

WEL-COME

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■ The Law of Demand

What is Demand?

- Quantity demanded of a product or service is the number that would be bought by the public at a given price

The Law of Demand

- When a good's price is lower, consumers will buy more of it
- When a good's price is higher, consumers will buy less of it

The Law of Demand

- 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 substitute the similar good for their purchases.



The Income Effect

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

Demand Schedule

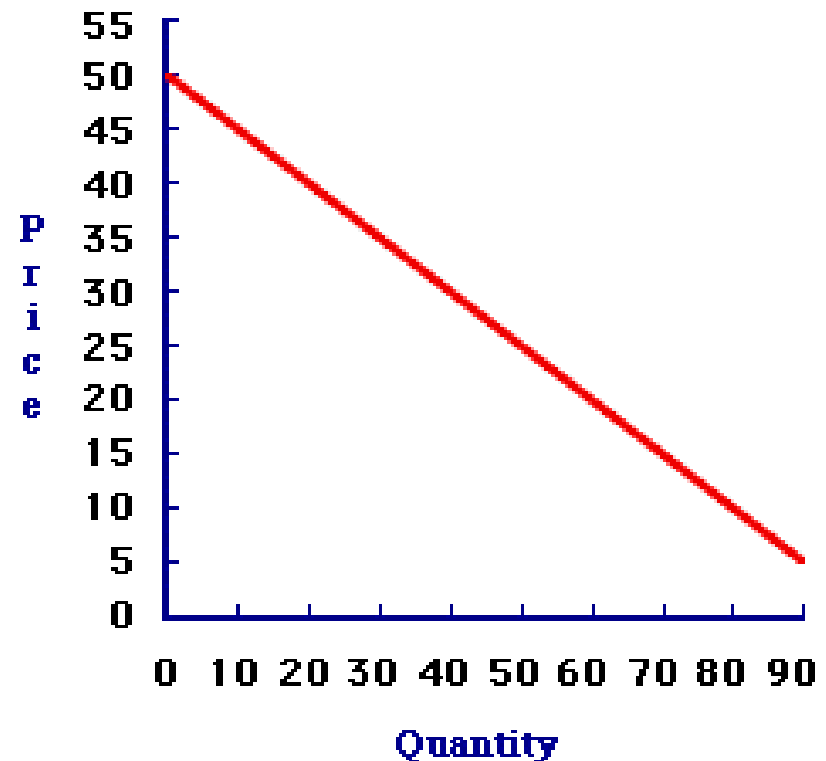
- A demand schedule shows the likely number of purchases based on a series of arbitrarily chosen prices

Demand Schedule

Price of Stuffed Animals	Quantity of Stuffed Animals
5	90
10	80
15	70
20	60
25	50
30	40
35	30
40	20
45	10
50	0

Demand Schedule › Demand Curve

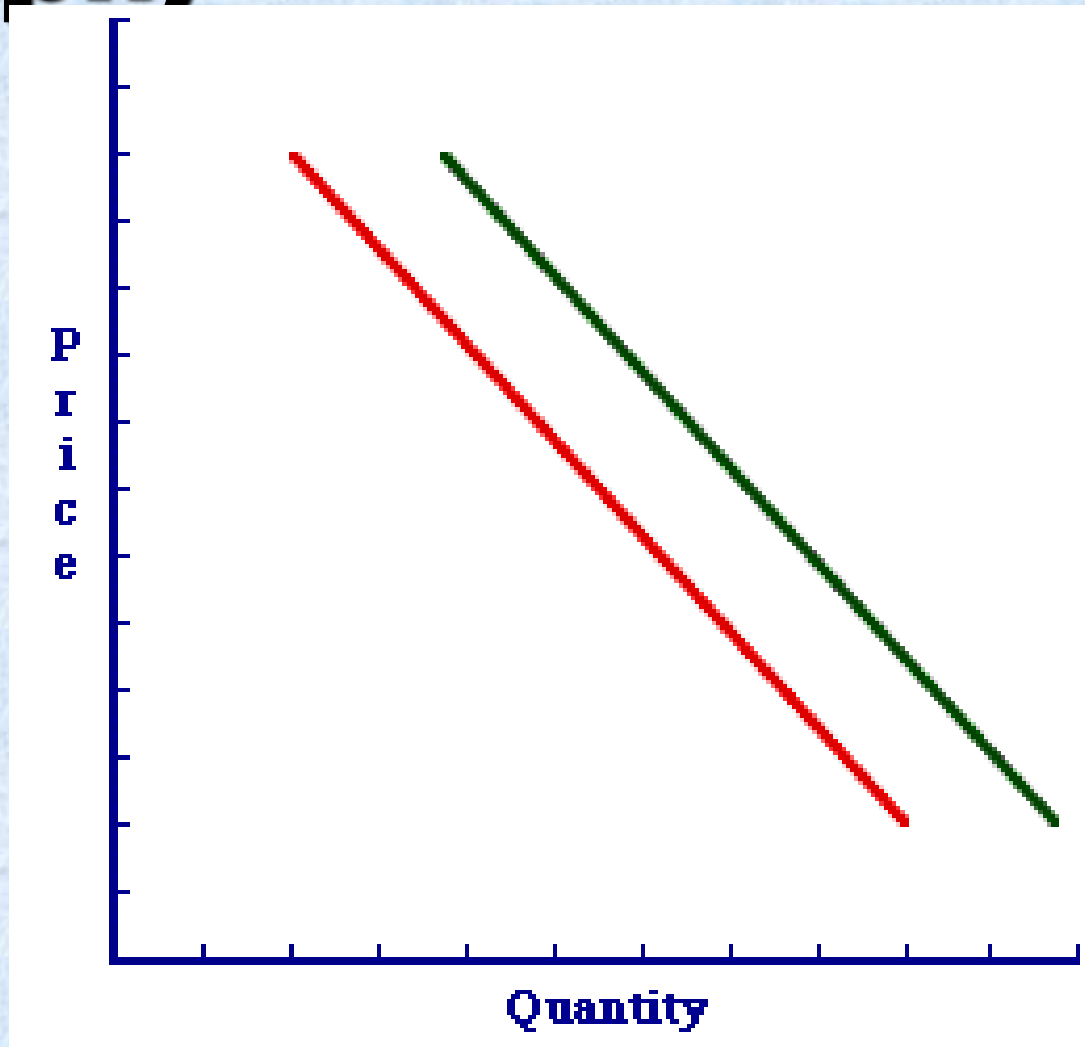
	Price of Stuffed Animals	Quantity of Stuffed Animals
A	5	90
B	10	80
C	15	70
D	20	60
E	25	50
F	30	40
G	35	30
H	40	20
I	45	10
J	50	0



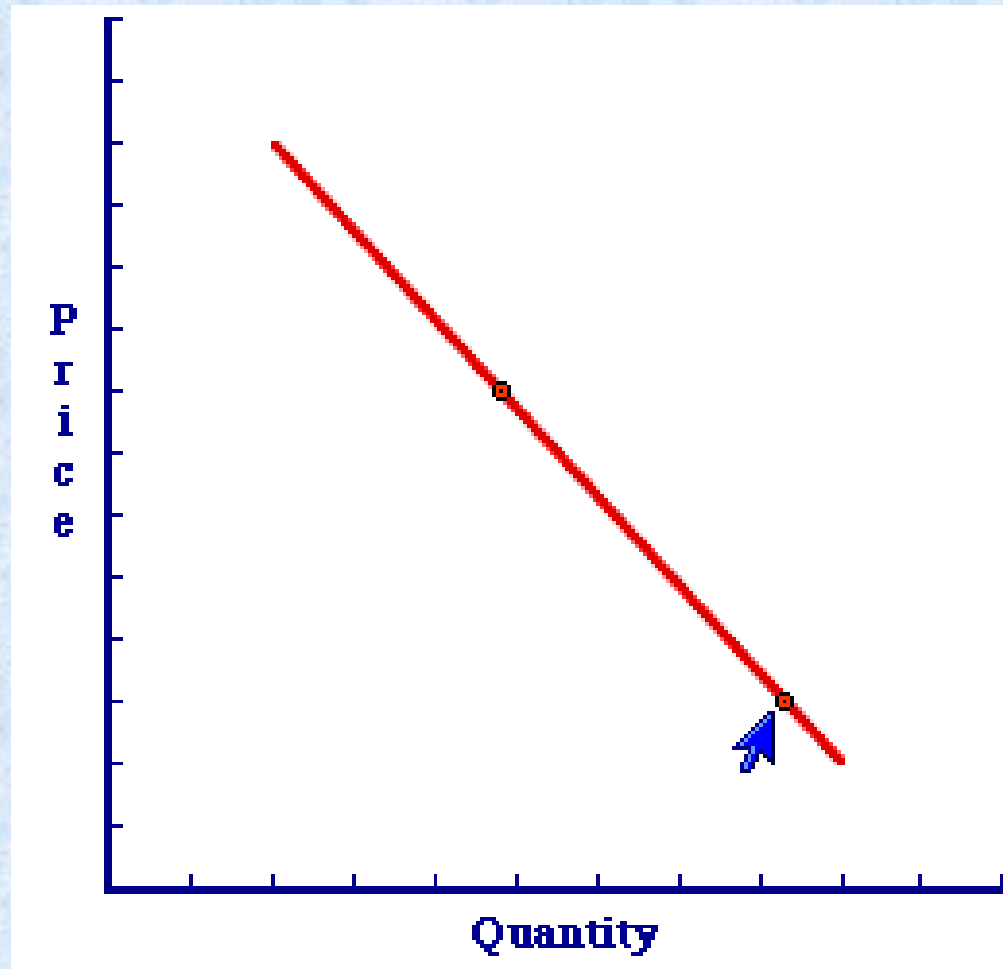
A Change (Shift) in Demand

- If one of 5 other factors changes, the entire demand curve will shift to the left or right
- The curve does NOT shift if the price of the good is the only change

A Change in Demand (Graph)

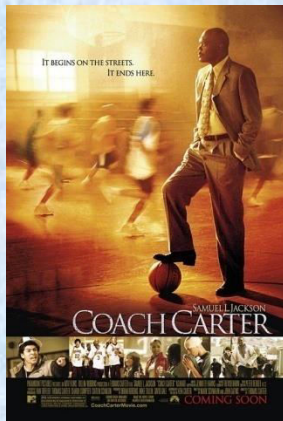


A Change in Quantity Demanded (Graph)



Income

- When people's income changes, demand shifts accordingly
- Normal Goods –
 - Higher income = higher demand
 - Lower income = lower demand



Income

- 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
- If consumers expect a price to fall in the future, current demand decreases

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 decrease demand

Price of Related Goods

- **Complimentary Goods – goods that are bought and used together**
 - **Higher Complementary Price = decrease in demand**
 - **Lower Complementary Price = increase in demand**

Price of Related Goods

- **Substitute Goods – goods that are used in place of one another**
 - **Higher Substitute Price = increase in demand**
 - **Lower Substitute Price = decrease in demand**

Thank You