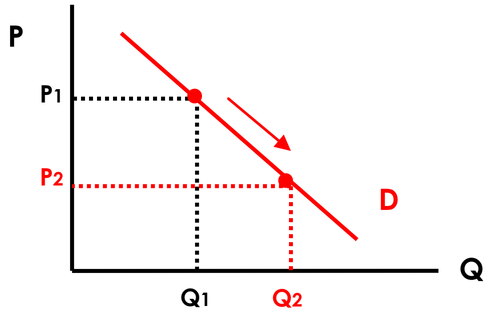
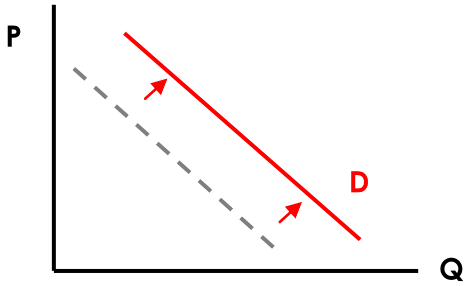
Demand

Movement Along Demand Curve



Caused By: A Change in **Price**

Demand Curve Shifts



Caused By: A Change in **Demand**

What 6 factors affect Demand?

$$D_x = f\,(P_x, P_c, P_s, y, t, E)$$

Demand for Good X (D_x) depends on:

1. The Price of Good X (**P_x**)
2. The Price of Complementary Goods (**P_c**)
3. The Price of Substitute Goods (**P_s**)
4. Income (**y**)
5. Taste (**t**)
6. Future Expectations (**E**)

P_x

Basic Law of Demand: ↑Price **P** ↓Quantity Demanded **Q_D** *and* ↓**P** ↑**Q_D**

There are some exceptions to this…

Giffen Goods (GGs)
Necessity goods i.e. bread, milk. If the price of GGs goes up, more income is spent on GGs than luxuries, raising the **Q_D**

Snob 'Status Symbol' Goods
Show of wealth/success in goods means you will spend more to be part of an exclusive trend

Expectation/Speculative Goods
i.e. property
Buy now as you might expect price next year to be unaffordable

P_c P_s

- **Complementary Goods:** Two goods which require the use of another i.e. tea and milk, bread and butter, printers and ink cartridges
- **Substitute Goods:** Goods with similar characteristics and used in identical ways i.e. Aldi cornflakes V. Kellogg's, different brands of bread, milk, butter, chocolate etc

Y

2 different types of income…

a) **Money Income** – nominal earnings expressed as wages/salary
b) **Real Income** – purchasing power of earnings (what you can buy)

NORMAL GOOD
Good with positive income effect
More Y = More Q_D
Less Y = Less Q_D

INFERIOR GOOD
Good with negative income effect
More Y = Less Q_D
Less Y = More Q_D

It is possible to get a rise in **money income** and suffer a decline in **real income** as cost of living (groceries, transport costs etc) might exceed rise in actual money

T

For all goods if consumer tastes react *positively* toward them…**more** will be demanded. If tastes change *negatively* toward a good…**less** will be demanded

E

Expectations change depending on **(1) Future Price (2) Future availability (3) Future Income**

We can tell one type of good from another with <u>3 simple tests</u> on any test 'Good'

1. **Income Effect**: What effect does a rise/drop in income have on demand for the good?
2. **Substitution Effect:** What effect does a rise/drop in the price of a substitute good have on demand?
3. **Price Effect**: What effect does a rise/drop in the price of the good itself have on demand?

Good	Income Effect	Substitution Effect	Price Effect	Type
A	More	More	More	Normal Good
B	**Less**	More	More	Inferior Good (Not Giffen Good)
C	**Less**	More	**Less**	Inferior Good (Also Giffen Good)

Remember: ALL giffen goods are inferior goods but **not** all inferior goods are giffen goods