DEMAND - NOTE SHEET

- 1. (Demand/Supply) is identified as **quantities consumers are willing and able to buy** at **various prices** during a **given time period**. [slide or **move** along the same demand curve]
- 2. The law of demand says that price & QD are (directly/inversely) related.
- 3. The **most important variable** influencing decisions to **produce & purchase goods** is (technique/price). (Price/income) is **not held constant when moving along a stable demand curve.** The **law of demand** is explained by these economic concepts(#4, 5, & 6 below).
- 4. **Income effect**-the **increase or decrease in purchasing power** brought on by a change in (taste/market size/price).
- 5. **Substitution effect**-tendency to **substitute** a (higher/lower)-priced product for a more expensive product.
- 6. **Diminishing marginal utility** utility, or (determination/anger/satisfaction) decreases as more of the same product[Snickers] is consumed.
- 7. The law of demand refers to a (movement/shift) along a given demand curve.
- 8. **Substituting chicken as the price of steak goes up** is an example of the (income/substitution) effect.
- 9. When the price of caviar falls, the purchasing power of our money income rises & thus permits us to purchase more caviar. This statement describes the (income/substitution) effect.
- 10. The demand (curve/schedule) is a **numerical tabulation** showing QD at each price. The demand (curve/schedule) is a **graphical representation** of the **law of demand**.



- 11. **Elasticity of demand** the way price affects (attitude/quantity/market size).
- 12. (Inelastic/Elastic) demand demand that is **very responsive to price.** [A small price increase causes a large decrease in quantity demanded.]
- 13. (Inelastic/Elastic) demand-when a change in price has little impact on QD.
- 14. The **three-item test for elastic demand** are substitutes, luxury items, and (inexpensive/expensive) items.
- 15. The **three-item test for inelastic demand** are no substitutes, necessities, and (inexpensive/expensive) items.
- 16. Expensive cars have (inelastic/elastic) demand.
- 17. Pepsi Cola has (inelastic/elastic) demand.
- 18. Insulin has (inelastic/elastic) demand.
- 19. The **elastic demand curve** is more (horizontal/vertical). [much change]
- 20. The inelastic demand curve is more (horizontal/vertical). [not much change]



- 21. With the **invention of the calculator**, the demand curve for the slide rule (incr/decr).
- 22. When Forest Gump went to China & the U.S. followed by **opening relations with China**, the demand curve for **Coke** (increased/decreased).
- 23. An increase in income would (increase/decrease) the demand for used clothing.[inferior good]
- 24. A decrease in income would (increase/decrease) the demand for lobster. [normal good]
- 25. A decrease in the price of product X[lumber] will (increase/decrease) the demand for
- complementary product Y.[nails]
- 26. After Brook Shields[15] did her national TV ads["Nothing comes between me & my Calvin's"], the "D" curve moved to the (right/left).
- 27. An **increase in the price of Pepsi** causes the demand curve for **Coke** to move to the (right/left).
- 28. If there is a **sale on shirts**, the demand curve for **ties** will move to the (right/left).
- 29. If a **man's workplace** is **about to close down**, his demand curve for **major purchases** would move to the (right/left).
- 30. If a **cure for lung cancer were found**, the demand curve for **cigarettes** would move to the (right/left).
- 31. If the **price of pancakes decreases**, then the demand for **syrup**[complement] will (incr/decr).
- 32. If the price of butter decreases, then the demand for margarine[sub] will (incr/decr).
- 33. A "change in QD" is caused by (price change/non-price shifters). [a "movement"]

1000

1100

34. A "change in D" is caused by (price change/non-price shift.) [a "shift"]

"Change in Demand"(5 shifters) & "Change in QD"(price change)

35. A "shift" from "a" to "b" represents a **D1 D**3 **D2 P2** (change in "D"/change in "QD"). 36. A "shift" from "a" to "c" represents a **P1** (change in "D"/change in "QD"). 37. A "movement" from "a" to "d" represents a **P3** (change in "D"/change in "QD"). 38. A "movement" from "a" to "e" represents a QD3 QD1 OD2 (change in "D"/change in "QD"). **Combined Supply and Demand Schedule for Pencils** Plot this graph & find the equilibrium price & quantity. Quantity Price Per Quantity .10 Demanded Pencil Supplied 39. a. Equilibrium price \$_ .09 .08 300 .10 900 Pencil b. Equilibrium quantity .07 400 .09 800 .06 40. a. What would the **shortage** 500 .08 700 Per .05 600 .07 600 Price be at 6 cents? .04 700 500 .06 .03 b. What would the **surplus** 800 .05 400 .02 900 .04 300 be at **10 cents**? .01

.03

.02

200

100



2 3 4 5 6 7 8 9 10 11

Quantity (00)

0 1