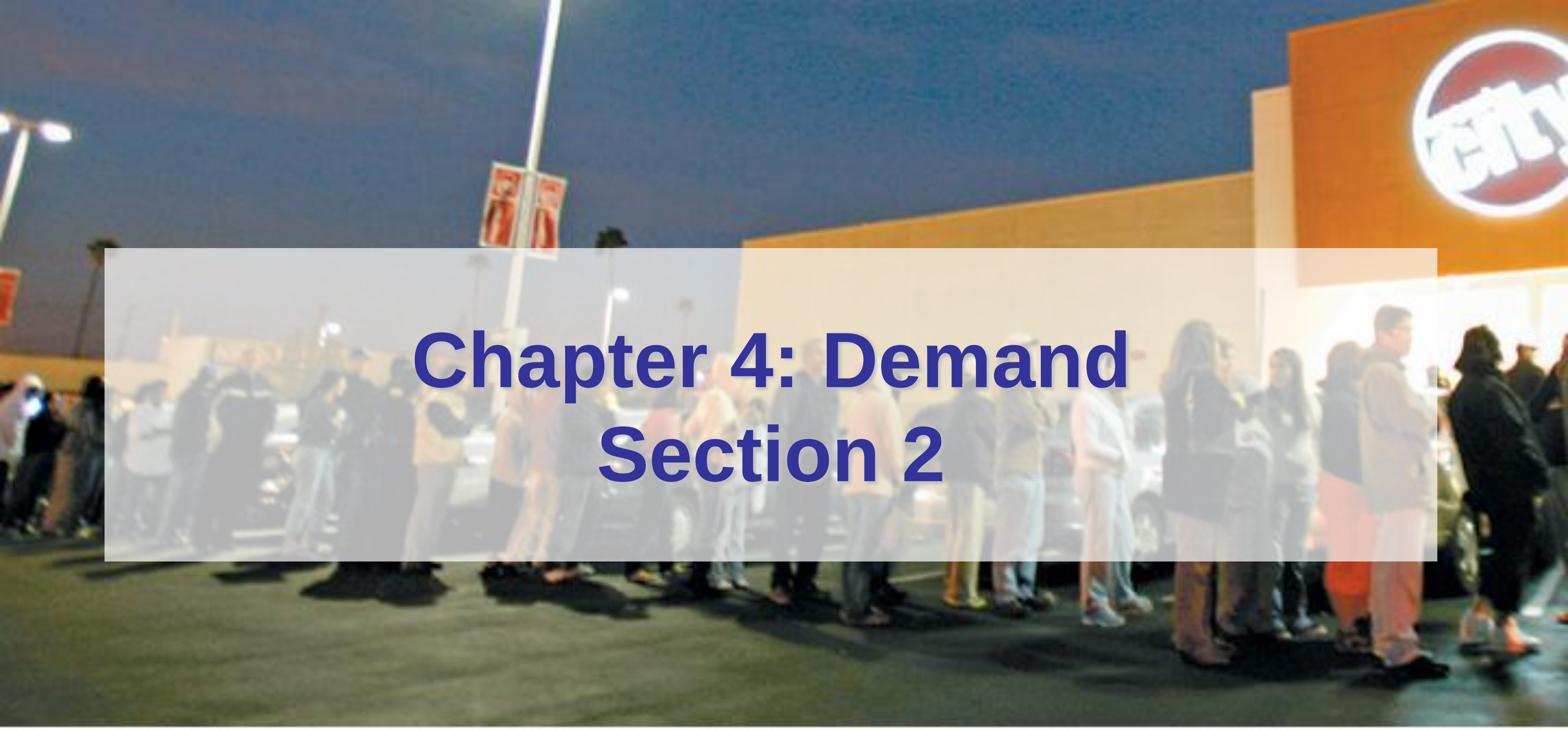
Chapter 4: Demand
Section 2



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Objectives

1. **Explain** the difference between a change in quantity demanded and a shift in the demand curve.
2. **Identify** the factors that create changes in demand and that can cause a shift in the demand curve.
3. **Give an example** of how a change in demand for one good can affect demand for a related good.

Key Terms

- ***ceteris paribus***: a Latin phrase that means "all things held under constraint"
- **normal good**: a good that consumers demand more of when their income increases
- **inferior good**: a good that consumers demand less of when their income increases

Key Terms, cont.

- **demographics**: the statistical characteristics of populations and population segments, especially when used to identify consumer markets
- **complements**: two goods that are bought and used together
- **substitutes**: goods that are used in place of one another

Introduction

- Why does the demand curve shift?
  - Shifts in the demand curve are caused by more than just price increases and decreases. Other factors include:
    - Income
    - Consumer Expectations
    - Population
    - Demographics
    - Consumer Tastes and Advertising

Changes in Demand

- A demand schedule takes into account only changes in price. It does not consider the effects of news reports of any one of the thousands of other factors that change from day to day that could affect the demand for a particular good.

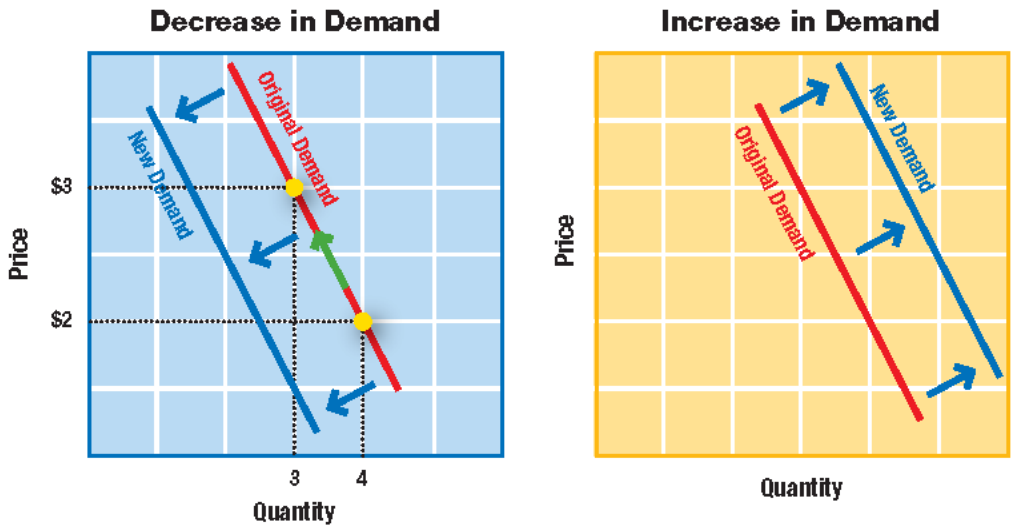
- A demand curve is accurate only as long as there are no changes other than price that could affect the consumer's decision.

Changes in Demand, cont.

- A demand curve is accurate only as long as the *ceteris paribus* assumption—that all other things are held constant—is true.
- When we drop the *ceteris paribus* rule and allow other factors to change, we no longer move along the demand curve. Instead, the entire demand curve shifts.
  - A shift in the demand curve means that at every price, consumers buy a different quantity than before; this shift of the entire demand curve is what economists refer to as a change in demand.

Graphing Changes in Demand

- When factors other than price cause demand to fall, the demand curve shifts to the left. An increase in demand appears as a shift to the right.
  - If the price of a book rose by one dollar, how would you show the change on one of these graphs?



Change in Demand Factors

- Several factors can lead to a change in demand, rather than simply changing the quantity demanded.
- Income
  - Most items that we purchase are normal goods, which consumers demand more of when their income increases.
    - A rise in income would cause the demand curve to shift to the right, indicating an increase in demand. A fall in income would cause the demand curve to shift left, indicating a decrease in demand.

Consumer Expectations

- Checkpoint: How will an anticipated rise in price affect consumer demand for a good?
  - The current demand for a good is positively related to its expected future price.
  - If you expect the price to rise, your current demand will rise, which means you will buy the good sooner.
  - If you expect the price to drop your current demand will fall, and you will wait for the lower price.

Population

- Changes in the size of the population will also affect the demand for most products.
- Population trends can have a particularly strong effect on certain goods.

Demographics

- Demographics are the characteristics of populations, such as age, race, gender, and occupation.
  - Businesses use this data to classify potential customers.
  - Demographics also have a strong influence on packaging, pricing, and advertising.

Demographics, cont.

- Hispanics, or Latinos are now the largest minority group in the United States.
- Firms have responded to this shift by providing products and services for the growing Hispanic population.

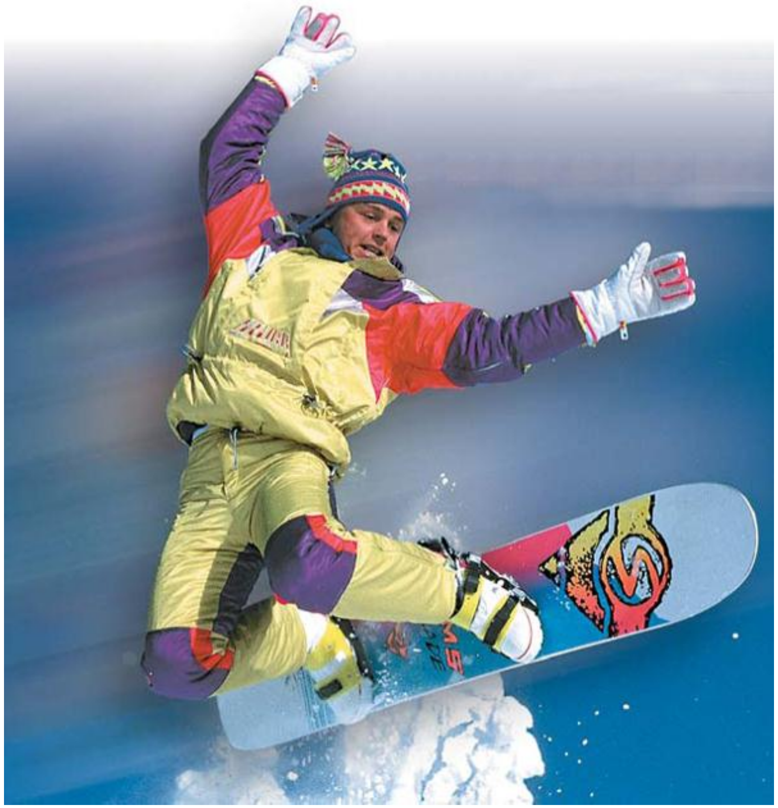
Advertising

- Advertising is a factor that shifts the demand curve because it plays an important role in many trends.

- Companies spend money on advertising because they hope that it will increase the demand for the goods they sell.

Complements and Substitutes

- The demand curve for one good can also shift in response to a change in demand for another good.
- There are two types of related goods that interact this way:
  - Complements are two goods that are bought and used together.
  - Substitutes are goods that are used in place of one another.



Review

- Now that you have learned why the demand curve shifts, go back and answer the Chapter Essential Question.
  - How do we decide what to buy?