**What is Demand?**

* Quantity demanded of a product or service is the number that would be bought by the public at a given price
* When a good’s price is lower, consumers will buy \_\_\_\_\_\_\_\_\_\_\_\_\_ of it
* When a good’s price is higher, consumers will buy \_\_\_\_\_\_\_\_\_\_\_\_\_ of it
* The Law of Demand is affected by two behavior patterns
  + The Substitution Effect
  + The Income Effect

**The Substitution Effect:**

* As the price for one good rises compared to a similar good, consumers will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the similar good for their purchases.

**The Income Effect:**

* As prices go \_\_\_\_\_\_\_\_\_\_\_\_\_, your money becomes worth less than it was worth before
* People are less likely to buy the good now

**Demand Schedule:**

* A demand schedule shows the likely number of purchases based on a series of arbitrarily chosen prices

**A Change (Shift) in Demand:**

* If one of 5 other factors changes, the entire demand curve will shift to the left or right
* The curve does \_\_\_\_\_\_\_\_\_\_\_\_\_\_ shift if the price of the good is the only change

**Income:**

* When people’s income changes, demand shifts accordingly
  + Normal Goods –
    - Higher income = higher demand
    - Lower income = lower demand
* When people’s income changes, demand shifts accordingly
  + Inferior Goods –
    - Higher income = lower demand
    - Lower income = higher demand

**Consumer Expectations:**

* If consumers expect a price to rise in the future, current demand increases

**Population:**

* When one sector of the population grows, demand increases for products that sector uses
* Fastest growing sector of the population today?
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Consumer Tastes and Advertising:**

* Increased advertising can increase consumer demand
* Bad news about a product can \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ demand

**Price of Related Goods:**

* Complimentary Goods – goods that are bought and used together
  + Higher Complementary Price = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in demand
  + Lower Complementary Price = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in demand
* Substitute Goods – goods that are used in place of one another
  + Higher Substitute Price = increase in demand
  + Lower Substitute Price = decrease in demand

**Elasticity of Demand:**

* Elasticity refers to how responsive the quantity demanded is to a change in prices
* An inelastic good will still sell about the same quantity even if the price goes up or down
* An elastic good will have a higher change in Qd when there is a price change

**Calculating Elasticity:**

* Elasticity =
  + % change in quantity demanded / % change in price
* If Elasticity is < 1, the good is inelastic
* If Elasticity is > 1, the good is elastic
* If Elasticity = 1, the good has a unitary elastic demand

**Factors Affecting Elasticity:**

* Availability of Substitutes – if you have no other options, demand is inelastic.
* Availability of Substitutes – if you have equally appealing options, demand is highly elastic
* Relative Importance – what percentage of your budget is spent on the good?
  + If it is low, price changes will not alter demand
  + If it is high, even small price changes can greatly affect demand
* Necessities vs. Luxuries – consumption of milk might stay the same with price changes, while consumption of lobster would greatly change with price changes
* Change over time – price changes may produce \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ demand in the short term, but \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_demand long term
  + 1970s fuel crisis – people still bought the same amount of gas at first, but eventually started buying smaller cars

**Elasticity and Revenue:**

* Total Revenue – the amount of money a company receives by selling its good or service
* With elastic demand, revenue will decrease greatly with price increases
* With Inelastic demand, price increases will increase revenue