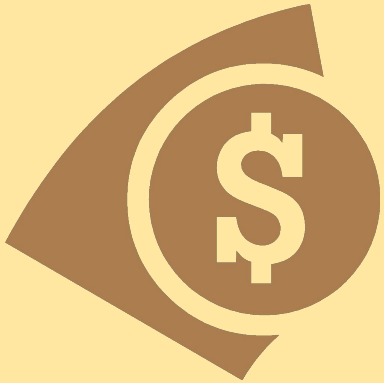
NIS

DEMAND

11.2A

Lesson 1



Learning Objectives

(1 min)

By the end of the lesson the learners will be able to :

- Define and understand the terms
  - Demand
  - Movement along and shift in the demand curves
  - Substitute goods
  - Complementary goods.
- Analyse and apply the concept to real world situation .

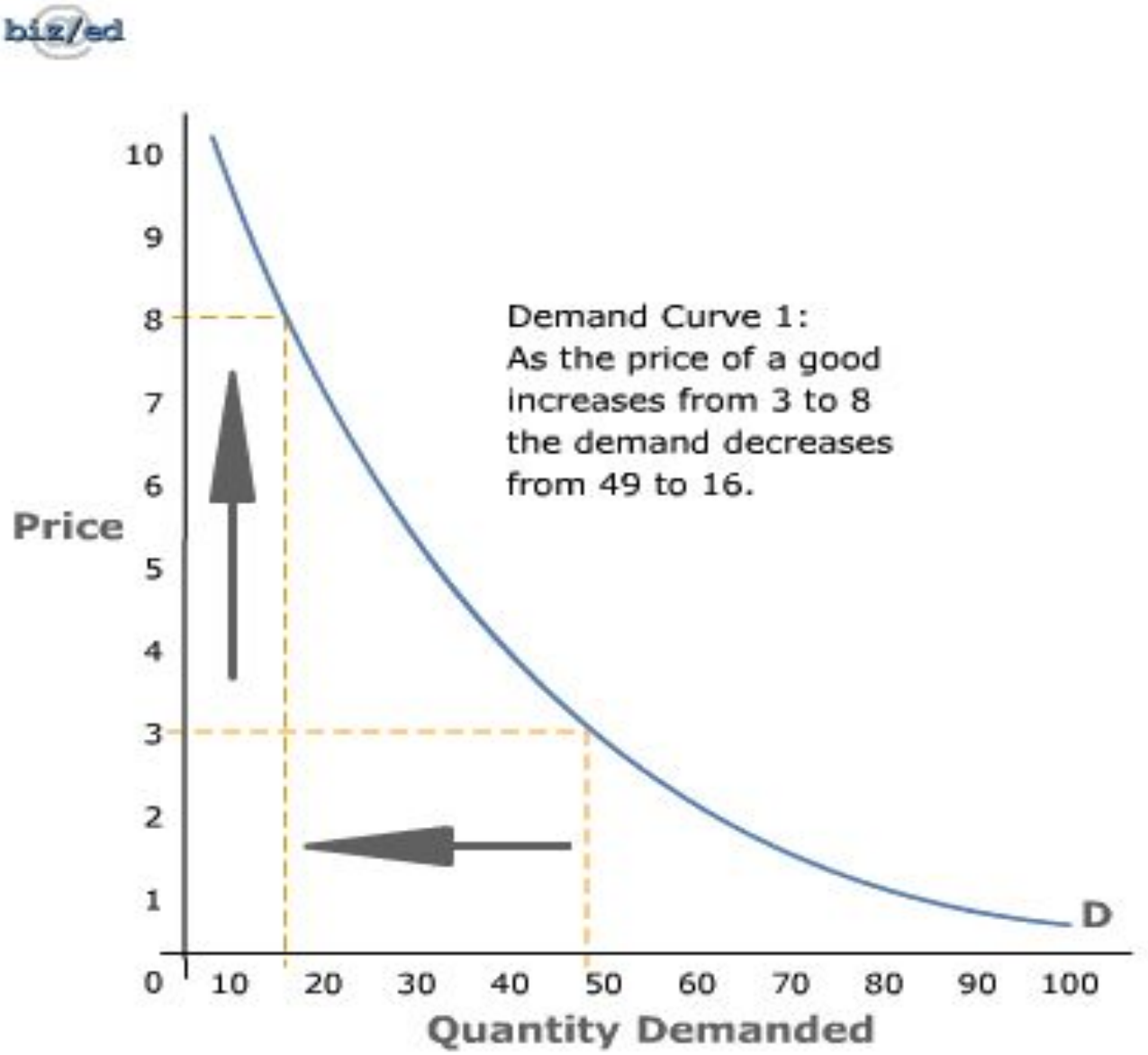
Demand

Willingness to Buy
Ability to Pay

Demand Schedule

PRICE ($)	Quantity Demanded for Eggs
10	5
9	14
8	16
7	22
6	26
5	32
4	42
3	49
2	62
1	80

Downward slope of Demand Curve



Law of Demand: The negative relationship between the price of a good and the quantity demanded, when all other factors that influence demand are held fixed.

Reason for Downward Sloping Demand Curve

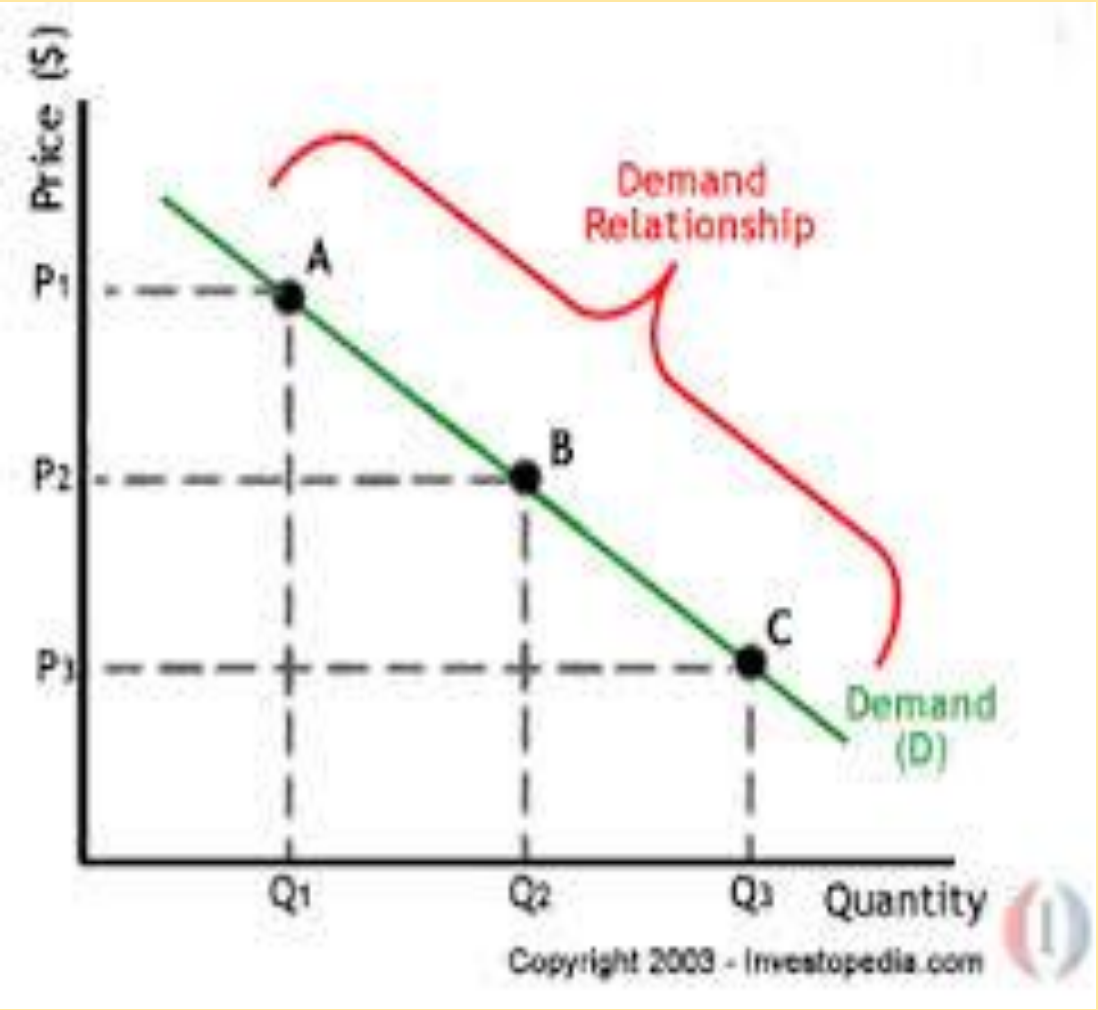
Income and substitution effects

The negative slope of the demand curve is due to the substitution and income effects.

If the relative price of a good falls consumers will substitute that good for more expensive goods -that will buy more of the good whose relative price has fallen and less of the other goods. This is the **substitution effect.**

When the relative price of a good falls the consumer can buy the same bundle of goods as before the price decline and have some money left over. This money can be used to purchase more of all his consumption goods. In other words his purchasing power is called the **income effect**

Movement along the Demand Curve



Movement along the Demand curve is due to the change in price only. Other factors are kept constant .

Movement from **Point A to B**: Extension in Demand/Increase in Quantity Demanded - P ↓ QD ↑

Movement from **Point C to B**: Contraction in Demand/Decrease in Quantity Demanded - P ↑QD ↓

Shift in Demand

PINTE:

P = Price of the related goods

I = Income of the consumer

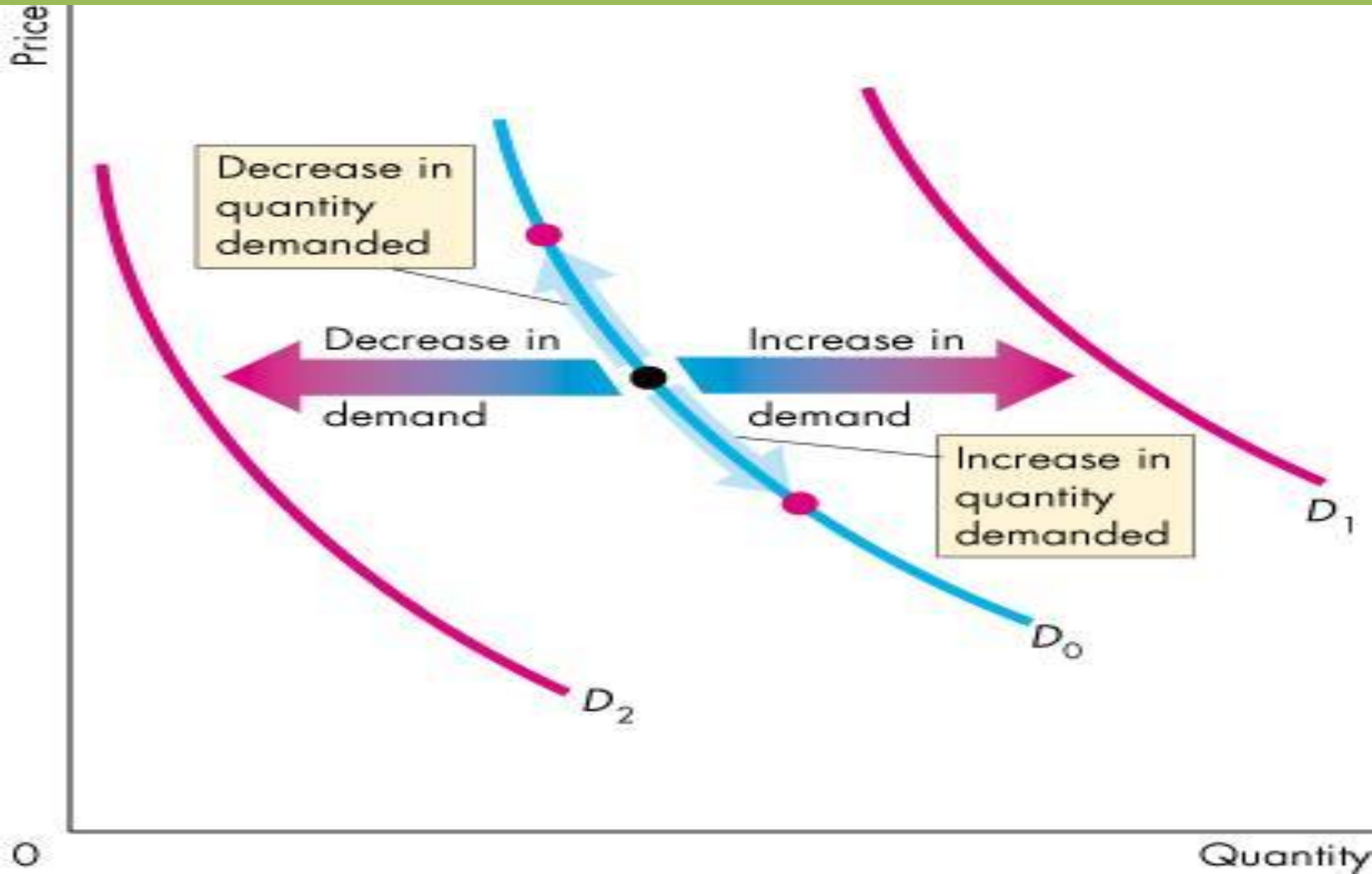
N = Number of buyers

T = Taste & Preference

E = Expectation of price in future

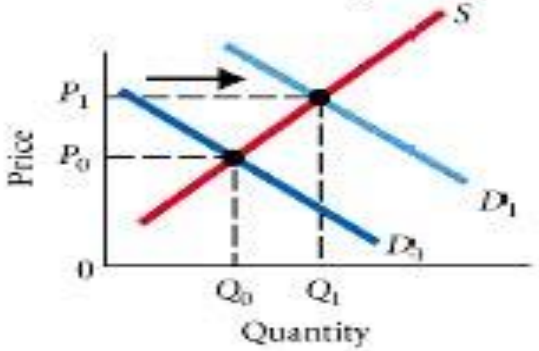
Identify from the following: Normal & Inferior Goods ; Complementary & Substitute Goods

Shifts in Demand Curve

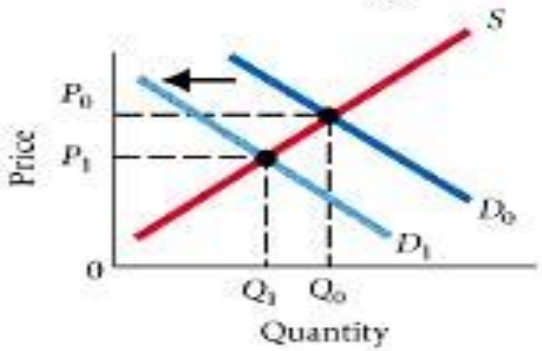


a. Demand shifts

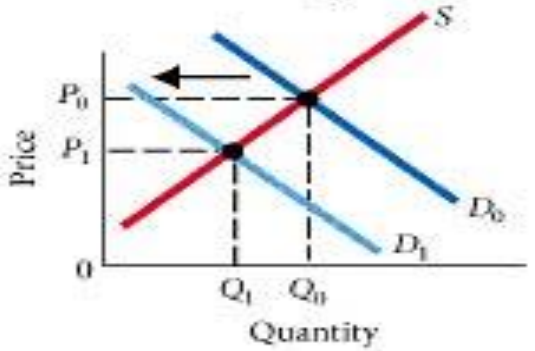
1. Increase in income: X is a normal good



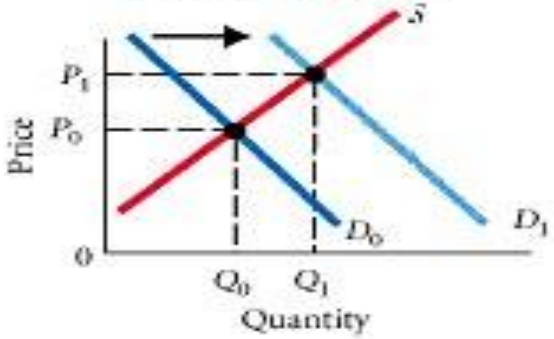
2. Increase in income: X is an inferior good



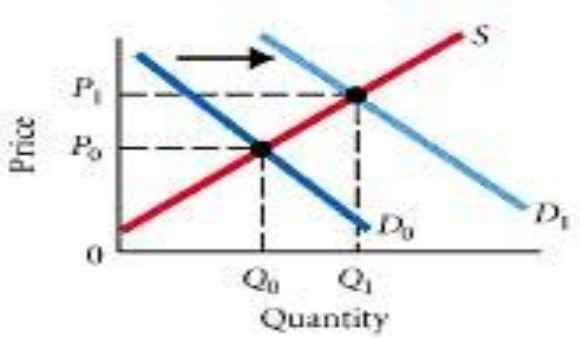
3. Decrease in income: X is a normal good



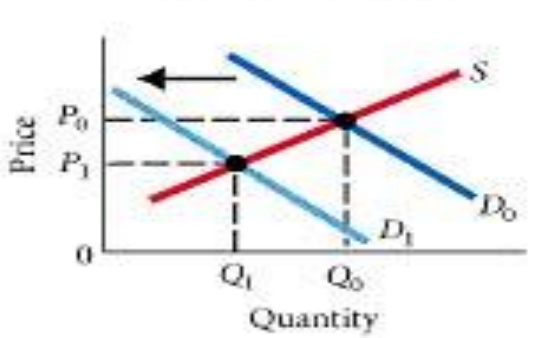
4. Decrease in income: X is an inferior good



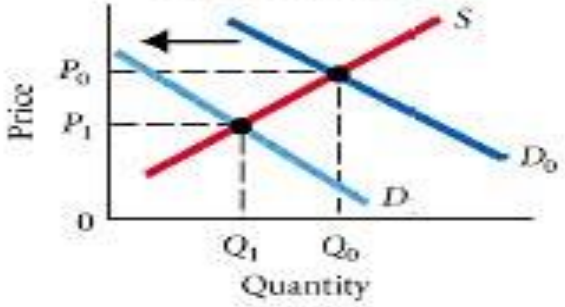
5. Increase in the price of a substitute for X



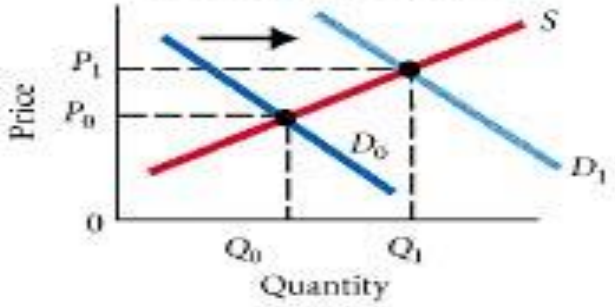
6. Increase in the price of a complement for X



7. Decrease in the price of a substitute for X



8. Decrease in the price of a complement for X



Recap of Today's Lesson

Reflection

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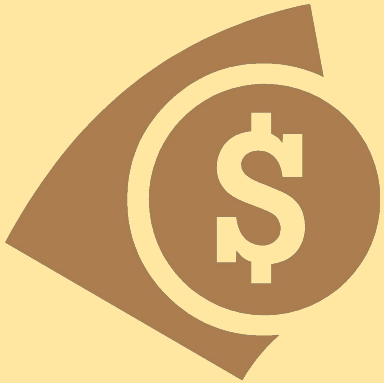
Lesson 2



Learning Objectives

(1 min)

By the end of the lesson the learners will be able to :

- Define and understand the terms
  - ❖ Demand Function
  - ❖ Plot demand curve with the help of a given equation
- Analyse and apply the concept to real world situation .

Demand Function

Indirect relationship between Price and Quantity Demanded

QD P

Equation:

$Q_d = a - bP$

Q_d = quantity of a good demanded

P is the price of the good

a = vertical intercept (Max QD)

b = the slope of the demand curve

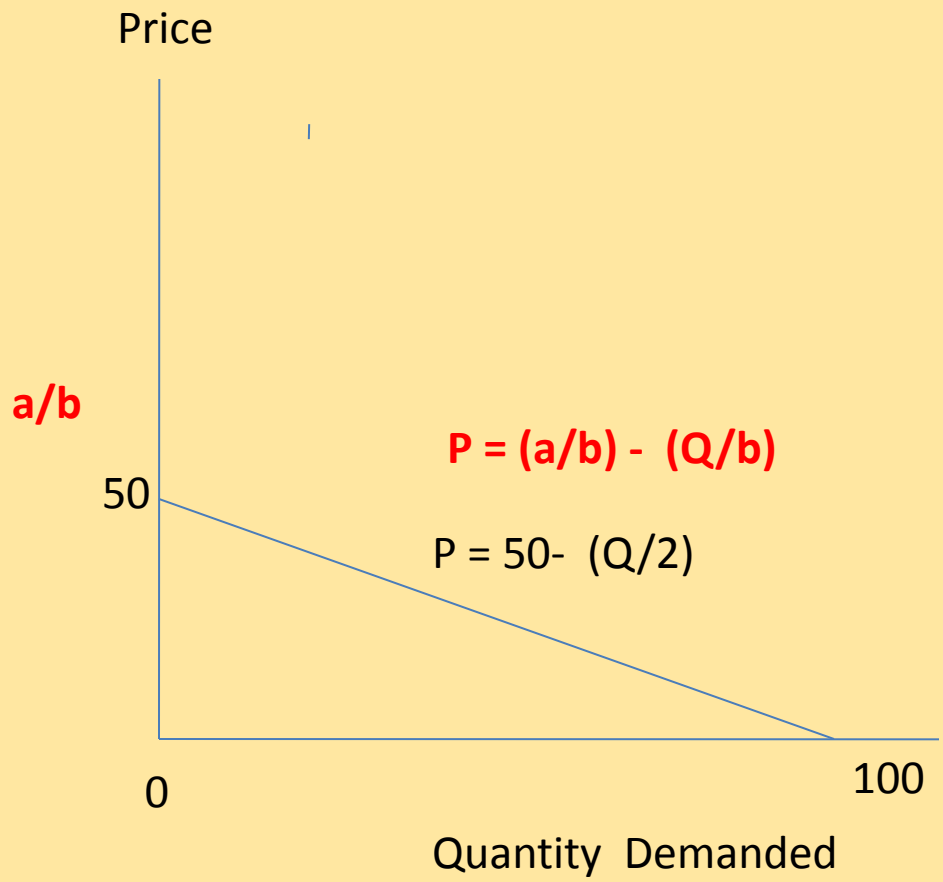
$P = (a/b) - (Q/b)$

Example

Demand: Q = 100 -2P
Inverse Demand: P = 50 – (Q/2)

- **The vertical intercept** is therefore 50 and represents the Price

- **The horizontal intercept** is therefore 100 , and represents the amount of the good the consumer would want to purchase at a price of 0.



Demand: Q = a – bP
Inverse Demand: P = (a/b) – (Q/b)

In-class activity

Use the linear demand function for cappuccinos, **Qd = 500 – 25P** to answer the questions that follow:

- Create a demand schedule for cappuccinos with the prices of $0, $1, $3, $5, $7 and $9
- Create a demand curve for cappuccinos, plotting the points from your demand schedule.
- Assume the price of latte machiatos, a close substitute for cappuccinos, decreases, and causes the *a* variable in the demand function to fall to 300. Create a new demand schedule, with the adjusted values for Qd.
- On your previous diagram, illustrate the new demand curve.
- Assume that due to falling incomes, cappuccino consumers become more sensitive to changes in the price of cappuccinos, and the *b* variable in the original demand function increases to 40. Using the same prices, create a new demand schedule.
- On the same graph as your original demand curve, illustrate the new demand for cappuccinos following the decline in consumers' incomes.

Recap of Today's Lesson

Reflection