








- 1  **Understanding Demand**
 - What is the law of demand?
 - How do the substitution effect and income effect influence decisions?
 - What is a demand schedule?
 - What is a demand curve?
- 2  **What Is the Law of Demand?**
 - The law of demand is the result of two separate behavior patterns that overlap, the substitution effect and the income effect.
 - These two effects describe different ways that a consumer can change his or her spending patterns for other goods.
- 3  **The Substitution Effect and Income Effect**
 - 1 The Substitution Effect
 - The substitution effect occurs when consumers react to an increase in a good's price by consuming less of that good and more of other goods.
 - 2 The Income Effect
 - The income effect happens when a person changes his or her consumption of goods and services as a result of a change in real income.
- 4  **The Demand Schedule**
 - 1 • A demand schedule is a table that lists the quantity of a good a person will buy at each different price.
 - 2 • A market demand schedule is a table that lists the quantity of a good all consumers in a market will buy at each different price.
- 5  **The Demand Curve**
 - A demand curve is a graphical representation of a demand schedule.
 - When reading a demand curve, assume all outside factors, such as income, are held constant.
- 6  **Section 1 Assessment**
 1. The law of demand states that
 - (a) consumers will buy more when a price increases.
 - (b) price will not influence demand.
 - (c) consumers will buy less when a price decreases.
 - (d) consumers will buy more when a price decreases.
 2. If the price of a good rises and income stays the same, what is the effect on demand?
 - (a) the prices of other goods drop
 - (b) fewer goods are bought
 - (c) more goods are bought
 - (d) demand stays the same
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8 **Shifts of the Demand Curve**

- What is the difference between a change in quantity demanded and a shift in the demand curve?
- What factors can cause shifts in the demand curve?
- How does the change in the price of one good affect the demand for a related good?

9 **Shifts in Demand**

- Ceteris paribus is a Latin phrase economists use meaning "all other things held constant."
- A demand curve is accurate only as long as the ceteris paribus assumption is true.
- When the ceteris paribus assumption is dropped, movement no longer occurs along the demand curve. Rather, the entire demand curve shifts.

10 **What Causes a Shift in Demand?**

- Several factors can lead to a change in demand:

11 **Prices of Related Goods**

1. • Complements are two goods that are bought and used together. Example: skis and ski boots
2. • Substitutes are goods used in place of one another. Example: skis and snowboards

12 **Section 2 Assessment**

1. Which of the following does not cause a shift of an entire demand curve?
 - (a) a change in price
 - (b) a change in income
 - (c) a change in consumer expectations
 - (d) a change in the size of the population
2. Which of the following statements is accurate?
 - (a) When two goods are complementary, increased demand for one will cause decreased demand for the other.
 - (b) When two goods are complementary, increased demand for one will cause increased demand for the other.
 - (c) If two goods are substitutes, increased demand for one will cause increased demand for the other.
 - (d) A drop in the price of one good will cause increased demand for its substitute.

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14 **Elasticity of Demand**

- What is elasticity of demand?
- How can a demand schedule and demand curve be used to determine elasticity of

demand?

- What factors affect elasticity?
- How do firms use elasticity and revenue to make decisions?

15 **What Is Elasticity of Demand?**

- 1 • Demand for a good that consumers will continue to buy despite a price increase is inelastic.
- 2 • Demand for a good that is very sensitive to changes in price is elastic.

16 **Calculating Elasticity**

17 **Elastic Demand**

18 **Inelastic Demand**

19 **Factors Affecting Elasticity**

- Several different factors can affect the elasticity of demand for a certain good.

20 **Elasticity and Revenue**

- A company's total revenue is the total amount of money the company receives from selling its goods or services.
- Firms need to be aware of the elasticity of demand for the good or service they are providing.
- If a good has an elastic demand, raising prices may actually decrease the firm's total revenue.

21 **Section 3 Assessment**

1. What does elasticity of demand measure?
 - (a) an increase in the quantity available
 - (b) a decrease in the quantity demanded
 - (c) how much buyers will cut back or increase their demand when prices rise or fall
 - (d) the amount of time consumers need to change their demand for a good
2. What effect does the availability of many substitute goods have on the elasticity of demand for a good?
 - (a) demand is elastic
 - (b) demand is inelastic
 - (c) demand is unitary elastic
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