

Section 1: Guided Reading and Review

Understanding Demand

Key

A. As You Read

As you read Section 1, for each boxed example, fill in the key term the example illustrates in the space provided.

1. the higher the price of pizza, the fewer slices people will buy

law of demand
Δ in QD.

2. eating salad or tacos instead of pizza when the price of pizza goes up

Substitution-effect

3. buying fewer slices of pizza when rising prices reduce real income

income effect

4.

Price	Quantity
1	5
2	4
3	3
4	2

law of demand - individual demand schedule.

5.

Price	Quantity
1	300
2	250
3	200
4	150

market demand schedule

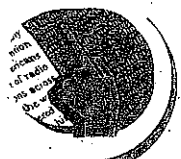
B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

- A _____ is a table that lists the quantities of a good a person will buy at each price that may be offered in the market.
- A _____ is a table that lists the quantities of a good demanded by all consumers at each price that may be offered in the market.
- A _____ is a graphical representation of a demand schedule.
- The _____ is the change in consumption resulting from a change in real income.
- The _____ says that when a good's price is lower, consumers will buy more of it.

Section 2: Guided Reading and Review

Shifts of the Demand Curve



A. As You Read

As you read Section 2, answer the following questions in the space provided.

1. What condition must exist to make a demand curve accurate? Ceteris
parabis
2. What happens to a demand curve when there is a change in factors (other than price) that can affect consumers' decisions about purchasing the good? Shift in Demand
Δ Demand
3. How does consumer income affect the demand for normal and inferior goods? Normal - Normal Inferior - lower Q Generic
4. How does consumer expectation affect demand for certain goods? future
expectations of Q can alter ΔD now
5. Explain how the baby boom generation affected demand for certain goods: _____
6. How are consumer tastes and advertising related? _____
7. Explain how demand for a good can affect demand for a related good. Complementary
goods PR, DT
8. Give an example of a substitute good. car/train

B. Reviewing Key Terms

Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- ___ 9. all other things held constant
- ___ 10. goods whose demand increases as consumer income increases
- ___ 11. goods whose demand falls as consumer income increases
- ___ 12. goods that are bought and used together
- ___ 13. goods that are used in place of one another

Column II

- a. normal goods
- b. substitutes
- c. *ceteris paribus*
- d. inferior goods
- e. complements



Section 3: Guided Reading and Review

Elasticity of Demand

A. As You Read

As you read Section 3, supply the missing information in the spaces provided.

Calculating Elasticity (Provide a formula or numerical value.)

1. Computation of elasticity of demand: $\frac{\% \Delta \text{ in QD}}{\% \Delta \text{ in Price}}$
2. Elastic demand: \uparrow
3. Inelastic demand: \downarrow
4. Unitary elastic demand: $= 1$

Factors Affecting Elasticity (How does each affect elasticity?)

5. Substitutes: \uparrow Elastic demand
6. Necessities vs. luxuries: ^{Want} Necessity - inelastic
luxuries - elastic (wants)
7. Changes over time: Short term vs. long term
in long term goods b/c more elastic as more substitutes found

Elasticity and Revenue (Define and explain.)

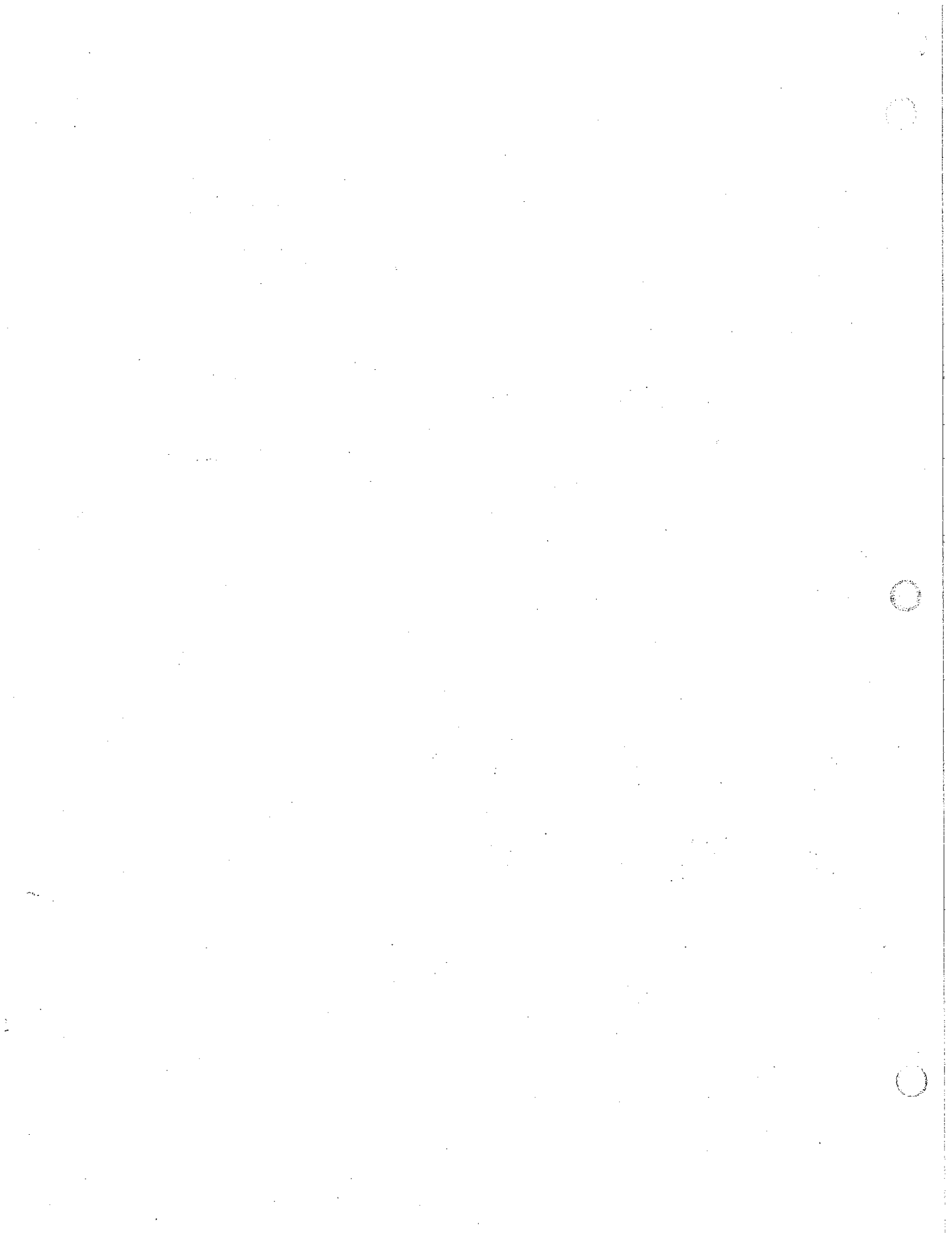
8. Total revenue: money you have coming in
9. How elasticity affects a company's pricing: when its elastic the company can't charge higher prices to raise revenues.

B. Reviewing Key Terms

Briefly define or identify each of the following.

10. elasticity of demand _____
11. inelastic _____
12. elastic _____
13. unitary elastic _____





Demand Schedules and Graphs:

You and the other people in your group are going to make a demand schedule, a market demand schedule and a demand curve for movie ticket sales. You will get all the data you need from each other.

I. A Demand Schedule.

The first step is to make your own demand schedule. Start by thinking about how much money you typically have each month to spend on EVERYTHING. Don't think only about movies, but about all the money you can spend in a month. It doesn't need to be a specific amount, just a general idea.

Right now, the average price for a movie ticket is between \$8 and \$12. You are going to determine how many times you would go to the movies each month based only on the price of the movie. We are NOT thinking about what types of movies it is, what theater they are playing in, how much free time you might have in the coming month or anything else. We are ONLY thinking about price.

Bearing that in mind, fill out the following chart. Writing down how many times you would go to the movies based upon the different prices listed.

Price of a Movie Ticket	Number of Times You Would Go To The Movie
\$4	2
\$8	1
\$12	0
\$16	0
\$20	0

The chart you just completed is a **Demand Schedule**. It shows your demand for movies at the five prices.

II. A Market Demand Schedule.

Now share your information with the other people in your group. Write the name of each member in your group (including your own) in the large box at the top of each column. Using their information and your information, fill out the middle four columns on the chart.

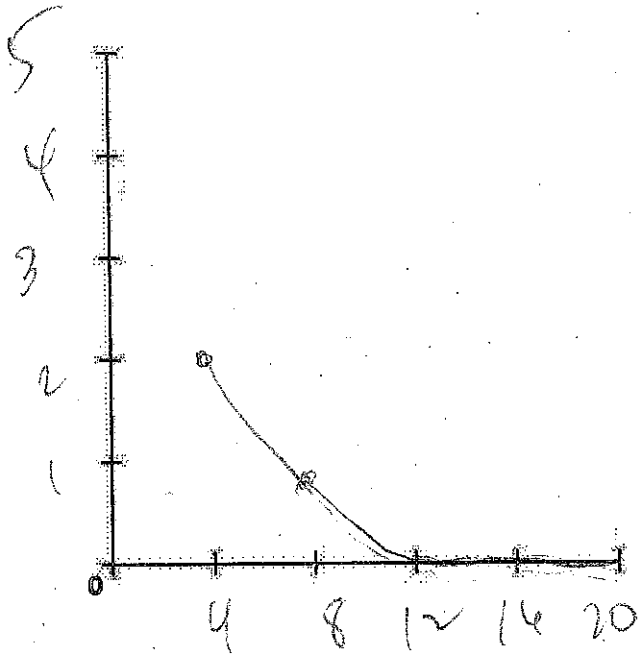
For each row, add up the number of times each person would go to the movies and put the total in the Market Demand Column for that row.

Price of a Movie Ticket	Shauler	You	Yous	Yousms	Market Demand
\$4	2	4	1	0	7
\$8	1	3	1	0	4
\$12	0	2	1	0	3
\$16	0	1	1	0	2
\$20	0	0	1	0	1

The chart you just completed is a **Market Demand Schedule** for your group. It shows your groups demand for movies at the five listed prices.

III. Personal Demand Curve

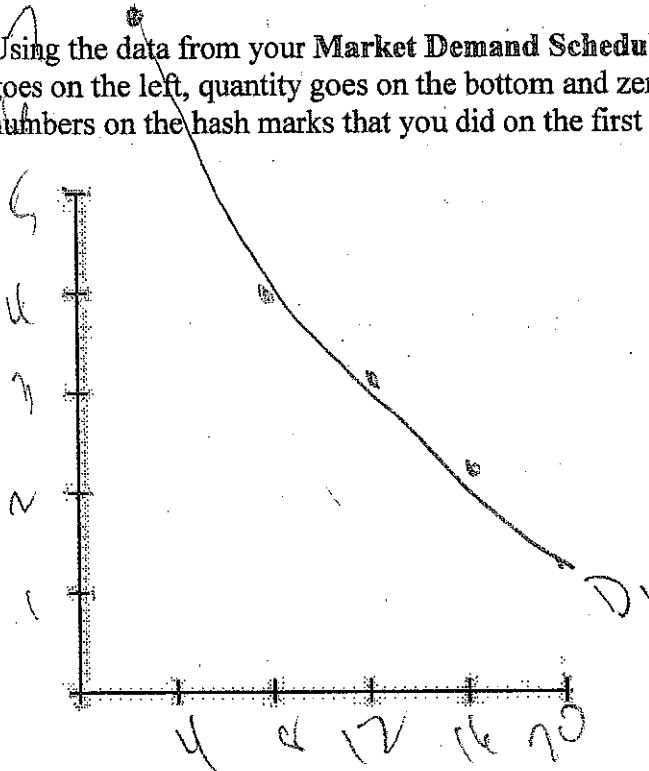
Using the data from your Demand Schedule, fill out the following chart. Remember that price always goes up the left side (the "y" axis) and Quantity always goes along the bottom (the "x" axis). Also remember that zero, always goes in the bottom left corner and remember that the amounts you put at each hash marks must be the same distance apart (i.e - 5, 10, 15, 20, 25 would be okay).



Once you have placed all of the data points, be sure to connect them with a line. You have just made a Demand Curve for your Demand Schedule.

IV. Market Demand Curve

Using the data from your Market Demand Schedule, fill out the following chart. Again remember price goes on the left, quantity goes on the bottom and zero is in the bottom left corner. You must put the same numbers on the hash marks that you did on the first graph.

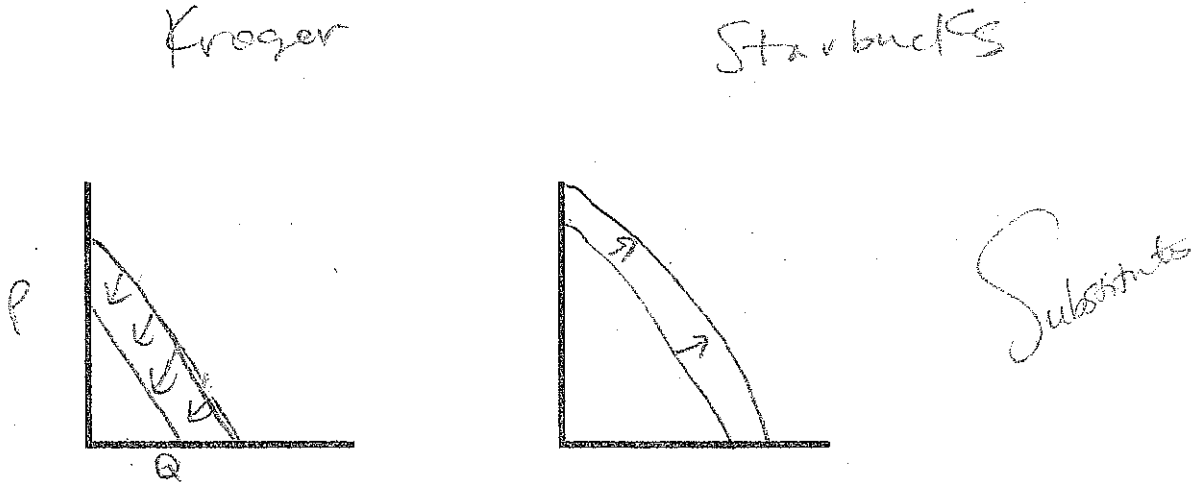


Again, once you have placed all of the data points, be sure to connect them with a line. You have just made a Market Demand Curve for the Market Demand Schedule. How similar is it to your personal one?

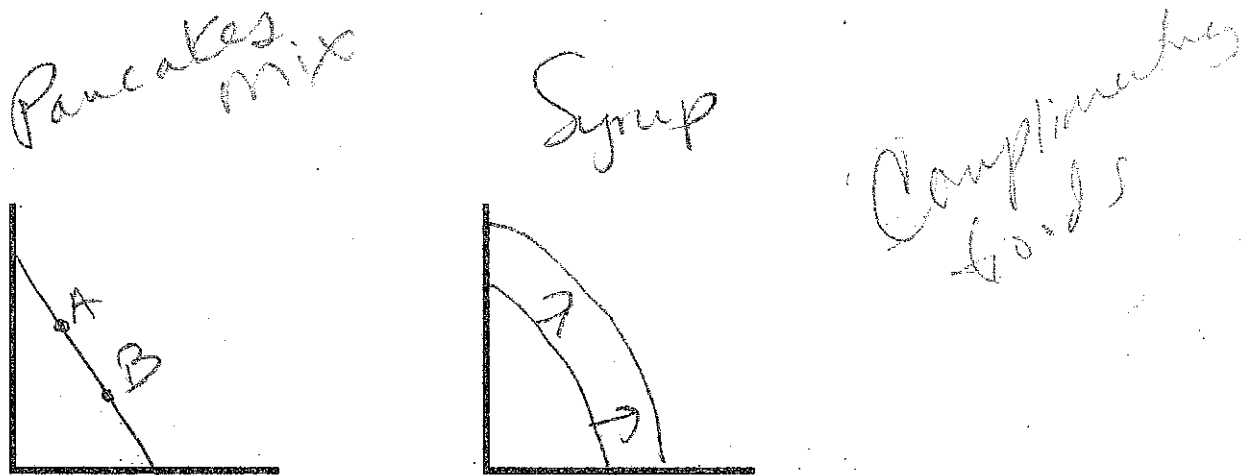
The Determinants of Demand

For each question, describe which of the determinants of demand is being discussed. Then on the graph(s) show how the situation is likely to change demand and/or quantity demanded. Don't forget to label EVERYTHING.

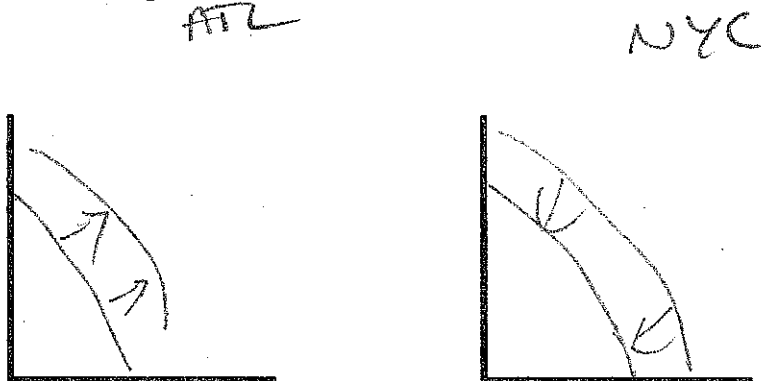
- 1) Brenda gets a promotion and a raise. What is likely to happen to her demand for Starbucks coffee? What about her demand for Kroger Brand Coffee? *Income Effect*



- 2) Publix has a sale on Aunt Jemima pancake mix. The price of syrup remains unchanged.



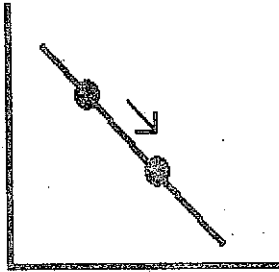
- 3) The Atlanta Journal Constitution reports that the population of Atlanta has increased by 5% this year. The New York Times reports that the population of New York City actually decreased by 5%. Jamil who has a Honda car dealership in both cities wonders how this will affect him.



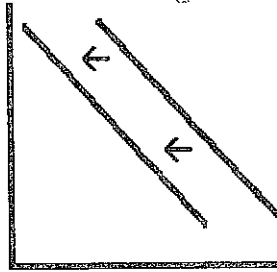
Each question shows either a change in demand and/or a change in quantity demanded. For each question, create a scenario using the indicated determinant of demand that would cause that indicated change. Also add any information to the graph that is missing. Don't forget to label EVERYTHING.

4) Substitute Goods

Steak in fork

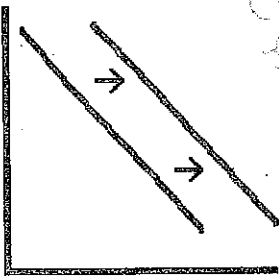


Beef Substitute



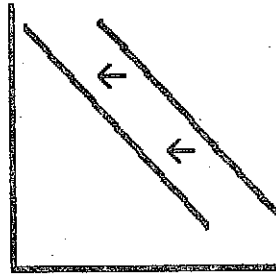
5) Tastes and Preferences

Celebrity Ad for Makeup



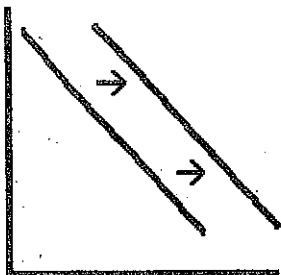
6) Expectation of Future Prices

Shrimp on Sale this coming Sunday



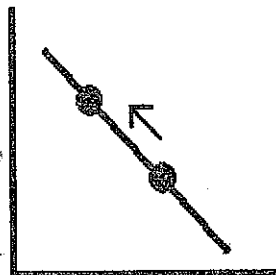
7) Availability of Credit

Fed announces interest rate reduction, credit card companies offer more credit.



8) ?????

Price double cheeseburger goes up at McDonald's.



Demand Work Sheet

Using the law of demand, complete the demand schedules:

1.

	Q
2	
4	
6	
8	
10	
12	

2.

P	
15	
11	
7	
4	
3	
1	

3.

	15
	11
	7
	4
	3
	1

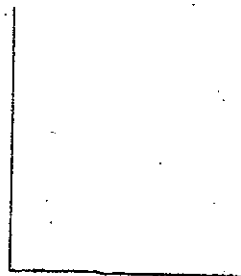
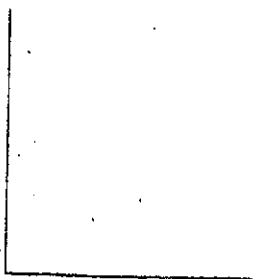
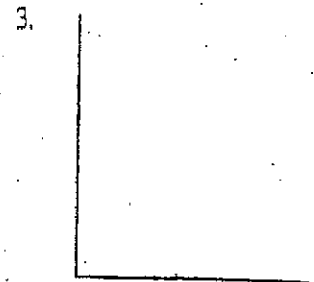
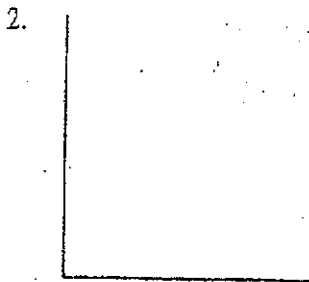
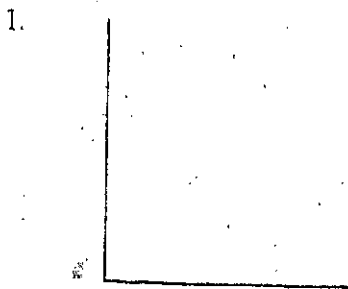
4.

	1
	3
	5
	7
	9
	15

5.

	2
	4
	6
	8
	10
	12

Graph the Demand Schedules

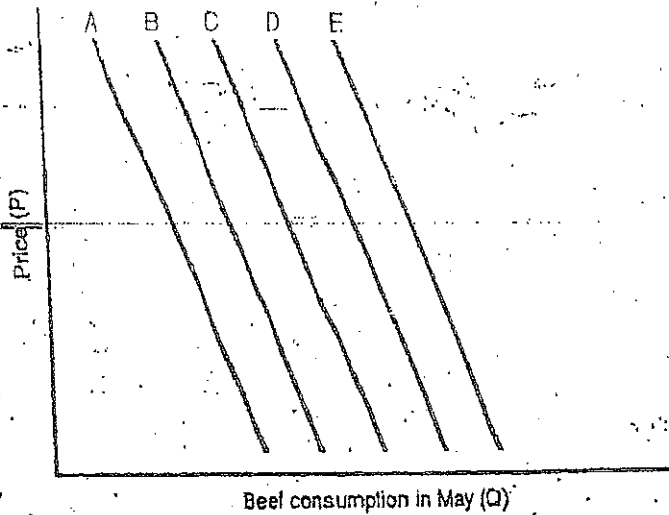


Handout 6-2

REASONS FOR CHANGES IN DEMAND

Name _____

Class _____



Read the following eight newspaper headlines. In each case decide if the event will cause a change in the demand for beef. If so, determine if it is an increase or a decrease, and write the correct answer. Begin at curve C. If you think headline 1 means there will be a decrease in demand, write "decrease" in the first blank and "B" in the second blank; move to curve B to do headline 2. If you think demand will increase, write "increase" and "D" in the blanks for headline 1; move to curve D to do headline 2.

Move only one curve at a time. Do not skip from say A to C even if you think the headline means there will be a large change in demand. Do not go beyond the five curves. If you are at A and the next headline implies a decrease in demand, you goofed somewhere. There is one headline which implies that the demand for beef does not change.

- 1 PRICE OF BEEF TO RISE IN JUNE
Demand increases Curve D
- 2 MILLIONS OF ALIENS SWELL U.S. POPULATION
Demand increases Curve E
- 3 PORK PRICES DROP
Demand decreases Curve D
- 4 SURGEON GENERAL WARNS THAT EATING BEEF CAN BE HAZARDOUS TO HEALTH
Demand decreases Curve C

- 5 MIGRATORY BIRDS HEAD NORTH; SUMMER AWAITS
Demand no change Curve C
- 6 REAL INCOME FOR AMERICANS DROPS 3RD MONTH IN ROW
Demand decrease Curve B
- 7 CHARCOAL SHORTAGE THREATENS MEMORIAL DAY COOKOUTS
Demand decrease Curve A
- 8 NATIONWIDE FAD: THE DISCO-BURGER
Demand increase Curve B

Optional bonus: Categorize each change in demand in the exercise above according to the reason that demand changed. Write the number of the headline(s) next to the reason for the change in demand. One category will have two headline numbers.

- 1 A change in consumer expectations
- 8 A change in consumer tastes
- 3 A change in the number of consumers in the market
- 6 A change in income
- 3 A change in the price of a substitute good
- 7 A change in the price of a complementary good