

# DEMAND

# CHAPTER : 3

# BY

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# ■ Supply and Demand

- A competitive market:
    - Many buyers and sellers
    - Same good or service
  - The supply and demand model is a model of how a competitive market works.
    - Five key elements:
      - Demand curve
      - Supply curve
      - Demand and supply curve shifts
      - Market equilibrium
      - Changes in the market equilibrium
- 

# Schedule

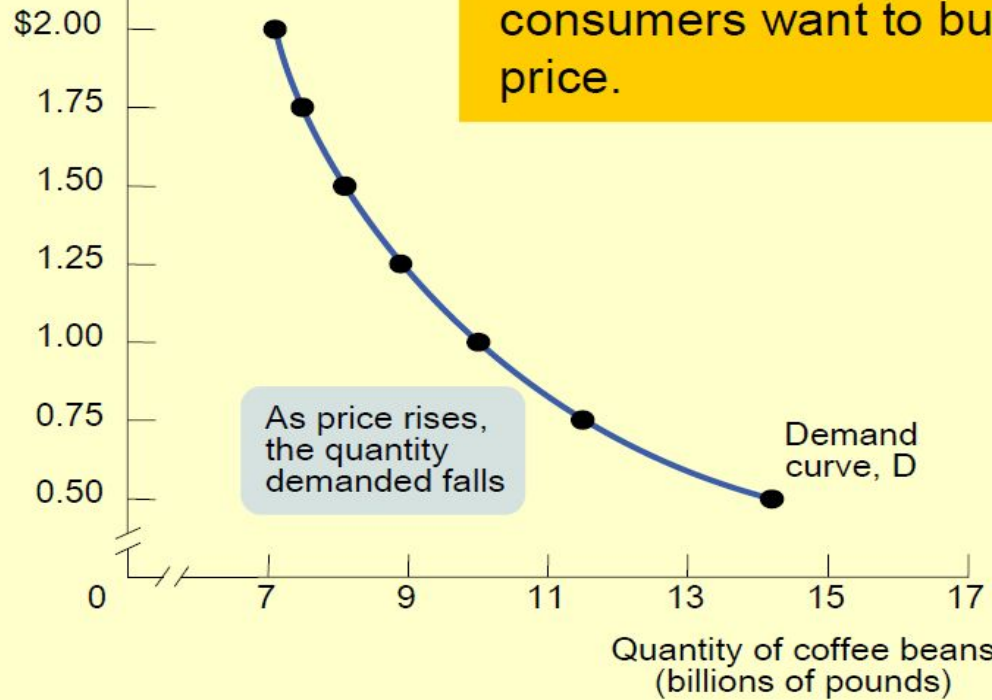
A demand schedule shows how much of a good or service consumers will want to buy at different prices.

**Demand Schedule for Coffee Beans**

Price of coffee beans (per pound)	Quantity of coffee beans demanded (billions of pounds)
\$2.00	7.1
1.75	7.5
1.50	8.1
1.25	8.9
1.00	10.0
0.75	11.5
0.50	14.2

# Demand curve

Price of coffee bean (per gallon)

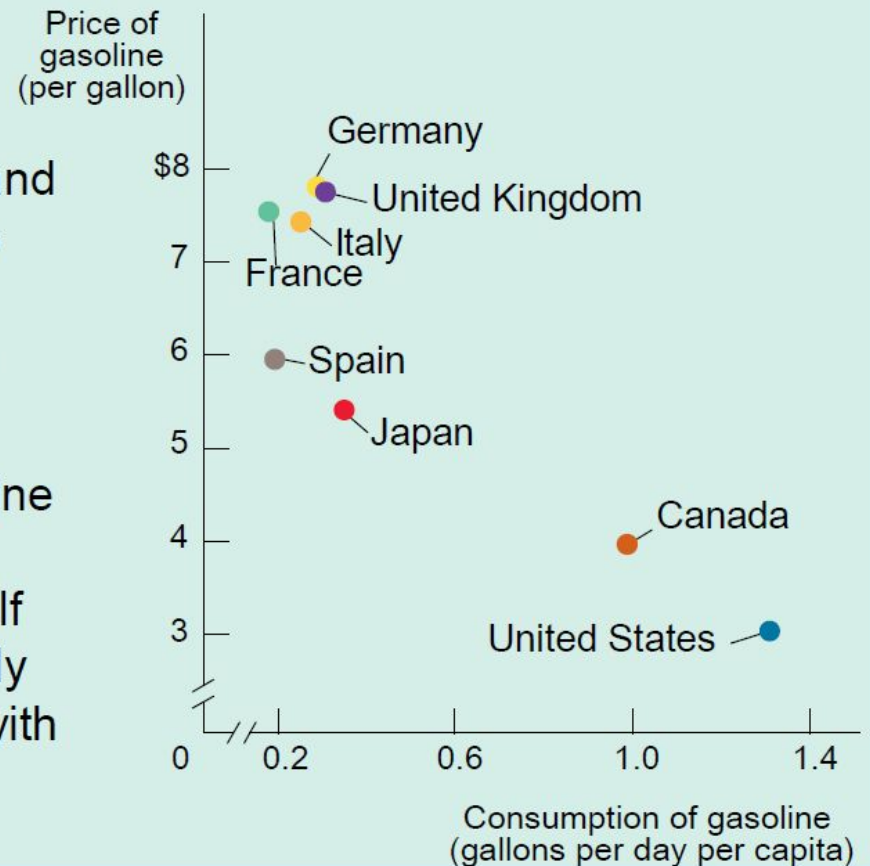


A **demand curve** is the graphical representation of the demand schedule; it shows how much of a good or service consumers want to buy at any given price.

# Global comparison

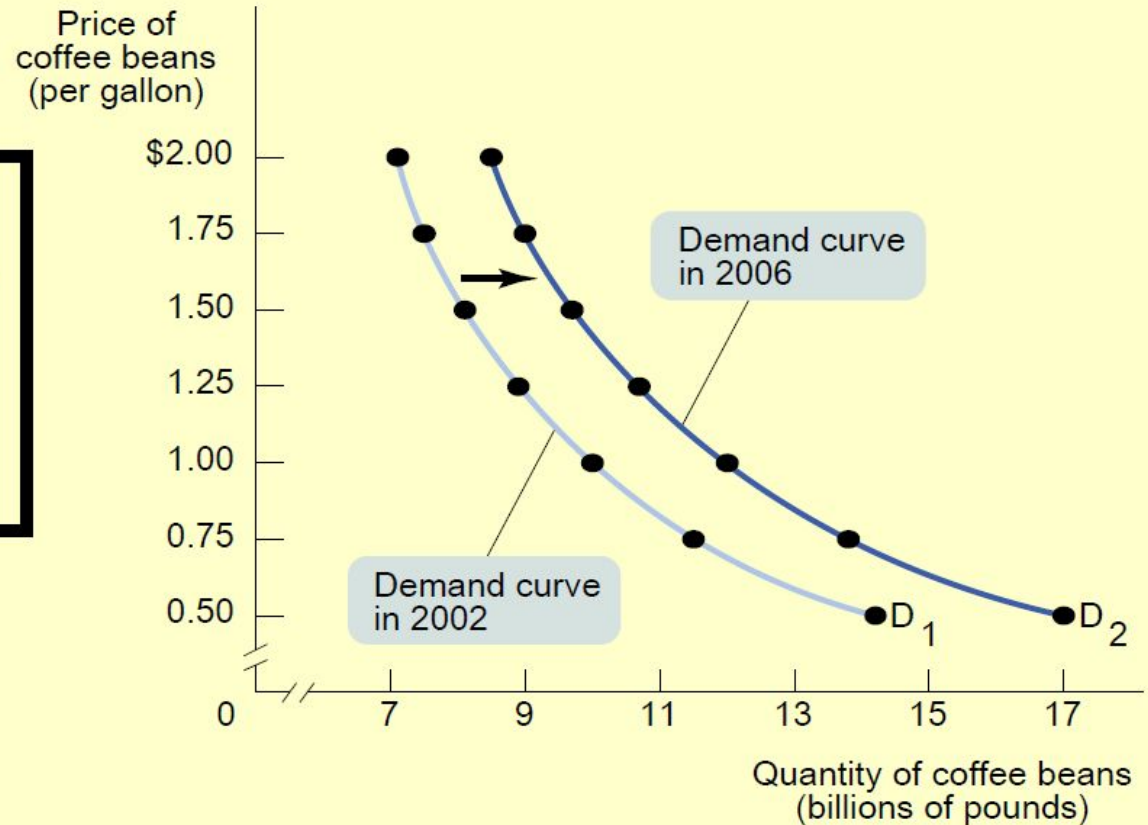
## Pay More, Pump Less...

- Because of high taxes, gasoline and diesel fuel are more than twice as expensive in most European countries as in the United States.
- According to the law of demand, Europeans should buy less gasoline than Americans, and they do: Europeans consume less than half as much fuel as Americans, mainly because they drive smaller cars with better mileage.



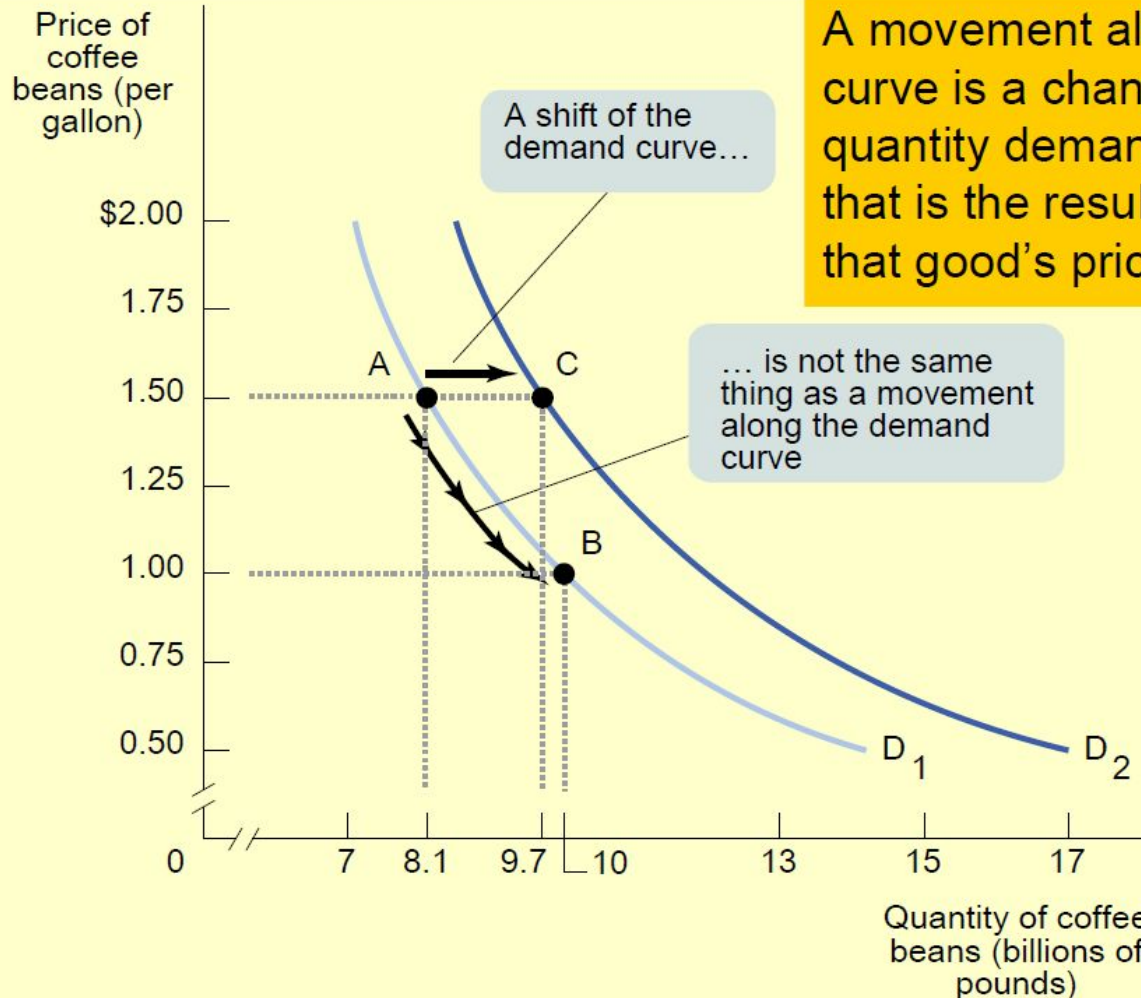
# Increase in demand

Increase in population → more coffee drinkers



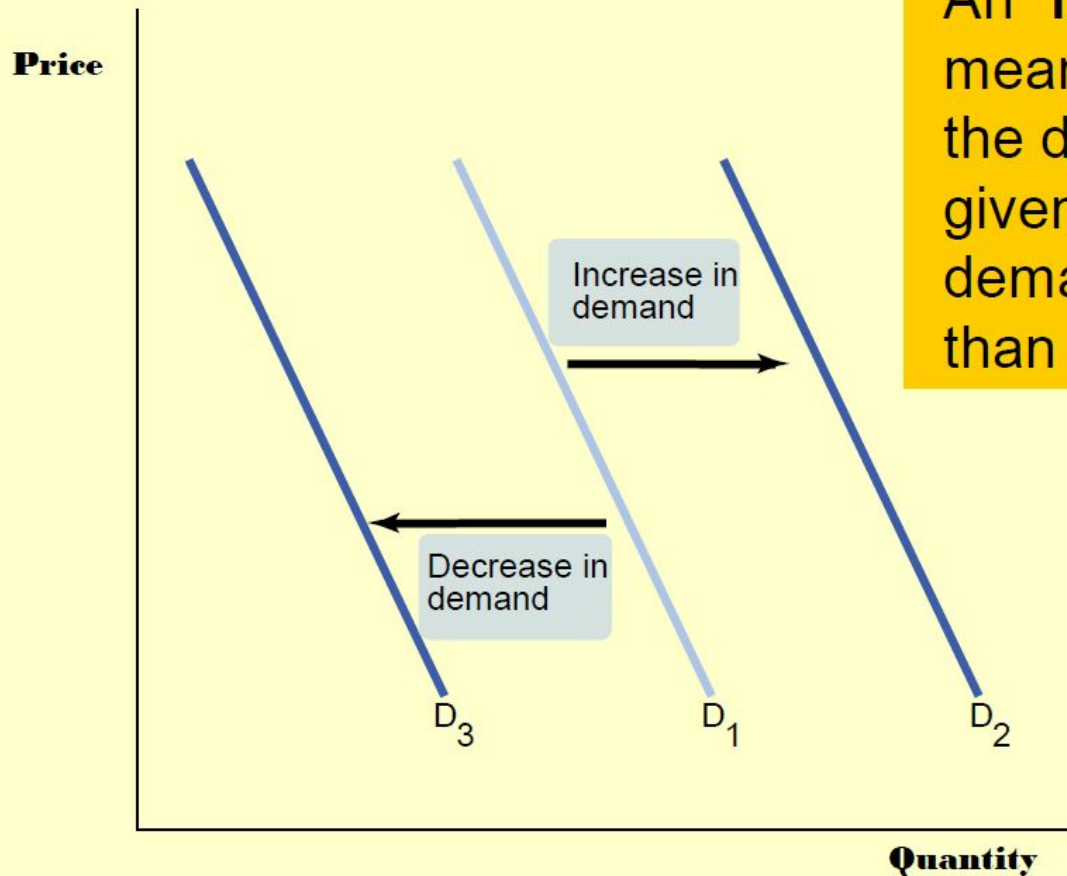
A **shift of the demand curve** is a change in the quantity demanded at any given price, represented by the change of the original demand curve to a new position, denoted by a new demand curve.

# Movement along the demand





A movement along the demand curve is a change in the quantity demanded of a good that is the result of a change in that good's price.

# Shifts of the Demand Curve



An “**increase in demand**” means a *rightward* shift of the demand curve: at any given price, consumers demand a larger quantity than before. ( $D_1 \rightarrow D_2$ )





# What Causes a Demand Curve to Shift?

## Changes in the Prices of Related Goods

- **Substitutes:** *Two goods are **substitutes** if a fall in the price of one of the goods makes consumers less willing to buy the other good.*
- **Complements:** *Two goods are **complements** if a fall in the price of one good makes people more willing to buy the other good.*

## Changes in Income

- **Normal Goods:** *When a rise in income increases the demand for a good - the normal case - we say that the good is a **normal good**.*
- **Inferior Goods:** *When a rise in income decreases the demand for a good, it is an **inferior good**.*

## Changes in Tastes

## Changes in Expectations