, Carla is willing and able to pay a higher price than Simon is willing and able to pay.
- The demand curves you created on the grid in question 5 are individual demand curves.



16. Suppose Simon and Carla are the only buyers of music downloads. How would you create a market demand curve from the demand curves you drew on the grid in question 5?

Add the 2 quantities together for the demand at each price

★ Create a Market Demand Curve for Music Downloads ★  
in the space below



Name: \_\_\_\_\_

Date: \_\_\_\_\_

## CHAPTER 4

### The Demand Curve Shifts

#### Changes in Demand and Shifts in Demand Curves

When demand changes, the demand curve shifts. Fill in the blanks in questions 1 and 2 with the correct answers.

1. If demand increases, the demand curve shifts right/out, meaning that buyers want to buy more of a good at each and every price.
2. If demand decreases, the demand curve shifts left/in, meaning that buyers want to buy less of a good at each and every price.

#### Factors That Cause Shifts in Demand Curves

In questions 3–7, list five factors that cause demand curves to shift. For each factor, describe how the factor affects the demand for a good (whether the factor causes demand to rise or fall).

3. Factor:

Income + wealth (including taxes + subsidies)

Description:

Income + wealth ↑ D will ↑  
" " ↓ " ↓

4. Factor:

Price of related goods (Substitutes + Complements)

Description:

Complimentary good ↑ D ↓, Complimentary good ↓ D ↑  
Substitute good ↑ D ↑, Substitute good ↓ D ↓

5. Factor:

Tastes + Preferences

Description:

More desire for a product/preference ↑ D ↑  
Less " " ↓ D ↓



6. Factor:

Expectations

Description:

Expectations about future conditions determine demand today.

7. Factor:

Number of Buyers

Description:

↑ # of buyers, D↑  
↓ # of buyers, D↓

### Demand Versus Quantity Demanded

Demand is not the same as quantity demanded. Answer questions 8–11 on the lines provided.

8. What will cause a change in the demand for a good?

Any of the above 5 factors

9. What will cause a change in the quantity demanded of a good?

Price

10. How is a change in demand represented on a graph?

Shift in curve

11. How is a change in quantity demanded represented on a graph?

Movement along the curve

### Changes in Demand and in Quantity Demanded

In questions 12–17, fill in the blanks to describe how each event will affect the demand for large sport utility vehicles (SUVs).

12. The price of gasoline hits \$3 per gallon.

Will the demand for large SUVs increase, decrease, or stay the same?

Decrease

In which direction will the demand curve shift?

left / in

Which of the five factors causes the shift?

price of related goods

13. Smaller, sportier "crossover vehicles" hit the market and become the latest craze.

Will the demand for large SUVs increase, decrease, or stay the same?

Decrease

In which direction will the demand curve shift?

left / in

Which of the five factors causes the shift?

taste & preferences

14. Rising steel prices cause the prices of SUVs to rise.

Will the demand for large SUVs increase, decrease, or stay the same?

Quantity Demanded will ↓

In which direction will the demand curve shift?

will not shift, but stay the same

Which of the five factors causes the shift?

price only for the product is changing

15. Government data show that the incomes of Americans are expected to rise faster than ever over the next year.

Will the demand for large SUVs increase, decrease, or stay the same?

increases

In which direction will the demand curve shift?

right / out

Which of the five factors causes the shift?

expectations

(income & wealth / # of buyers)

★ 16. Word leaks to consumers that General Motors and Ford plan to offer big rebates on SUVs next month.

Will the demand for large SUVs increase, decrease, or stay the same?

increase

In which direction will the demand curve shift?

right / out

Which of the five factors causes the shift?

expectations



17. The government loosens immigration laws, allowing millions of immigrants into the country.

Will the demand for large SUVs increase, decrease, or stay the same?

increase

In which direction will the demand curve shift?

out / right

Which of the five factors causes the shift?

# of buyers

?  
will  
immigrants  
be willing  
& able  
to

### The Relationship Between Income and Demand

As a result of an increase in wages from his employer, Kramer increased his consumption of Junior Mints and Bosco chocolate-flavored syrup, decreased his consumption of fried chicken, and maintained the same consumption of yogurt.

In questions 18–21, identify each of the goods consumed by Kramer as a normal good, an inferior good, or a neutral good.

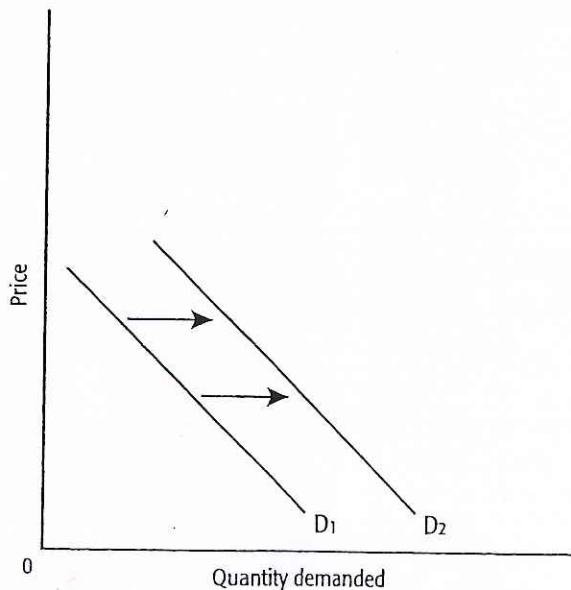
18. Junior Mints Normal

19. Bosco chocolate-flavored syrup Normal

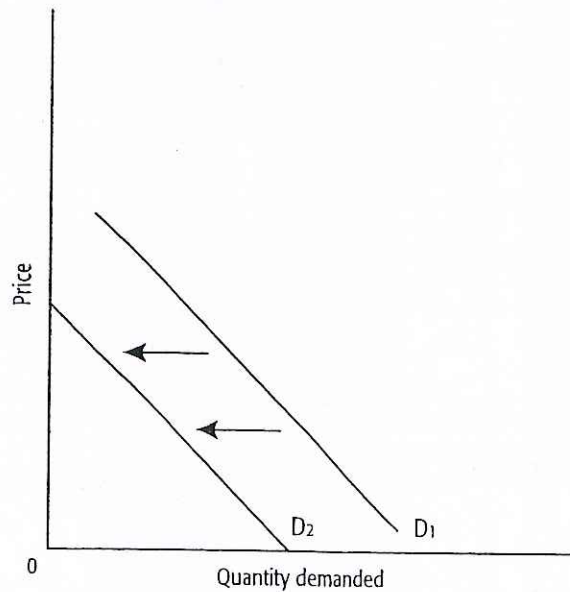
20. fried chicken inferior

21. yogurt Neutral

In questions 22–25, identify which one of graphs (a), (b), and (c) illustrates the change to Kramer's demand curve for each of the goods.



(a)



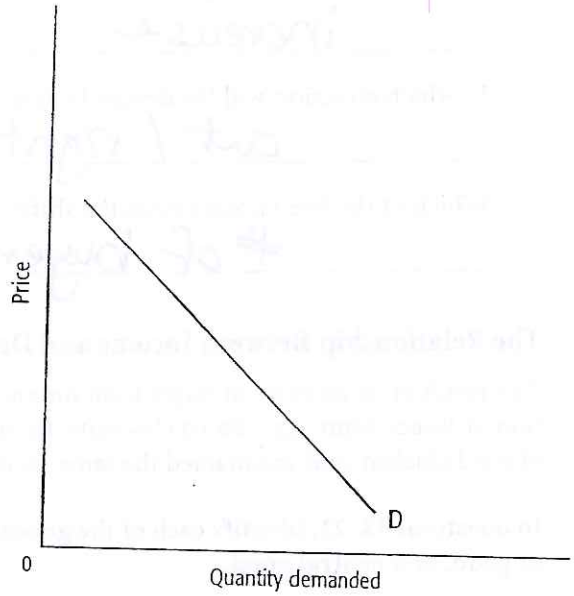
(b)

22. Junior Mints A

23. Bosco chocolate-flavored syrup A

24. fried chicken B

25. yogurt C



(c)





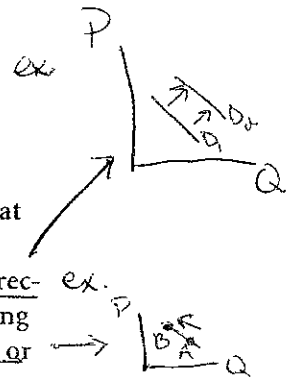
Name: \_\_\_\_\_

Date: \_\_\_\_\_

# CHAPTER 4

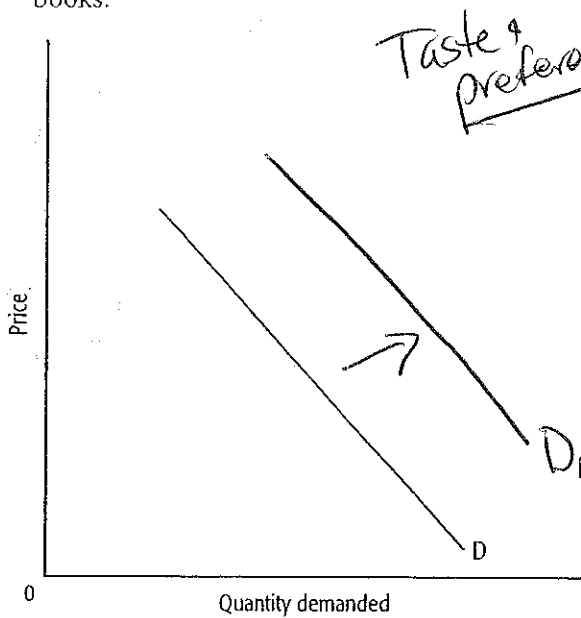
## We Demand Practice!

In each of questions 1–14, an event has occurred that will affect the demand or quantity demanded for a good. Illustrate the change in demand or quantity demanded for the good that is listed below the graph. To illustrate a change in demand (also called a shift of the demand curve), draw a parallel line to the right or left of the original line plus an arrow to indicate direction of the shift. To illustrate a change in the quantity demanded (also called a movement along the demand curve), indicate two points on the demand curve and draw an arrow pointing up or down the curve between the two points.

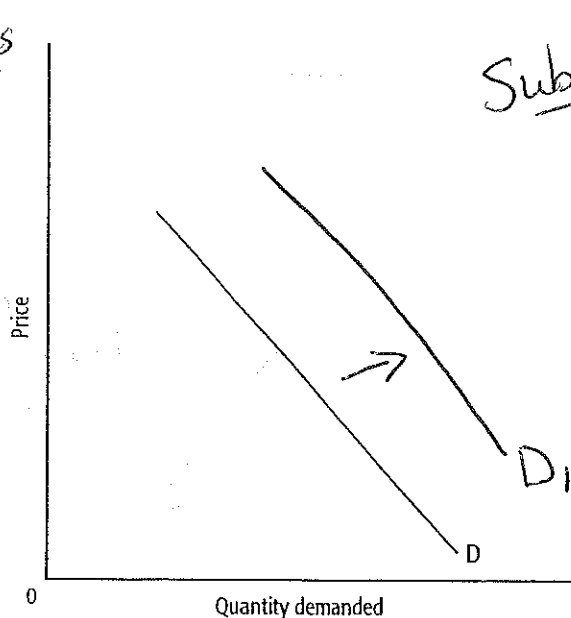


1. Harry Potter movies increase interest in the books.

2. Gas prices have risen to new high levels.



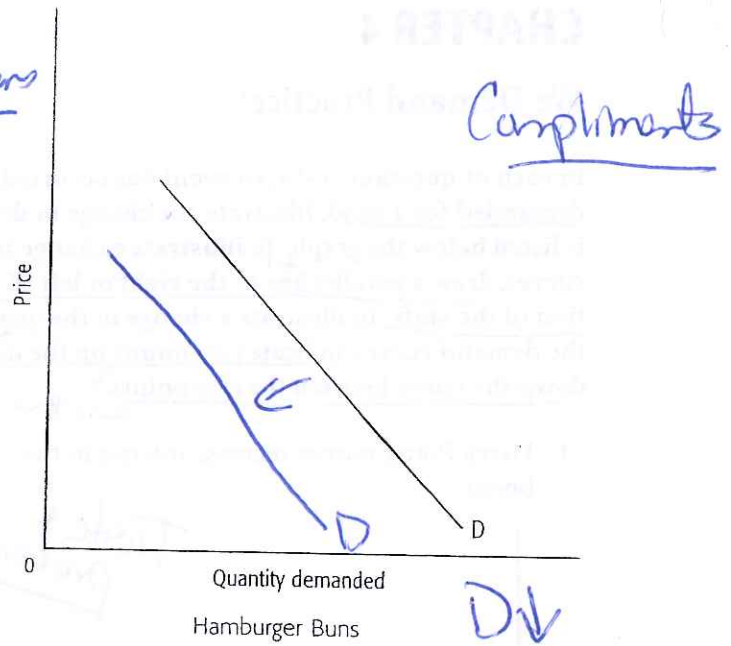
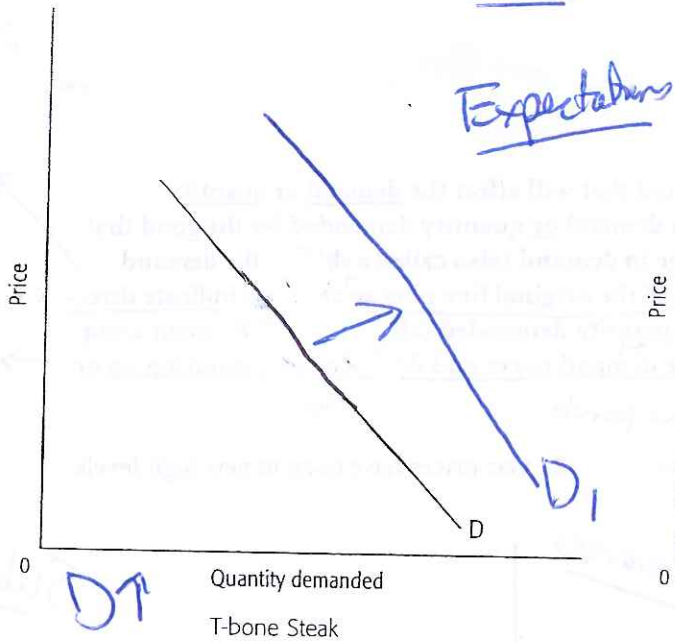
Harry Potter Books  
Demand ↑



Motor Scooters with High Miles per Gallon  
Demand ↑

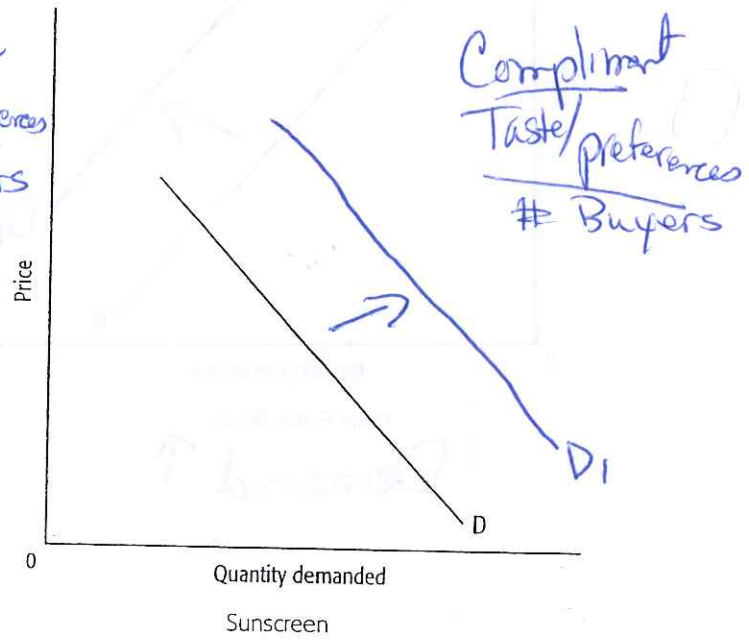
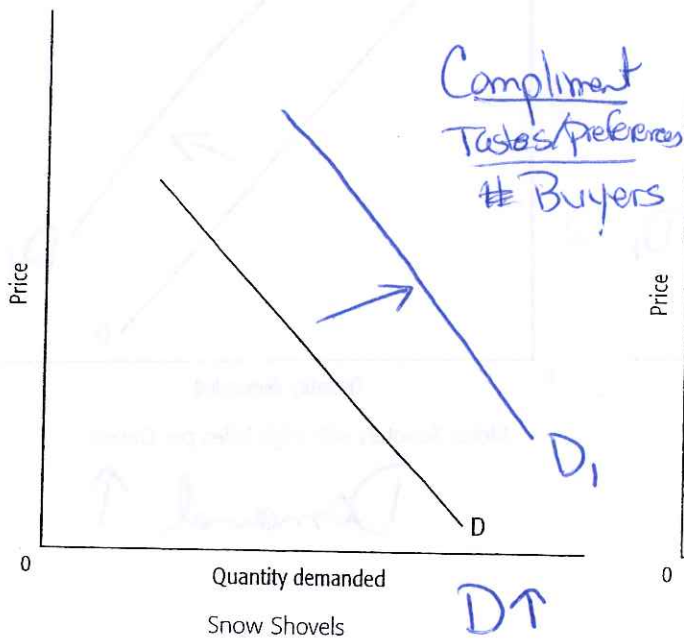
3. The price of beef is expected to rise next week.

4. The price of beef rises.



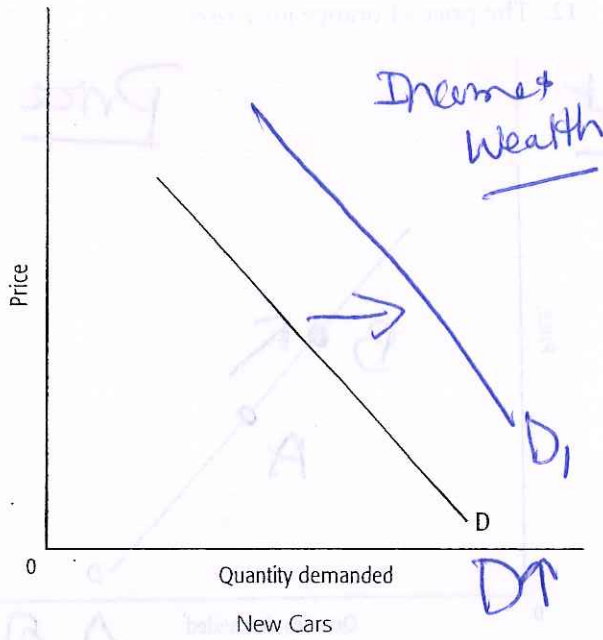
5. The first snowstorm of the season occurs.

6. Summer vacation begins!

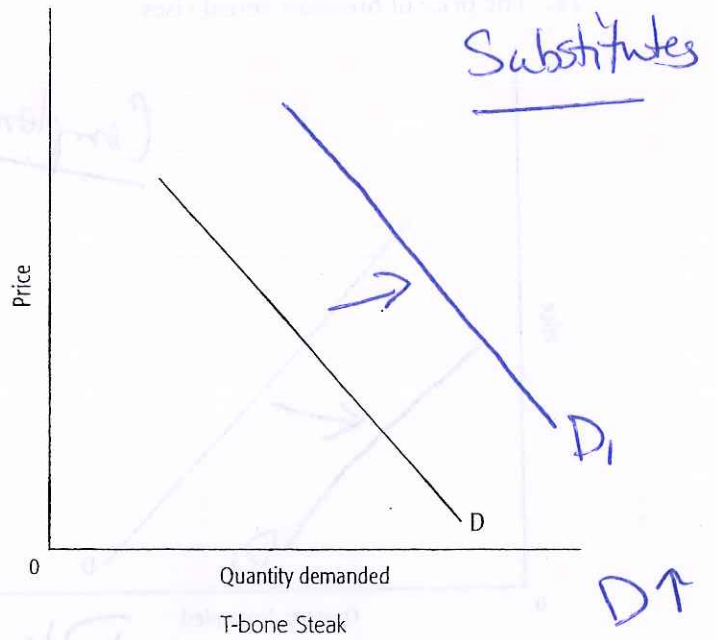




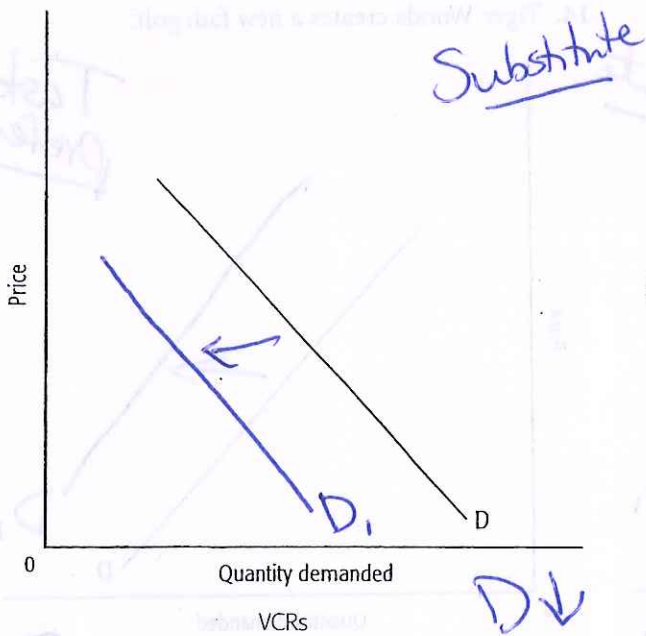
7. A tax rebate increases incomes.



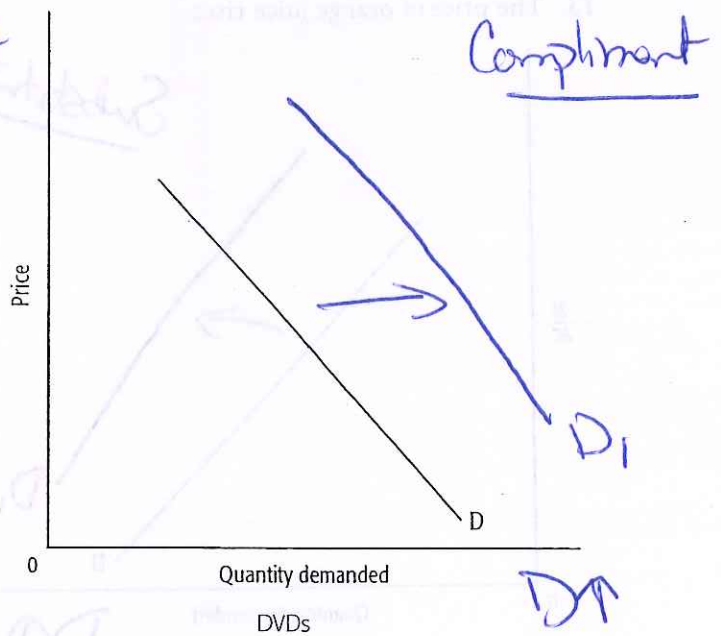
8. The price of pork rises.



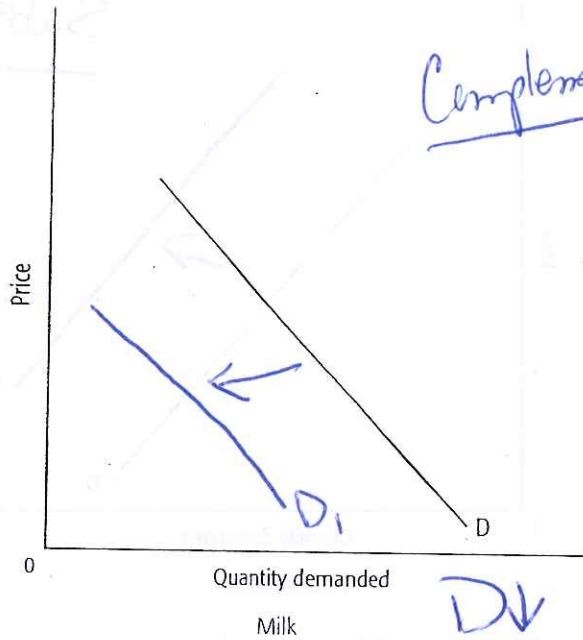
9. The price of DVD players decreases.



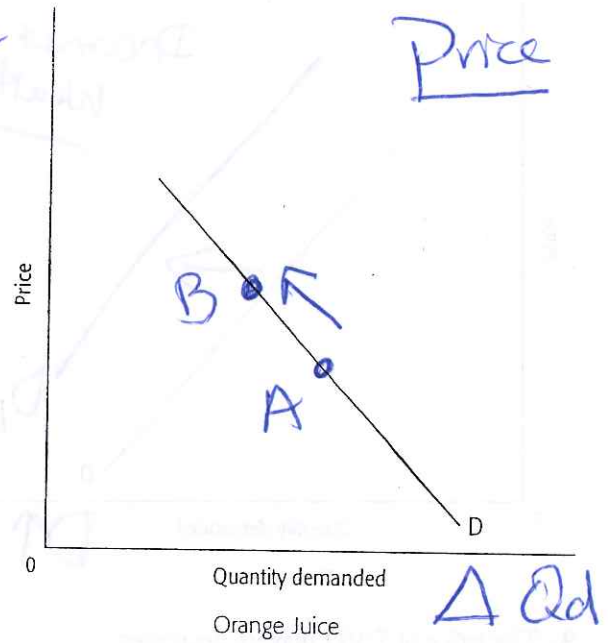
10. The price of DVD players decreases.



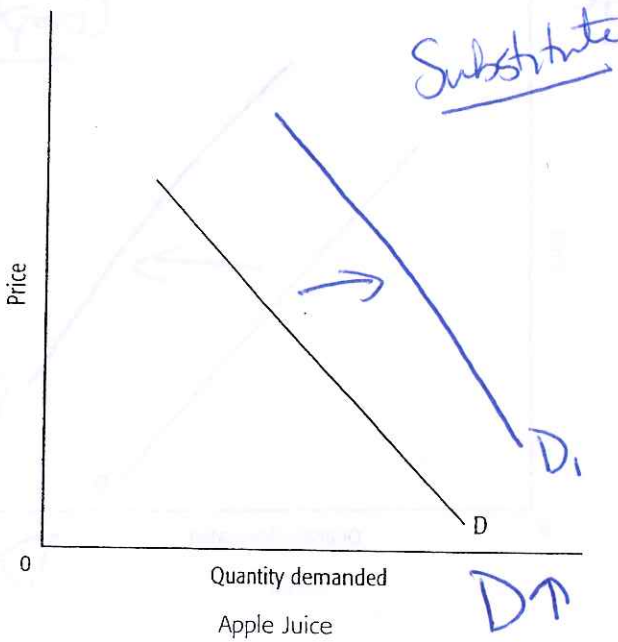
11. The price of breakfast cereal rises.



12. The price of orange juice rises.



13. The price of orange juice rises.



14. Tiger Woods creates a new fad: golf.

