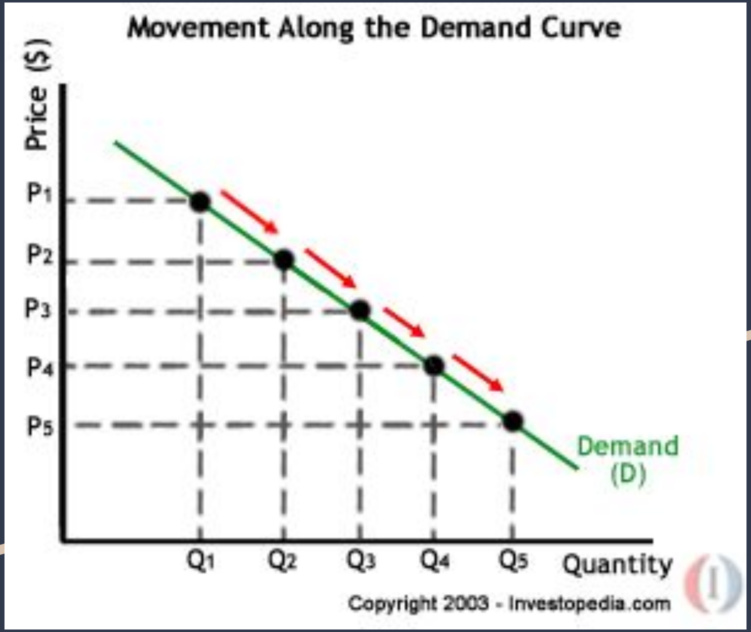
Changes in Demand

Shifts vs. Movement



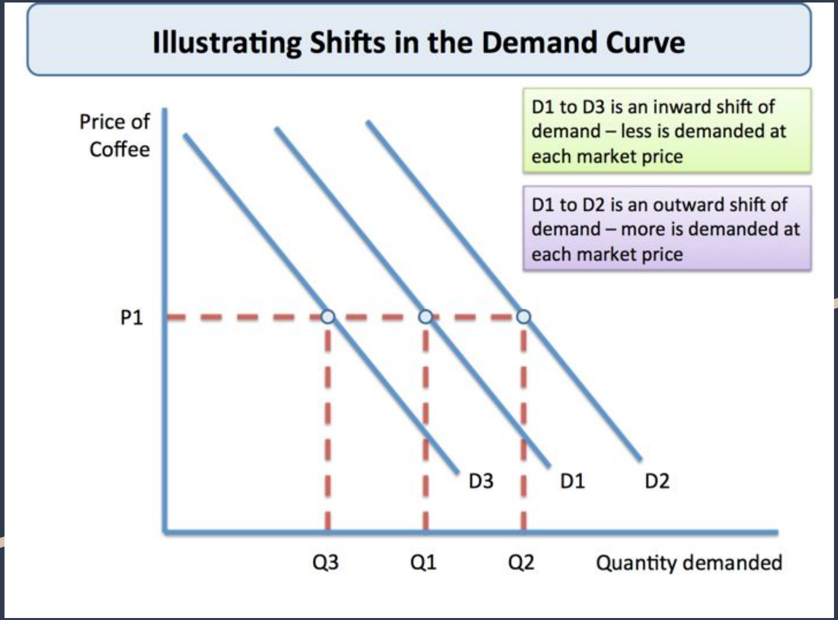
A movement refers to a change along a curve.

On the demand curve, a movement denotes a change in both price and quantity demanded from one point to another on the curve.

The movement implies that the demand relationship remains consistent.

In other words, a movement occurs when a change in the quantity demanded is caused only by a change in price, and vice versa.

Shifts vs. Movements



A shift in a demand curve occurs when a good's quantity demanded changes even though price remains the same.

Shifts in the demand curve imply that the original demand relationship has changed, meaning that quantity demanded is affected by a factor other than price.

A shift of the demand curve means that at every price, the amount people are willing and able to buy has changed.

Shifts vs. Movements

A movement is a change in “quantity demanded” as a result of a price change.

When the demand curve shifts, we call the change in consumers’ willingness to buy the produce a change in “demand”.

> Demand refers to the relationship between price and quantity demand, as represented by the entire demand curve.

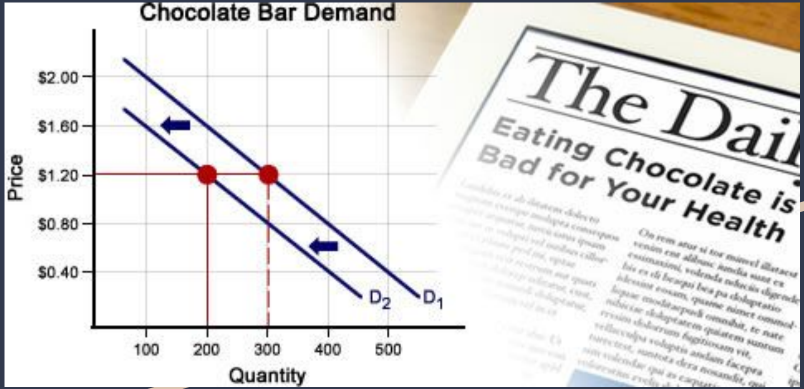
Shifts vs. Movements

A rule to remember:

A change in the price of the good causes a movement along the demand curve.

A change in any influence on consumers' buying behavior OTHER THAN the price of the good causes the demand curve to shift.

What causes shifts in the demand curve?



Tastes

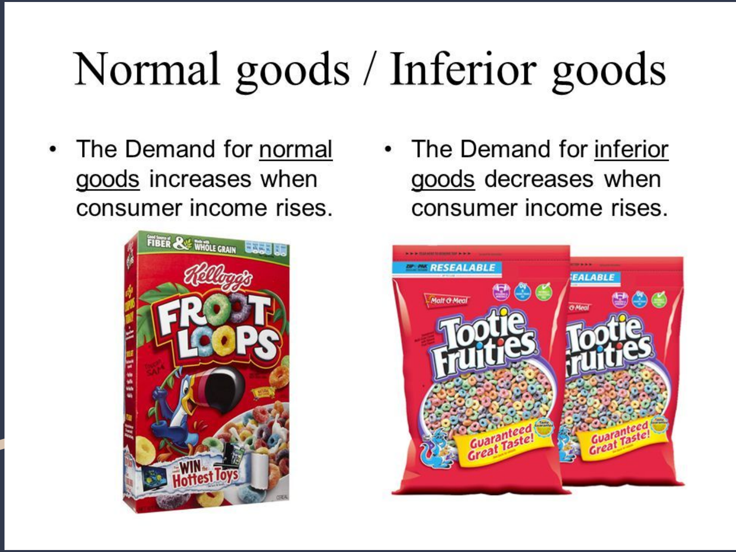
- Trends, styles, preferences
- Firms try to influence tastes by hiring advertising agencies to promote new products and styles.
- If a good becomes more attractive/trendy, the demand curve will shift to the right.
- If a good becomes less popular, the demand curve will shift to the left.

What causes shifts in the demand curve?

Tastes

- Fashion in the 1980s video
  - https://www.youtube.com/watch?v=iIMS_U1WtE0
- How have tastes and preferences in fashion changed from the 1980s?
- Are any of these outfits popular again today?

What causes shifts in the demand curve?



Income

- A rise in income means there is more $ to spend on consumption.
- A fall in income generally causes people to cut back on the quantity of goods they buy.
- The demand for a NORMAL GOOD increases when income increases and falls when income decreases.
    - Most goods are normal goods.

What causes shifts in the demand curve?

Income

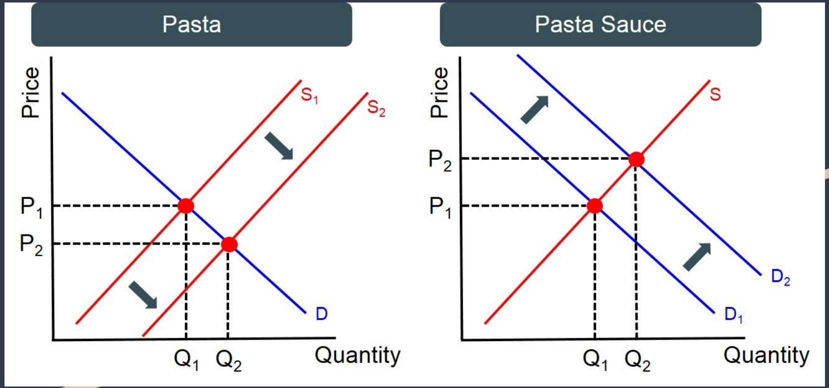
- The demand for an INFERIOR GOOD decreases when income increases and increases when income falls.
  - Examples: intercity bus transportation, canned meat and vegetables, processed cheese
    - More popular among students and others with relatively low income

What causes shifts in the demand curve?

Price of Related Goods

- A change in the price of one good can shift the demand curve for another good.
  - Two goods are SUBSTITUTES if an increase in the price of one of the goods leads to an increase in the demand for the other.
    - Hamburgers and hot dogs
    - Coffee and tea
    - DVDs and movie downloads
    - McDonald's and Burger King

What causes shifts in the demand curve?



Price of Related Goods

- Two goods are COMPLEMENTS if, because they are consumed together, an increase in the price of one of the goods leads to a decrease in the demand for the other.
  - Hamburgers and hamburger buns
  - Pancakes and syrup
  - Gasoline and SUVs
  - Tennis balls and racquets

What causes shifts in the demand curve?

Expectations

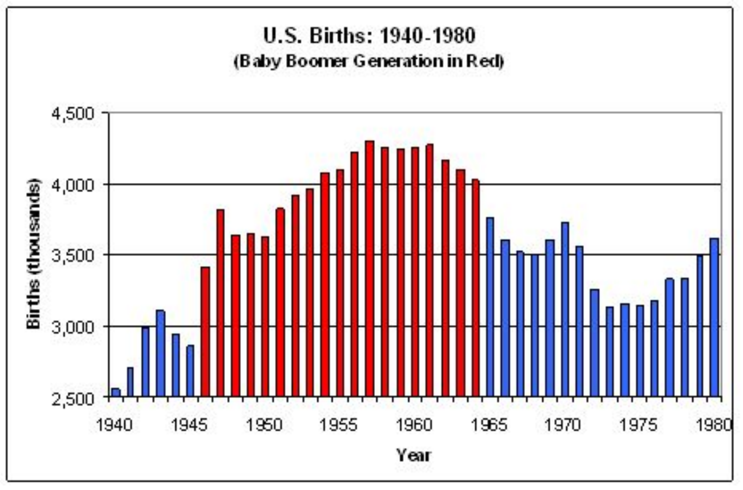
- If you think the price of a good will fall in the future, you are likely to postpone your purchase of that good until the price is lower.
  - Example: there is a shift to the left in the demand curve for Macy's clothing in the days before a major sale

What causes shifts in the demand curve?

Expectations

- If people think the price of a good will rise in the future they will buy more of it today.
  - Example: If people expect gas prices to increase due to war or a hurricane, they will fill up their tanks before.

What causes shifts in the demand curve?



Number of Buyers

- If the number of consumers increases, then demand will increase.
  - Example: population growth, "baby boom" generation
- If the number of consumers decreases, then demand will decrease.
  - Example: disease, changing immigration policies

Now it's your turn to practice!

There are a lot of practice questions related to changes in demand because it tends to be a difficult topic and it requires you to think critically. Try to get as much done of the practice that you can during class. We will finish the practice for Changes in Demand and the last section of this packet next class.

There will be a quiz on Friday.