

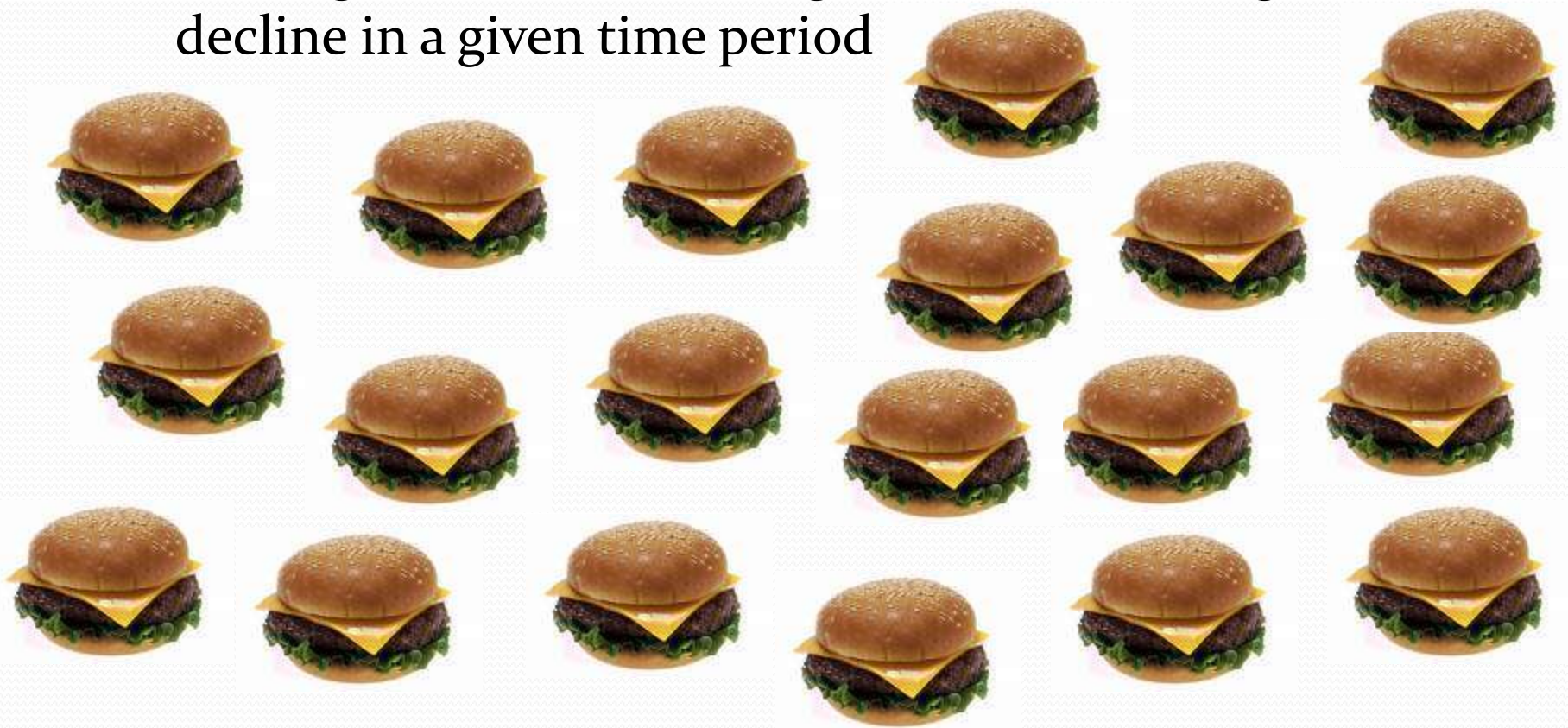
# Chapter 4 Section 2

What Factors Affect Demand?



# Why do D curves slope downward?

- The Law of Diminishing Marginal Utility:  
The marginal benefit of using another unit of a good will decline in a given time period



# Law of Diminishing Marginal Utility

- *The first double cheeseburger tastes great, the second one is good, the third one is ok, the fourth makes you sick.*
- *The first ipod brings you a lot of enjoyment, the second is fine, the 10<sup>th</sup> ipod brings you very little marginal benefit.*



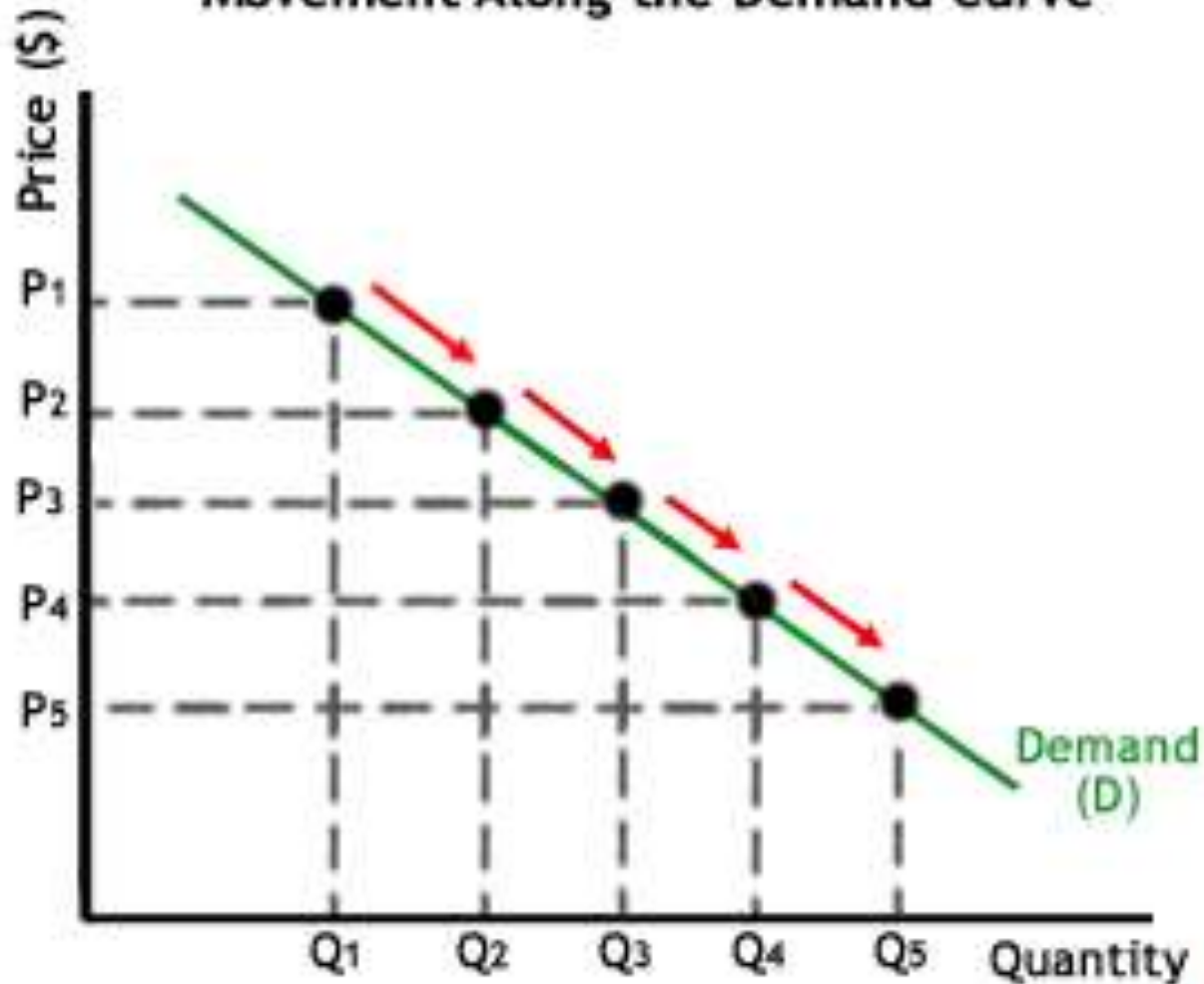
# Quantity Demanded Vs. Demand

- Change in QD occur in reaction to a change in price.
- They are shown by movement along a demand curve

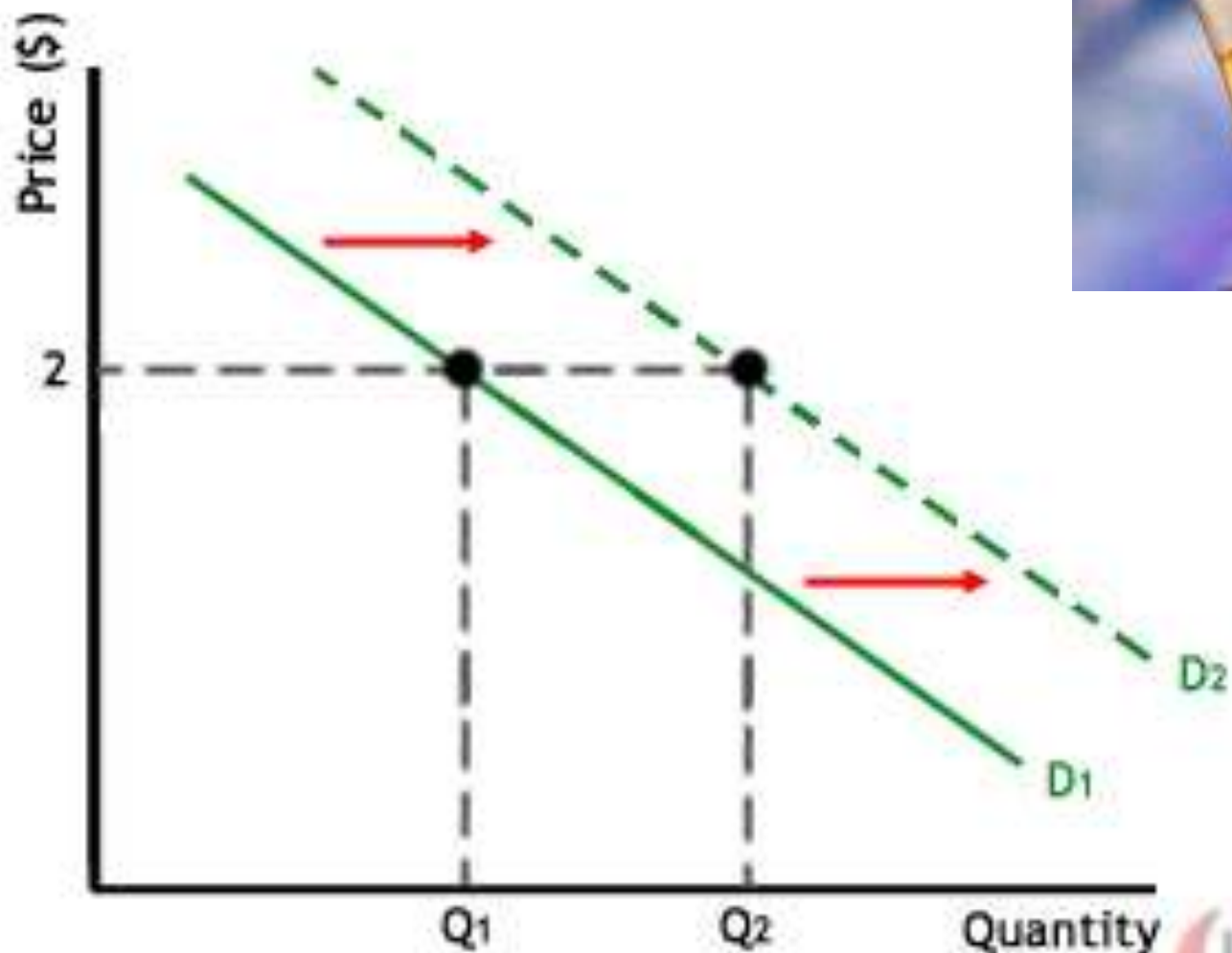
# Change in Demand

- Change in demand occurs when something prompts consumers to buy more of less of the good at every price.
- This is shown by a shift in the Demand curve.

## Movement Along the Demand Curve



## Shift in Demand for Beer





# What factors shift the demand curve?

- Income: For normal goods, as income increases, D for goods at every price will increase. As income decr., D will also decr.
- Exception to this rule:
  - Inferior goods: consumers demand less of these as their income rises.
  - Ex: generic products, second-hand goods





# What factors shift the demand curve?

- Market Size: number of consumers change, the demand curve will shift.
  - In a tourist town, like Lake Geneva, demand for many goods and services increases in the summer and decreases in the winter due to market size.

# What factors shift the demand curve?

- Consumer Tastes: trends, advertising, popularity of a product will affect its demand.



# What factors shift the demand curve?

- Consumer Expectations: what you expect prices to do in the future will affect your buying today.
- What if you knew your favorite kind of \_\_\_\_\_ was going to increase in price soon? You might buy more of it now.

# What factors shift the demand curve?

- Substitute Goods: goods that can be used in place of each other.
  - Ex: Taxi or bus, apples or oranges, coffee or tea, margarine or butter
- As the P of one good increases, D for a substitute will increase



# What factors shift the demand curve?

- Complementary Goods: 2 products used together. Like, peanut butter and jelly, cd's and cd players, cars and gasoline.
- As the price of one good increases, demand for the complement decreases.

