

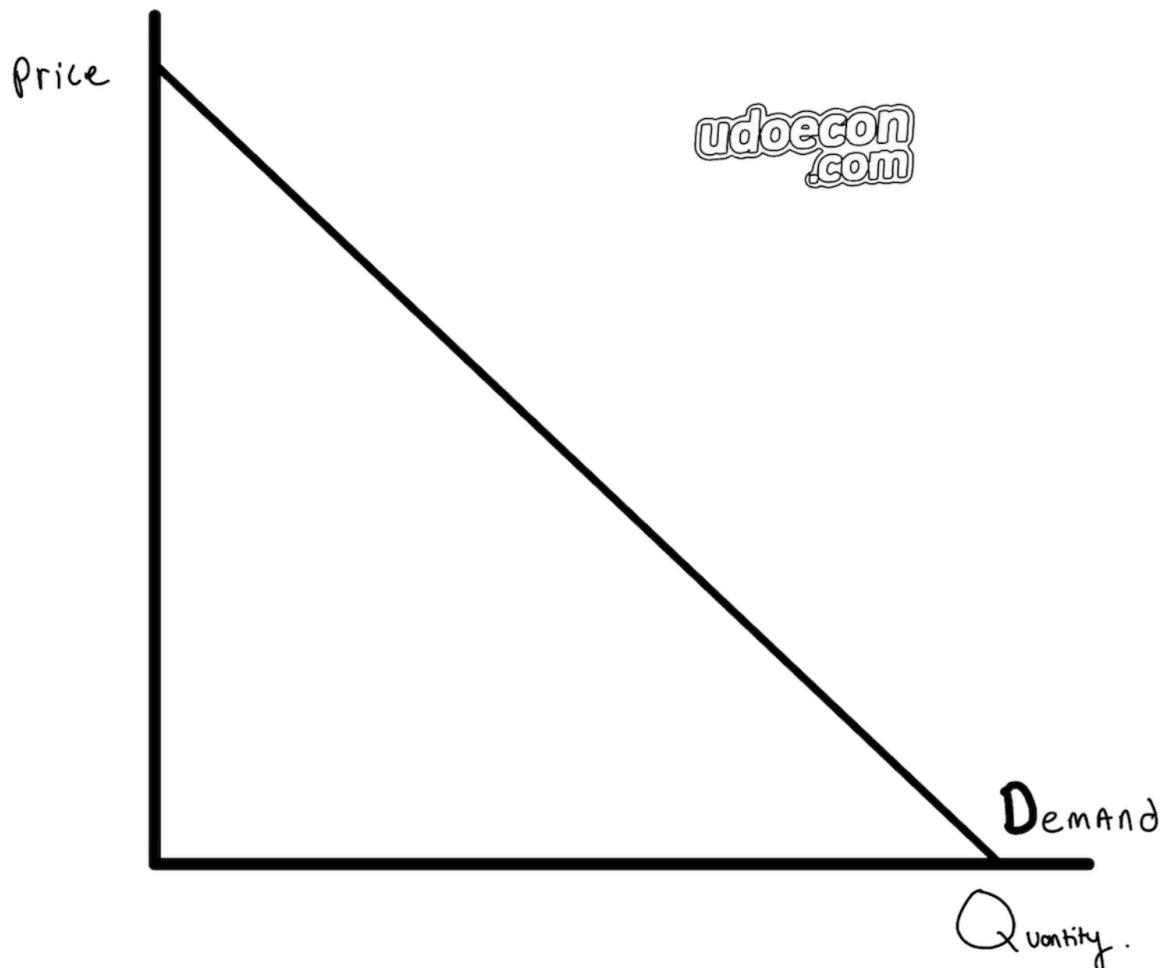
Demand: the core idea

Demand is the willingness and ability to purchase a good .

In exams, you usually need to show two things: why demand slopes down, and whether a change causes a movement along the curve or a shift of the curve.

The demand curve (D)

The law of demand states there's an inverse relationship between price and quantity demanded; as price increases, quantity demanded decreases, and vice versa. A great way to never mix the demand and supply curve up is that the **Demand Curve is Downwards** sloping



Some Reasons why Demand Slopes Downwards

Written by udoecon.com

Substitution effect

When the price of a good rises, it becomes **less attractive compared to substitutes**, so people switch away.

Example: If Coke gets more expensive, some people buy Pepsi instead.

So **higher price** → **lower quantity demanded**.

Diminishing marginal utility

Utility is the satisfaction from consuming a good or service.

Marginal utility is the change in utility from consuming one more unit.

As you consume more of a good, each extra unit gives **less extra satisfaction**.

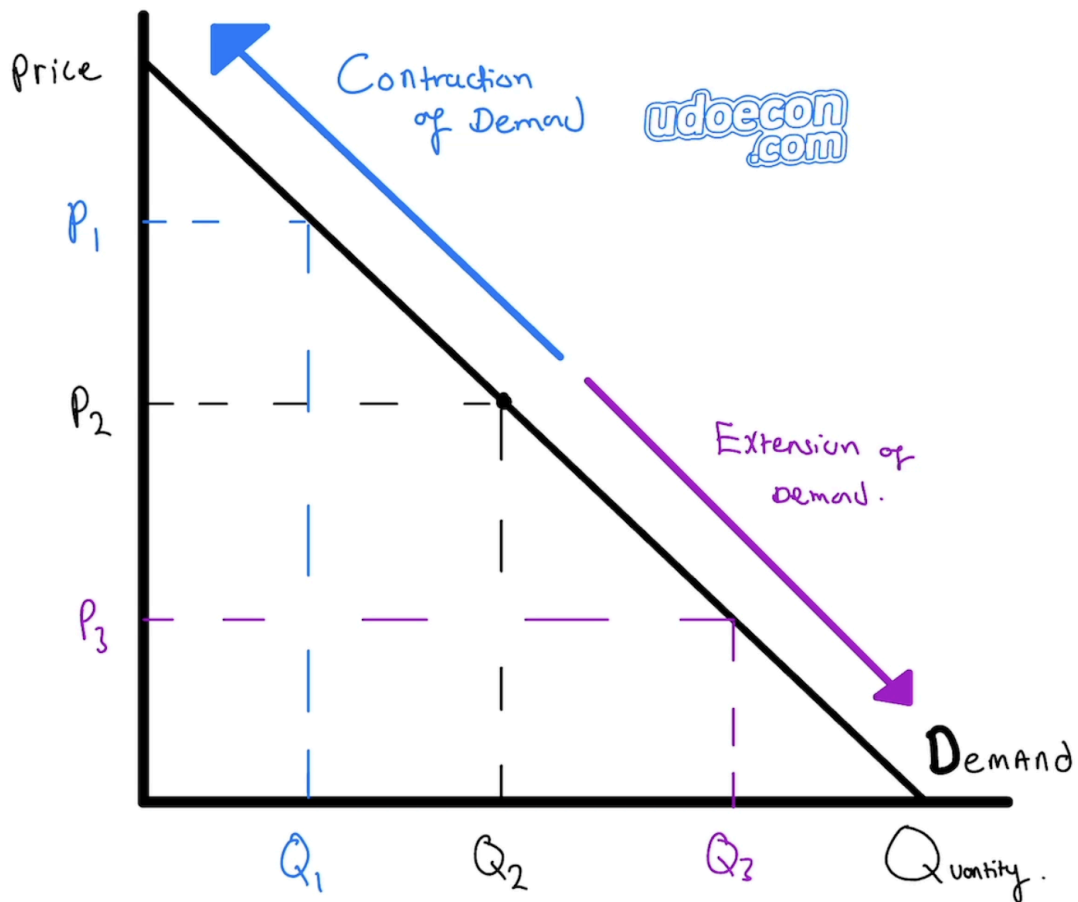
Example: The first slice of pizza is great, the fourth is “meh”.

So to convince you to buy **more units**, the price usually has to **fall**.

That also gives **higher price** → **lower quantity demanded**.

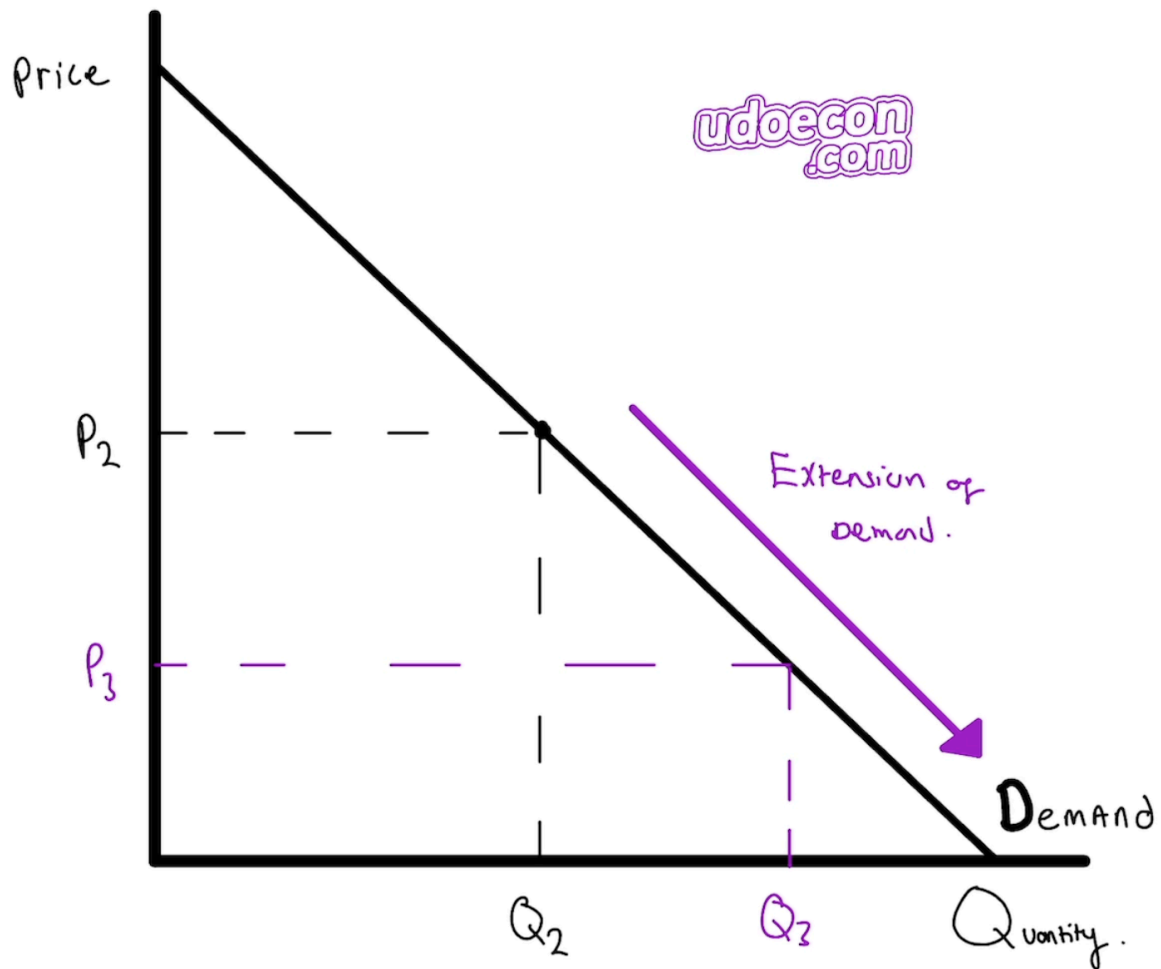
Price changes: movement along the demand curve

If the price of the good itself changes, you move along the demand curve. The curve does **not** shift in this case. Very heavily assessed early in year 12 and a common mistake by students , price changes only cause a movement **ALONG** the demand curve **not** a shift ! These 2 movements along the demand curve are called Extension vs Contraction .



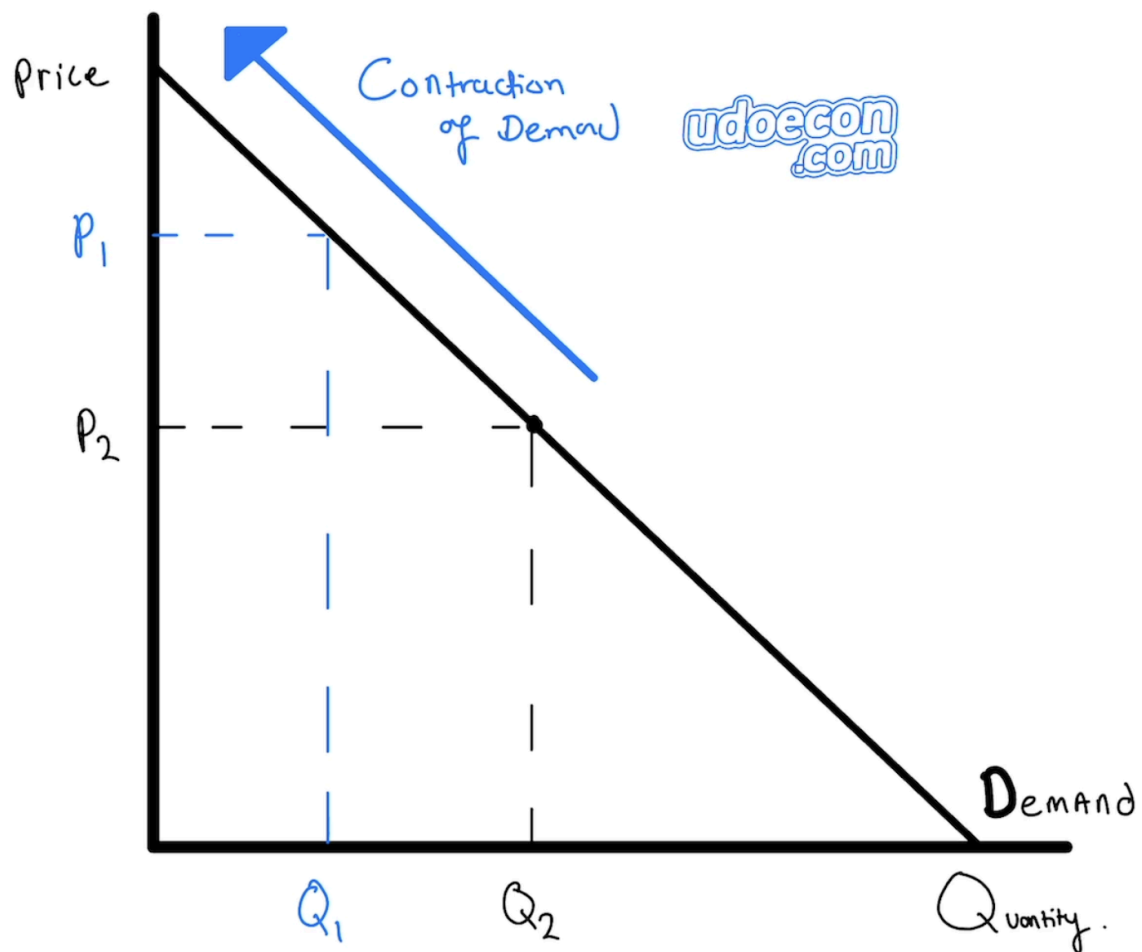
Extension In Demand (Including Diagrammatic Analysis)

A fall in price causes an extension of demand, meaning Q_d increases. This can be seen on the diagram when price falls from P_2 to P_3 meaning quantity demanded increases from Q_2 to Q_3



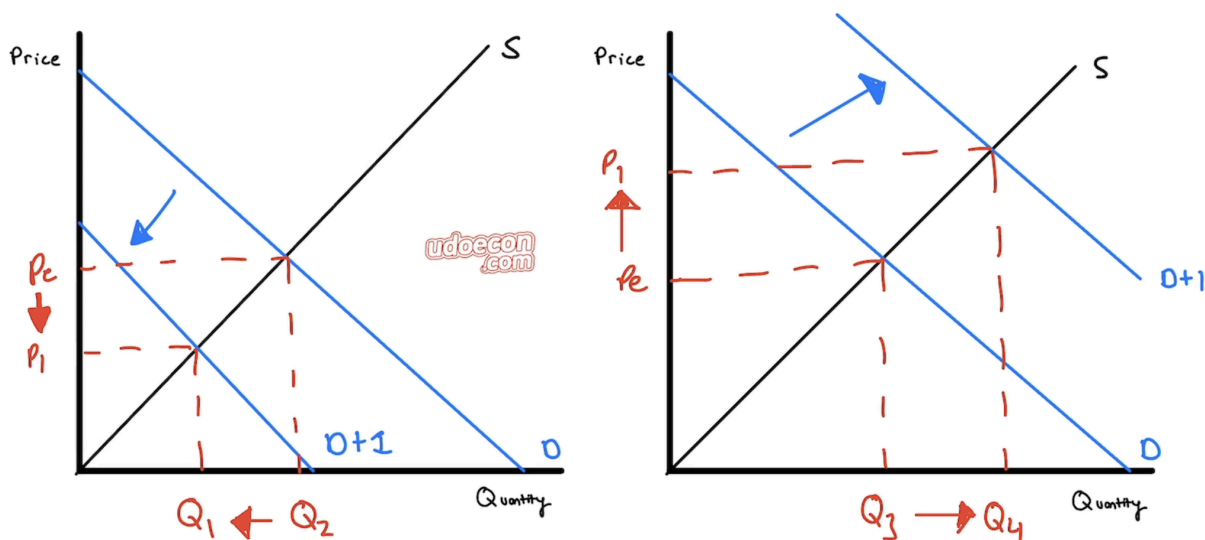
Contraction In Demand (Including Diagrammatic Analysis)

On the other hand a rise in price causes a contraction of demand, meaning Q_d decreases . This can be seen on the diagram when price rises from P_2 to P_1 meaning quantity demanded decreases from Q_2 to Q_1 .



Non-price changes: shifts in demand (change in demand)

If something other than the good's own price changes, the entire demand curve shifts. A shift means that at every price, consumers now demand more or less than before. As we can see on the left, demand is shifting inwards from D to $D+1$ which therefore leads to a decrease in equilibrium price from P_e to P_1 and Quantity from Q_2 to Q_1 . On the right we can see demand shifting outwards from D to $D+1$, thus pulling up the equilibrium price from P_e to P_1 and quantity increasing from Q_3 to Q_4 .



Population size and demographics

More consumers can increase demand, shifting it right. Demographic change can also shift demand for specific goods depending on who is growing as a group.

For Example (Some great real world application to include in your essays!) . The UK is currently suffering from an ageing population crisis e.g around 20% of the uk's population is 65+ - one in five people ! This will therefore increase demand for goods/services such as healthcare - leading to a significant strain on the NHS , social care e.g care homes , demand for certain goods e.g wheelchairs etc

Income (Y)

Normal Goods = As incomes rise , demand increases . As incomes fall , demand decreases

Inferior Goods = As incomes rise , demand falls . As incomes fall , demand rises .

Easiest way to remember this is Heinz Baked Beans vs Aldi Own Branded Baked Beans . So when incomes rise people demand more Heinz (Normal Good) whereas when incomes fall individuals substitute away from Heinz Baked beans and switch to Aldi own branded baked beans (Great evaluation point to think about here is questioning how close substitutes these 2 goods really are ?)

- Normal good: income rises → demand shifts right
- Inferior good: income rises → demand shifts left

prices of Related goods

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Related goods affect demand through substitutes and complements.

Substitutes = goods/services that can be used instead of each other. If the price of one rises, demand for the other tends to rise (e.g. Coke and Pepsi).

Complements = goods/services that are used together. If the price of one rises, demand for the other tends to fall (e.g. printers and ink cartridges).

- Substitutes: price of a substitute rises → demand for this good shifts right
- Complements: price of a complement rises → demand for this good shifts left

Advertising and branding

Effective advertising can increase awareness and perceived value. This can shift demand to the right.

Tastes, fashion, and preferences

If a product becomes more popular, demand shifts right. If it goes out of favour, demand shifts left. For Example Fidget Spinners in 2017 .

Expectations

If consumers expect prices to rise in the future, they may buy now, shifting demand right today. If they expect prices to fall, demand may shift left.

Most my students would use the **PIRATE** Acronym to help them remember these non price factors that shift the demand curve .