Law of Demand

Unit 2: American Market Economy

Mystery Product

I am going to reveal a mystery product. When I do, consider how much you are “ willing and able” to pay for that product?

(“able” to pay means you have the money with you right now)

Demand Schedules

For each of the prices on your chart, raise your hand if you are “willing and able” to buy this product.

Price	Number of Students Willing and Able to Buy at this Price
$1	
$2	
$3	
$4	
$5	
$6	
$7	
$8	
$9	
$10	

Reflection

1. Why might some students be willing to pay $10 for this product?

2. Why might some students choose not to pay even $1 for this product?

3. You have created a demand curve for the product. What happens to the quantity demanded for this product when the price goes down? When the price goes up?

4. Most demand curves look similar to the one you created. Given this, what do you think the “law of demand” might say?

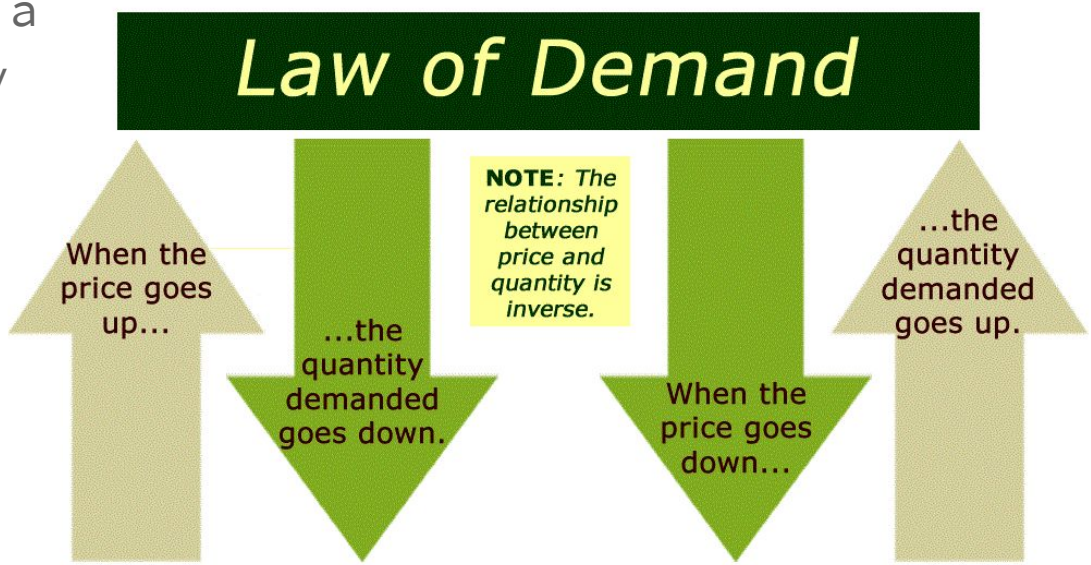
Another Example

During the mid-2000s the company that makes Acuvue brand contact lenses, Johnson & Johnson, figured out a way to produce lenses more cheaply and lowered its price. The price of a pair of popular Acuvue contact lenses fell from about $24 in 2004 to under $18 in 2008. Largely because of the drop in price, purchases of contact lenses nearly doubled over this period.

Law of Demand

A change in the price of a good affects the quantity demanded of that good.

- Quantity demanded is the amount of a good that consumers are willing and able to purchase at a particular price over a given period of time.



Why?

1) Substitution Effect
    - When an increase in the price of a good causes consumers to switch away from that good and toward other goods that do not experience a price increase.
    - Likewise, a decrease in the price of a good causes consumers to switch toward that good.

Why?

2) Income Effect
   - The change in consumption that results from a change in the purchasing power of a consumer's income.
     - Purchasing power is your ability to buy things.
     - If your income rises, you can buy more.
     - If your income falls, you can buy less.

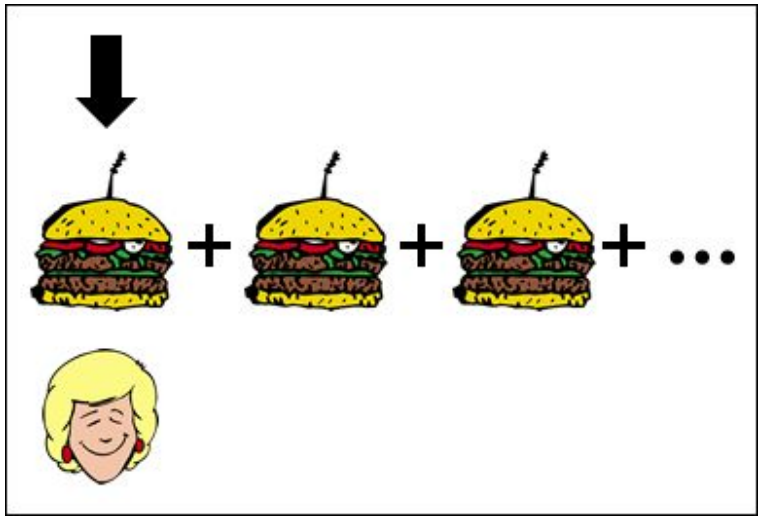
   - When we talk about the purchasing power of your income, we are using an economics term called "real income". Your "real income" is what you can buy with the $ you make.

Why?

3) Law of Diminishing Marginal Utility

   - States that as a person consumes additional units of a good, the utility gained from each additional unit of the good **DECREASES**.

- *Diminishing* means decreasing
- *Marginal* means additional
- *Utility* means satisfaction



Example: Diminishing Marginal utility

Select the Number of Days

Purchase a 3-day, 4-day or 5-day ticket online to enjoy one Magic Morning early admission!

1	2	3	4	5
Prices vary by date.	From $99.50	From $90.00 Includes one Magic Morning	From $72.50 Includes one Magic Morning	From $61.00 Includes one Magic Morning

*Price (USD) per day, per ticket (Ages 10+).

Select the Number of Days

Save $20 when you purchase 3-day or longer tickets online!*

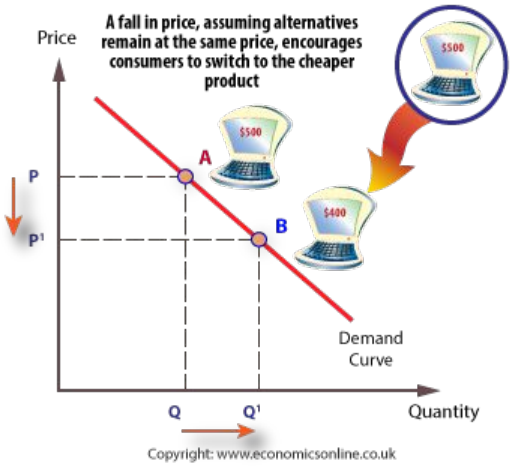
1	2	3	4	5	6	7	8	9	10
Prices vary by date and theme park.	From $99.50	From $96.34	From $87.50	From $74.00	From $65.00	From $58.58	From $52.50	From $47.78	From $44.00

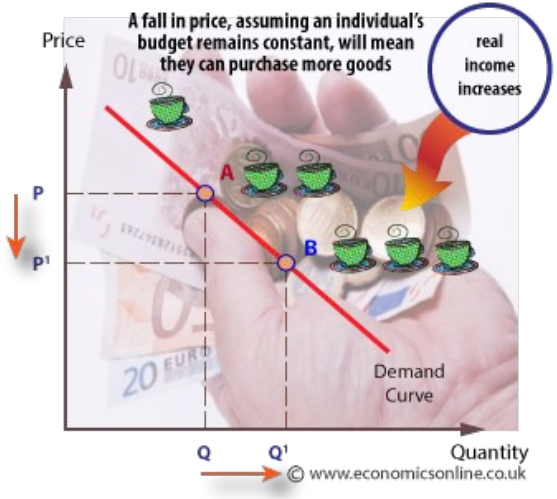
Price (USD) per day, per ticket (Ages 10+) before tax.

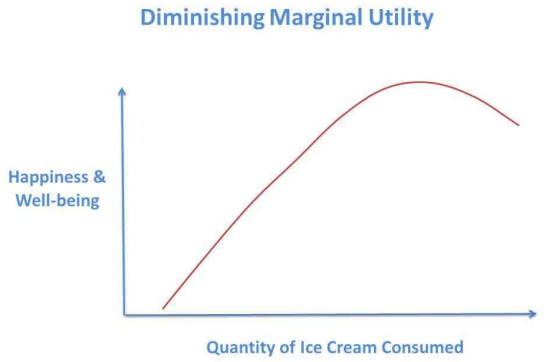
Why are Disneyland and Disney World multi-day tickets priced this way?

Why

The substitution effect, the income effect, and the law of diminishing marginal utility can be reasons why consumers buy less of a good when its price rises or more of a good when the price falls.







"All Else Equal" Assumption

The law of demand applies only when we assume that other influences on the quantity demanded, such as peoples' tastes for a good, are "held constant" or unchanged when the good's price changes.

If the price changes and other influences change at the same time, the law of demand might not hold.

Economics term: "*ceteris paribus*" or "all else equal"

Holding everything else constant helps us understand how markets work and how different policies and events are likely to influence the market.

Demand Schedules

A table that indicates quantity demanded of a particular good at various prices.

Demand schedules can be for individuals (A and B) or for the entire market (A + B).

Market demand schedule

Price of ice-cream (₹)	A's demand (1)	B's demand (2)	Market demand (1 + 2 = 3)
1	4	5	4 + 5 = 9
2	3	4	3 + 4 = 7
3	2	3	2 + 3 = 5
4	1	2	1 + 2 = 3

Table 2.1 Individual and market demand

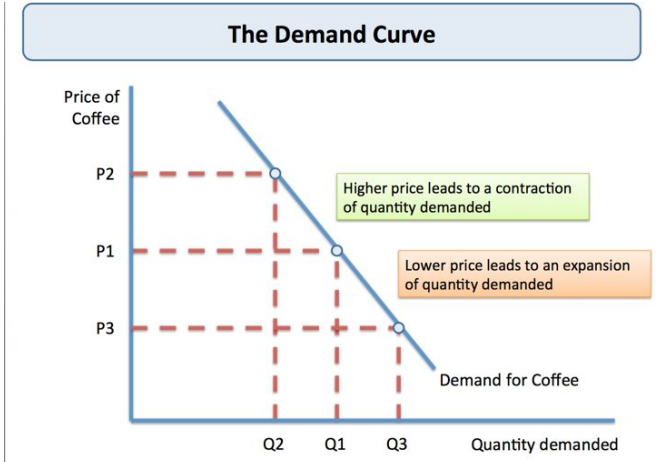
Price	*Quantity demanded by consumer A*	*Quantity demanded by consumer B*	*Quantity demanded by consumer C*	*Quantity demanded by consumer D*	*Market demand*
2	40	4	45	18	107
4	30	2	35	16	83
6	24	5	30	13	72
8	18	7	20	12	57
10	14	10	15	11	50
12	10	7	13	8	38
14	8	5	10	6	29
16	6	3	8	4	21
18	4	2	0	0	6
20	3	0	0	0	3

Demand Curves

A graphical representation of the demand schedule for a good, showing the quantity demanded at each price.

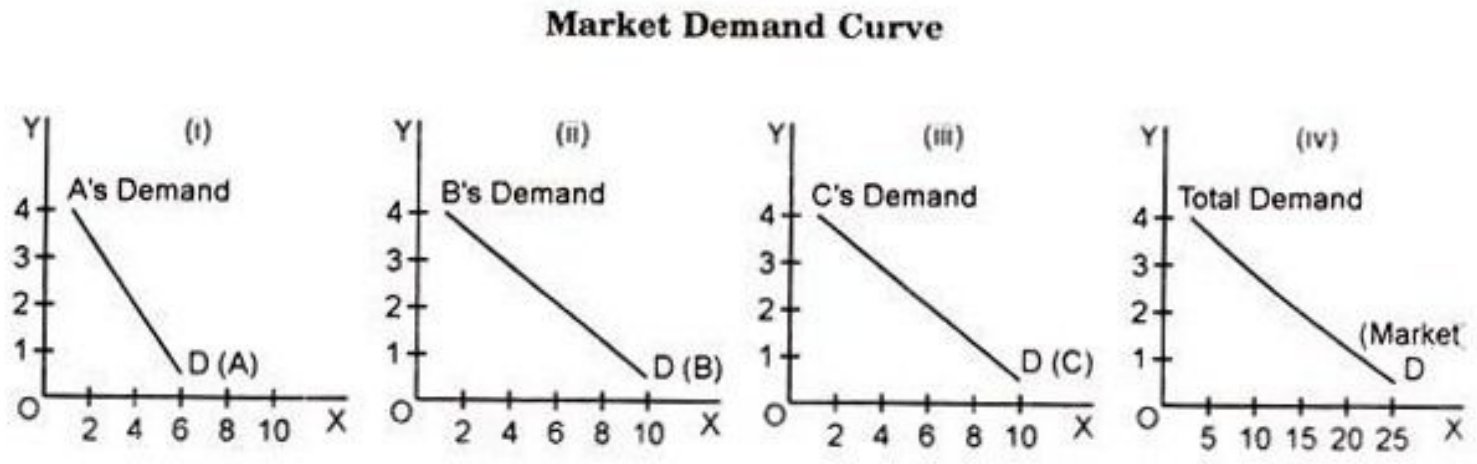
A demand curve slopes downward left-to-right which means that the lower the price, the higher the quantity demanded.

Changes in price that result in a change in quantity demanded is represented as ***movement along the demand curve***. The curve itself does not change position.



Market Demand Curves

Just like a market demand schedule, a market demand curve is a graphical representation of how the quantity demanded by ALL consumers in the market varies with the price.



PRACTICE

Complete the next two pages of the packet on your own in order to practice law of demand concepts.

Be sure you understand the difference between individual and market demand curves and how to create a market demand curve.

This should only take 15-20 minutes and then we are moving on to “Changes in Demand”.