Why do D curves slope downward?

- The Law of Diminishing Marginal Utility:
  - e marginal benefit of using another unit of

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 10th ipod brings you very little marginal benefit.*

What other factors affect demand?

- Income effect: change in the amount that consumers will buy because the purchasing power of their income changes. There is no real change in income!!
  - As P decreases, I feel richer, buy more
  - As P increases, I feel poorer, buy less

  - The income effect causes the D curve to slope downward.

Income Effect

- *If I go to the mall to buy a $40 pair of jeans and they're on sale for $25, what might I do?*
  - *Buy 2 pair*
  - *Spend the 15 on something else*
  - *Save the 15*
  - *Whatever I choose, I feel richer because of the income effec*

What Factors Affect Demand?

- Substitution Effect: a change in the amount that consumers buy, because they buy substitute goods instead.

  If price of beef increases, what might consumers decide to do?

  Buy more chicken, if they consider it to be a substitute good and its price has not also increased.

  The substitution effect causes the D curve to slope downward.