SL IB Economics

Your notes

2.1 Demand

Contents

2.1.1 Demand, Price & Quantity

Your notes

Introduction to Demand

- **Demand is the amount of a good/service that a consumer is willing and able to purchase at a given price in a given time period**
  - If a consumer is willing to purchase a good, but cannot afford to, it is not **effective demand**

- A **demand curve** is a graphical representation of the **price** and **quantity demanded (QD)** by consumers
  - If data were plotted, it would be an **actual curve.** Economists, however, use straight lines so as to make analysis easier

- **The law of demand** states that there is an inverse relationship between price and quantity demanded (QD), ceteris paribus
  - When the price rises the QD falls
  - When the price falls the QD rises

Individual and Market Demand

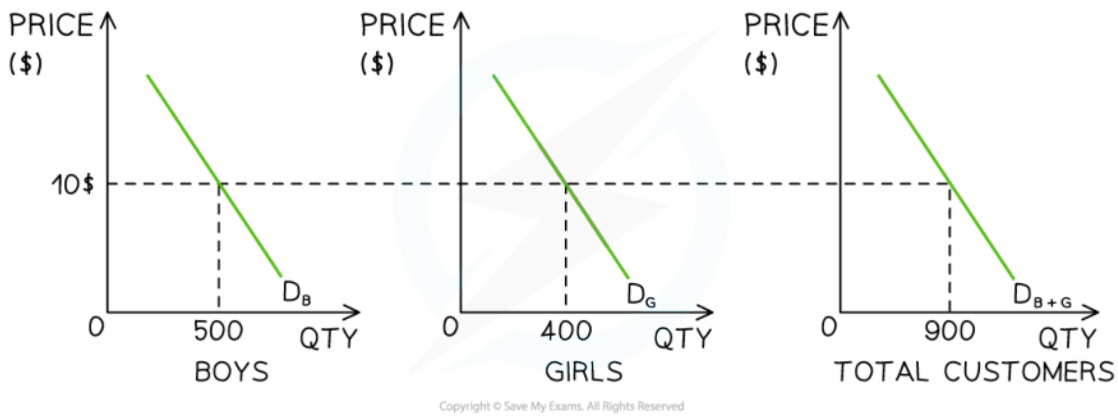
- **Market demand** is the combination of all the **individual demand** for a good/service
  - It is calculated by adding up the individual demand at each price level

The Monthly Market Demand for Newspapers in a Small Village

Customer 1	Customer 2	Customer 3	Customer 4	Market Demand
30	15	4	4	**53**

- **Individual and market demand** can also be represented graphically

Your notes



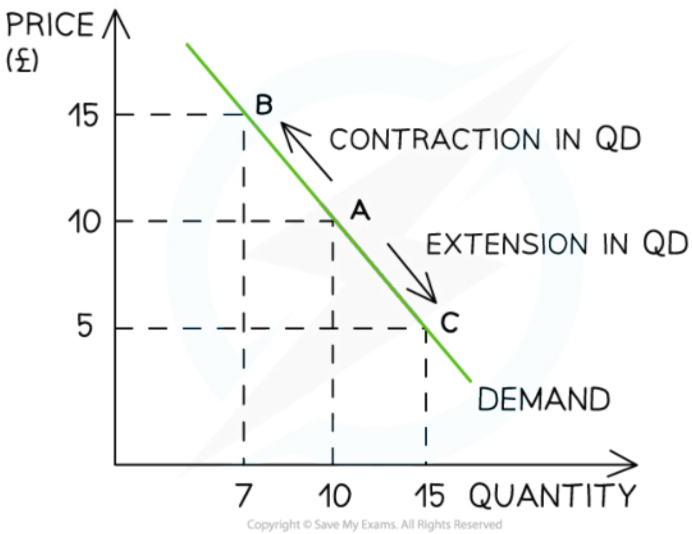
Market demand for children's swimwear in July is the combination of boys and girls demand

Diagram Analysis

- A shop sells both boys and girls swimwear
- In July, at a price of $10, the demand for boys swimwear is 500 units and girls is 400 units
- At a price of $10, the shops **market demand** during July is 900 units

Movements Along a Demand Curve

- If **price** is the only factor that changes (ceteris paribus), there will be a change in the quantity demanded **(QD)**
  - This change is shown by a **movement along the demand curve**



A demand curve showing a contraction in quantity demanded (QD) as prices increase and an extension in quantity demanded (QD) as prices decrease

Diagram Analysis

- An **increase** in price from £10 to £15 leads to a movement **up** the demand curve from point A to B
  - Due to the **increase** in price, the QD has **fallen** from 10 to 7 units
  - This movement is called a **contraction** in QD
- A **decrease** in price from £10 to £5 leads to a movement **down** the demand curve from point A to point C
  - Due to the **decrease** in price, the QD has **increased** from 10 to 15 units
  - This movement is called an **extension** in QD

Your notes

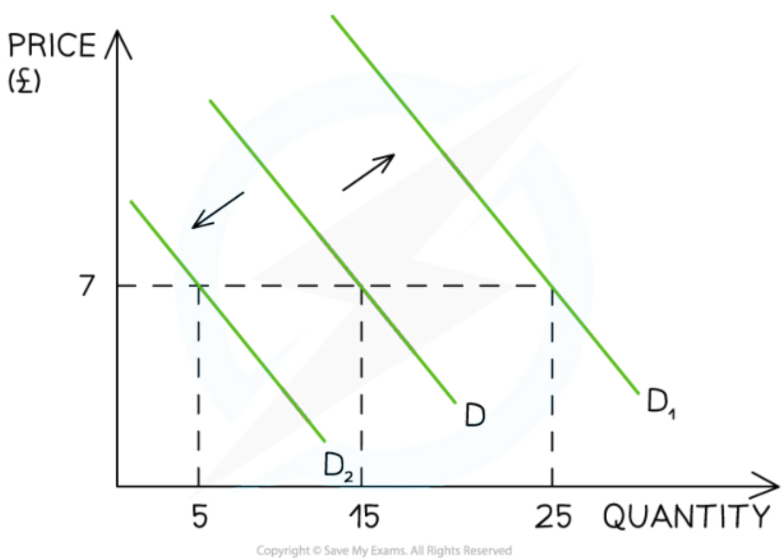
2.1.2 Non-Price Determinants of Demand

Your notes

Shifts of the Demand Curve

- There are numerous factors that will **change the demand** for a good/service, **irrespective of the price level**. Collectively these factors are called the **non-price determinants of demand** and include
  - Changes in real income
  - Changes in tastes/preferences
  - Changes in the price of related goods (substitutes and complements)
  - Changes in the number of consumers
  - Future price expectations

- Changes to each of the non-price determinants, **shifts the entire demand curve** (as opposed to a movement along the demand curve)



A graph that shows how changes to any of the non-price determinants shifts the entire demand curve left or right, irrespective of the price level

- For example, if a firm **increases** their **Instagram advertising**, there will be an **increase in demand** as more consumers become aware of the product
  - This is a **shift in demand** from D to D_1. The price remains unchanged at £7 but the **demand has increased** from 15 to 25 units

An Explanation of how each of the Non-Price Determinants of Demand Shifts the Entire Demand Curve at Every Price Level

Non-Price Determinant	Explanation	Condition	Shift	Condition	Shift
Changes in real income	▪ Real Income determines how many goods/services can be enjoyed by consumers ▪ There is a **direct** relationship between income and demand for **goods/services**	Income Increases	D Increases Shifts Right ($D \rightarrow D_1$)	Income Decreases	D Decreases Shifts Left ($D \rightarrow D_2$)
Changes in taste/preferences	▪ If goods/services become more **preferable** then **demand** for them increases ▪ There is a **direct relationship** between changes in **taste/preferences** and **demand** ▪ **Advertising or branding** can change tastes/preferences	Good becomes more preferable	D Increases Shifts Right ($D \rightarrow D_1$)	Good becomes less preferable	D Decreases Shifts Left ($D \rightarrow D_2$)
Changes in the prices of substitute goods **(Related goods)**	▪ Changes in the price of substitute goods will influence the demand for a product/service ▪ There is a **direct relationship** between the **price of good A** and **demand for good B** ▪ E.g. The price of a Sony 60" TV (good A) increases so the **demand** for LG 60" TV (good B) increases	Price of Good A Increases	D for Good B Increases Shifts Right ($D \rightarrow D_1$)	Price of Good A Decreases	D for Good B Decreases Shifts Left ($D \rightarrow D_2$)
Changes in the prices of complementary goods **(Related goods)**	▪ Changes in the price of complementary goods will influence the demand for a product/service ▪ There is an **inverse relationship** between the **price of good A** and **demand for good B** ▪ For example, the price of printer ink (good A) increases	Price of Good A Increases	D for Good B Decreases Shifts Left ($D \rightarrow D_2$)	Price of Good A Decreases	D for Good B Increases Shifts Right ($D \rightarrow D_1$)

Your notes

	so the **demand** for ink printers (good B) decreases				
Changes in the number of consumers	▪ If the **population size** of a country changes over time, then the **demand** for goods/services will also change ▪ There is a **direct relationship** between the changes in population size and demand ▪ Demand will also change if there is a change to the **age distribution** in a country as different ages **demand different goods/services** e.g an ageing population will buy more hearing aids	Population Increases	**D Increases Shifts Right (D→D_1)**	Population Decreases	**D Decreases Shifts Left (D→D_2)**
Future price expectations	▪ If consumers **expects the price** of a good/service to **increase** in the future, they will purchase it now and demand will increase ▪ If consumers **expects the price** of a good/service to **decrease** in the future, they will wait to purchase it later and demand will decrease	Expectations price will rise	**D Increases Shifts Right (D→D_1)**	Expectations price will fall	**D Decreases Shifts Left (D→D_2)**

Your notes

Examiner Tip

The difference between a **movement along the demand curve** and a **shift in demand** is essential to understand. You will be repeatedly examined on this and it is important that you use the **correct language** to show that you understand the difference between **a change in quantity demanded** and a **change in demand.**

When **price changes** (ceteris paribus), there is a movement along the demand curve resulting in a change to **quantity demanded**. When a **non-price determinant of demand changes,** there is a shift of the entire demand curve resulting in a **change to demand.**