



# Demand

BECO-3310 Fall 2025

# Incentives

- Rewards and penalties that motivate behavior.
  - If the benefit of doing something increases, people will do more of it.
  - If the cost of doing something increases, people will do less of it.
  - If the price of a good rises, consumers will want to buy less of it and producers will want to make more of it.
- People respond to incentives!

# The Price System

- Prices communicate information!
- They help us to make use of others knowledge and make known relative scarcities.
- By economizing on this information, a well-functioning price system helps resources move in the right direction to meet the supply & demand conditions.

# Supply and Demand

- The two big forces that make the market economy work.
- Refer to the behavior of people as they interact with each other in competitive markets.



# Supply and Demand

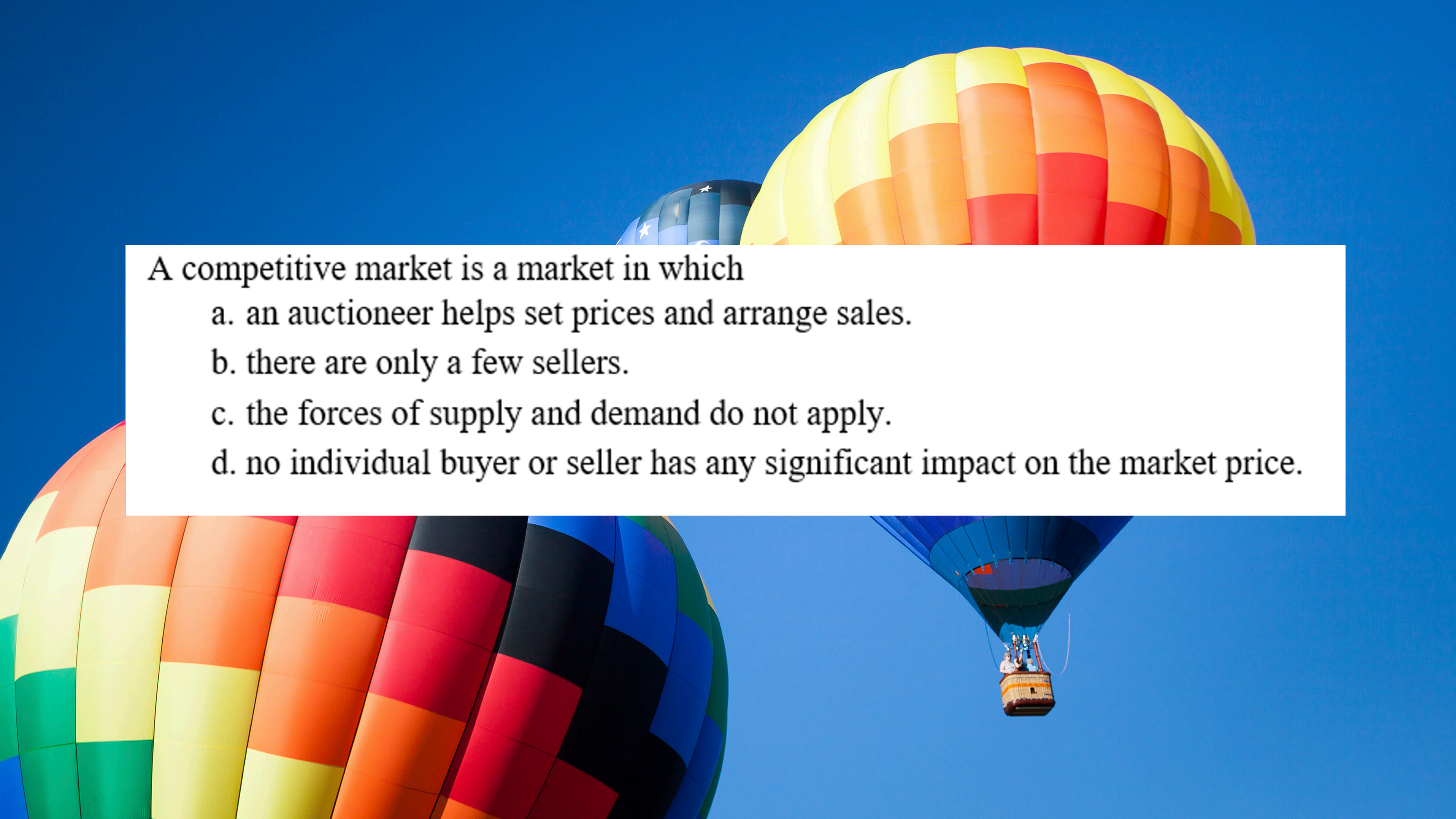
- The two big forces that make the market economy work.
- Refer to the behavior of people as they interact with each other in competitive markets.

Not really a fight!



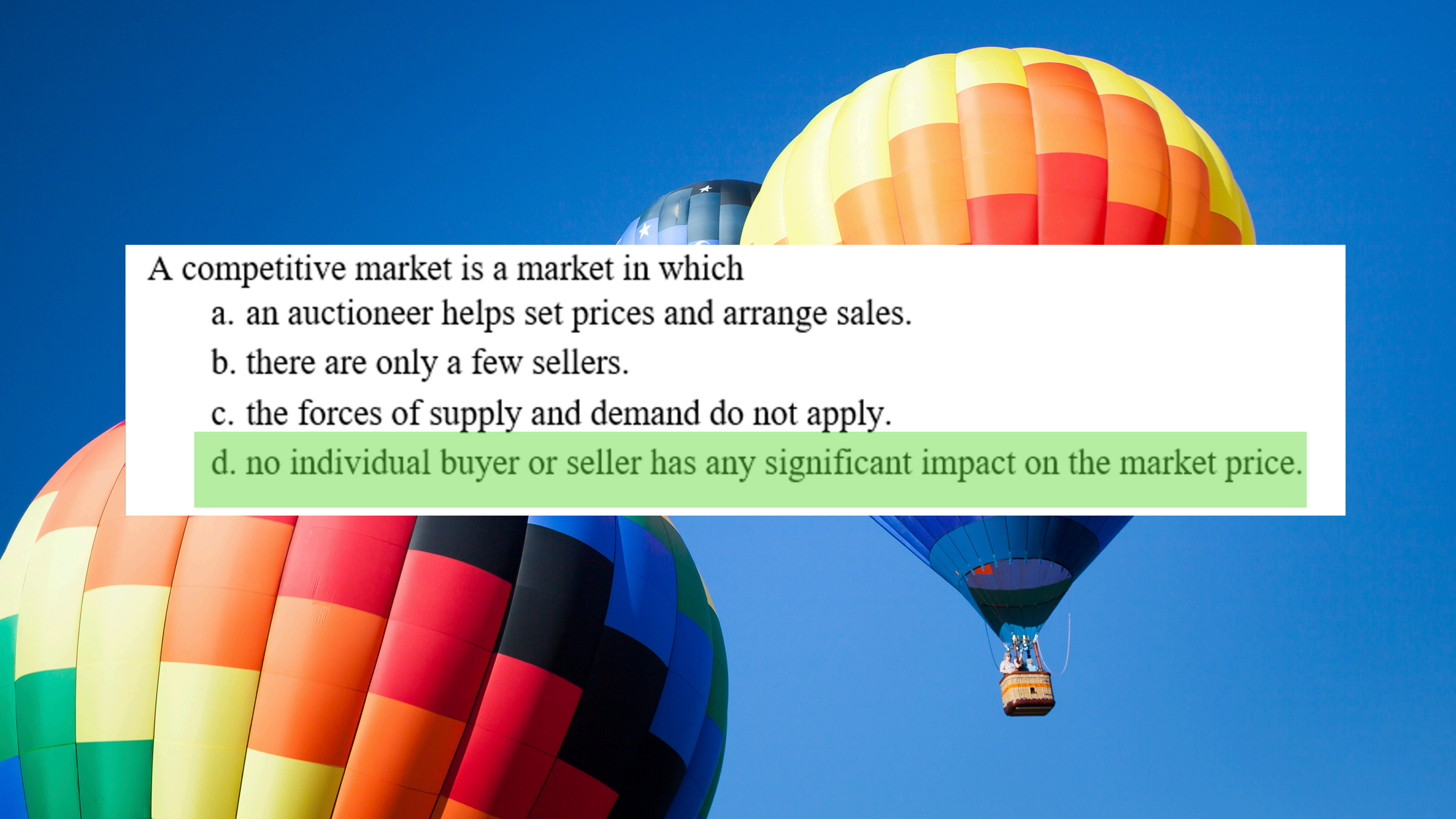
# The competitive market

- A market in which there are many buyers & sellers so that each individual buyer or seller has no impact on price.
- The price & quantity are determined by all buyers & sellers as they interact in the market.
- Today, we're focusing on one side of the market, the Demand.



A competitive market is a market in which

- a. an auctioneer helps set prices and arrange sales.
- b. there are only a few sellers.
- c. the forces of supply and demand do not apply.
- d. no individual buyer or seller has any significant impact on the market price.



A competitive market is a market in which

a. an auctioneer helps set prices and arrange sales.

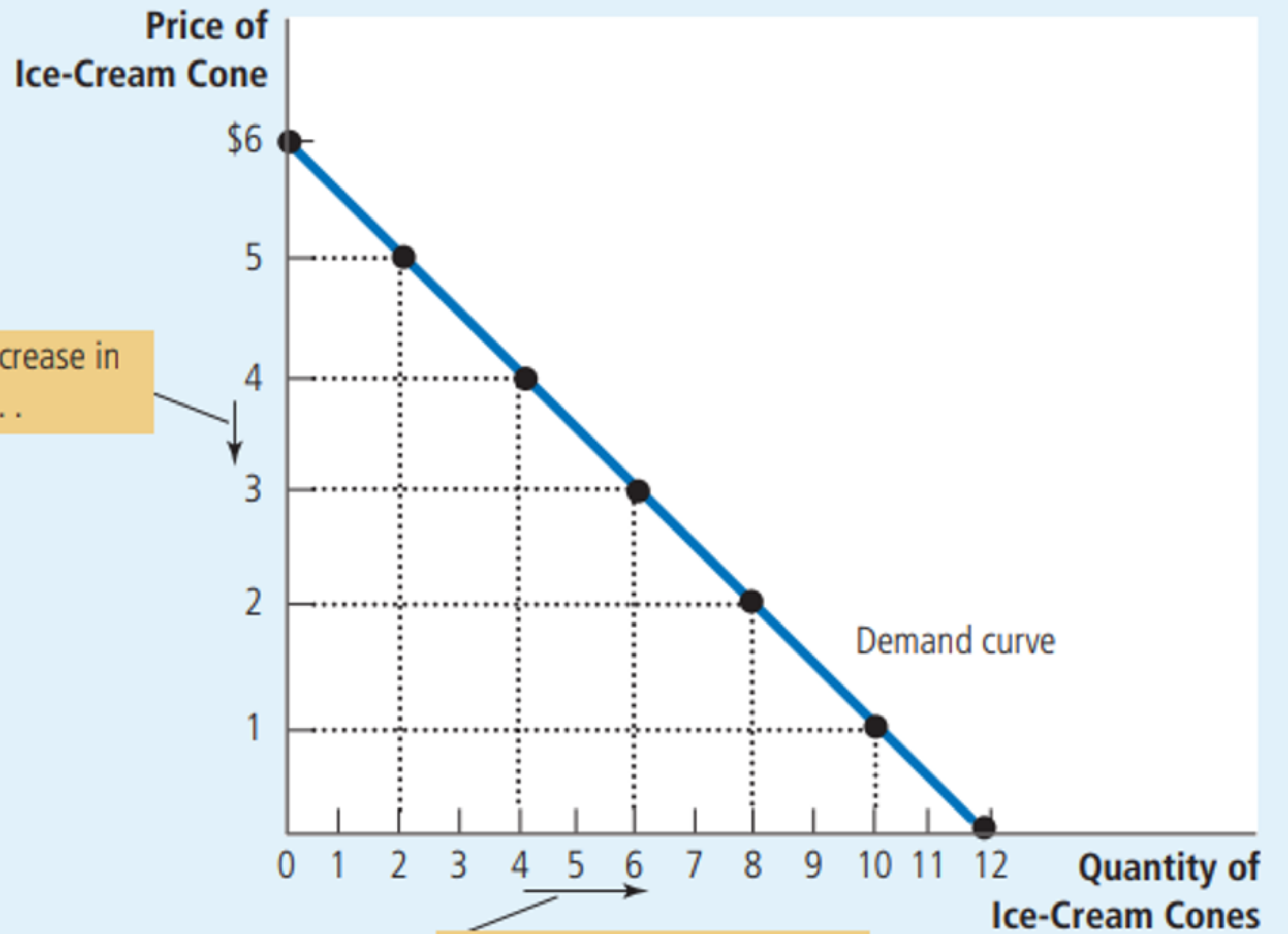
b. there are only a few sellers.

c. the forces of supply and demand do not apply.

d. no individual buyer or seller has any significant impact on the market price.

Price of Ice-Cream Cone	Quantity of Cones Demanded
\$0	12 cones
1	10
2	8
3	6
4	4
5	2
6	0

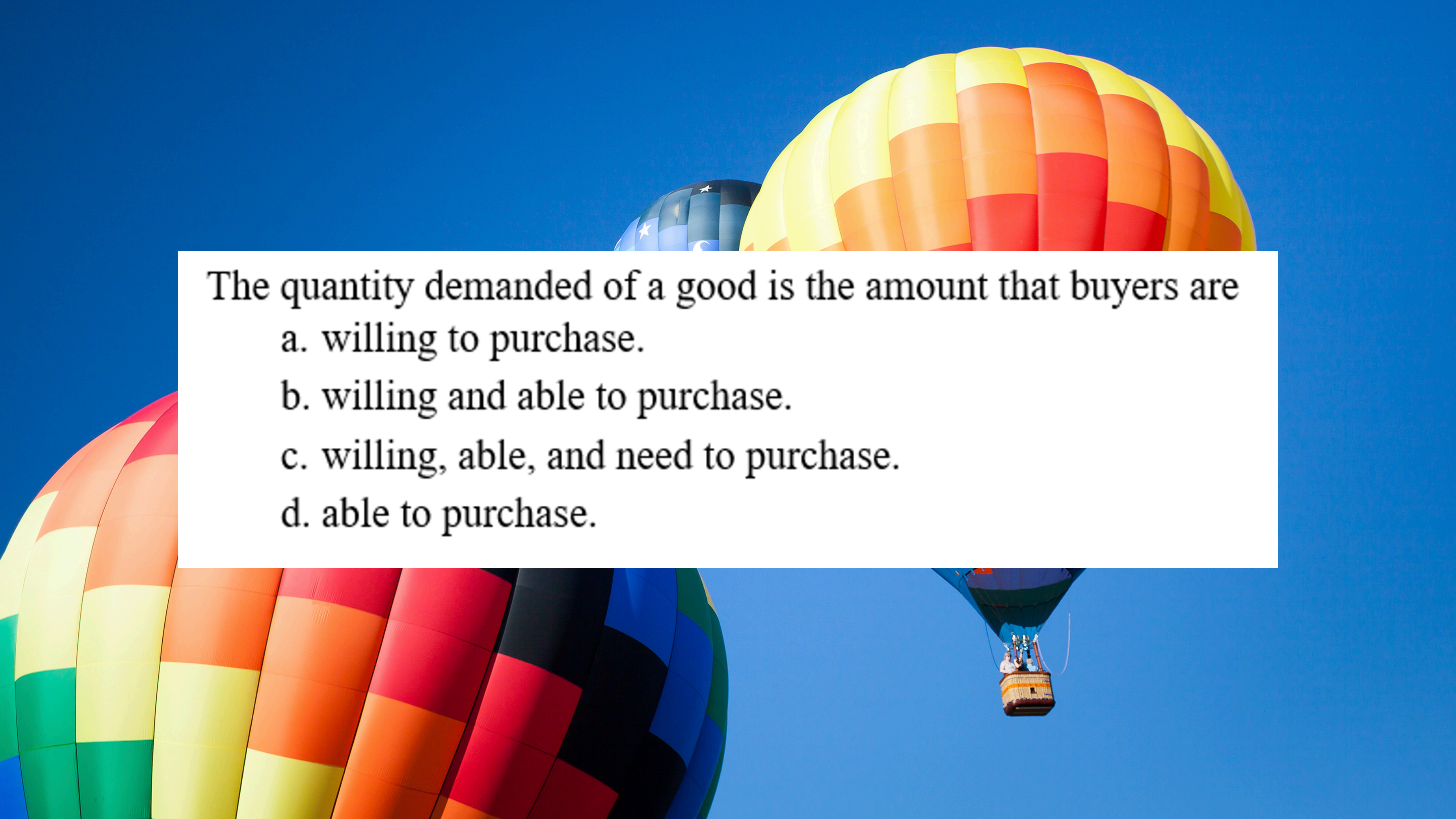
1. A decrease in price ...



2. ... increases quantity of cones demanded.

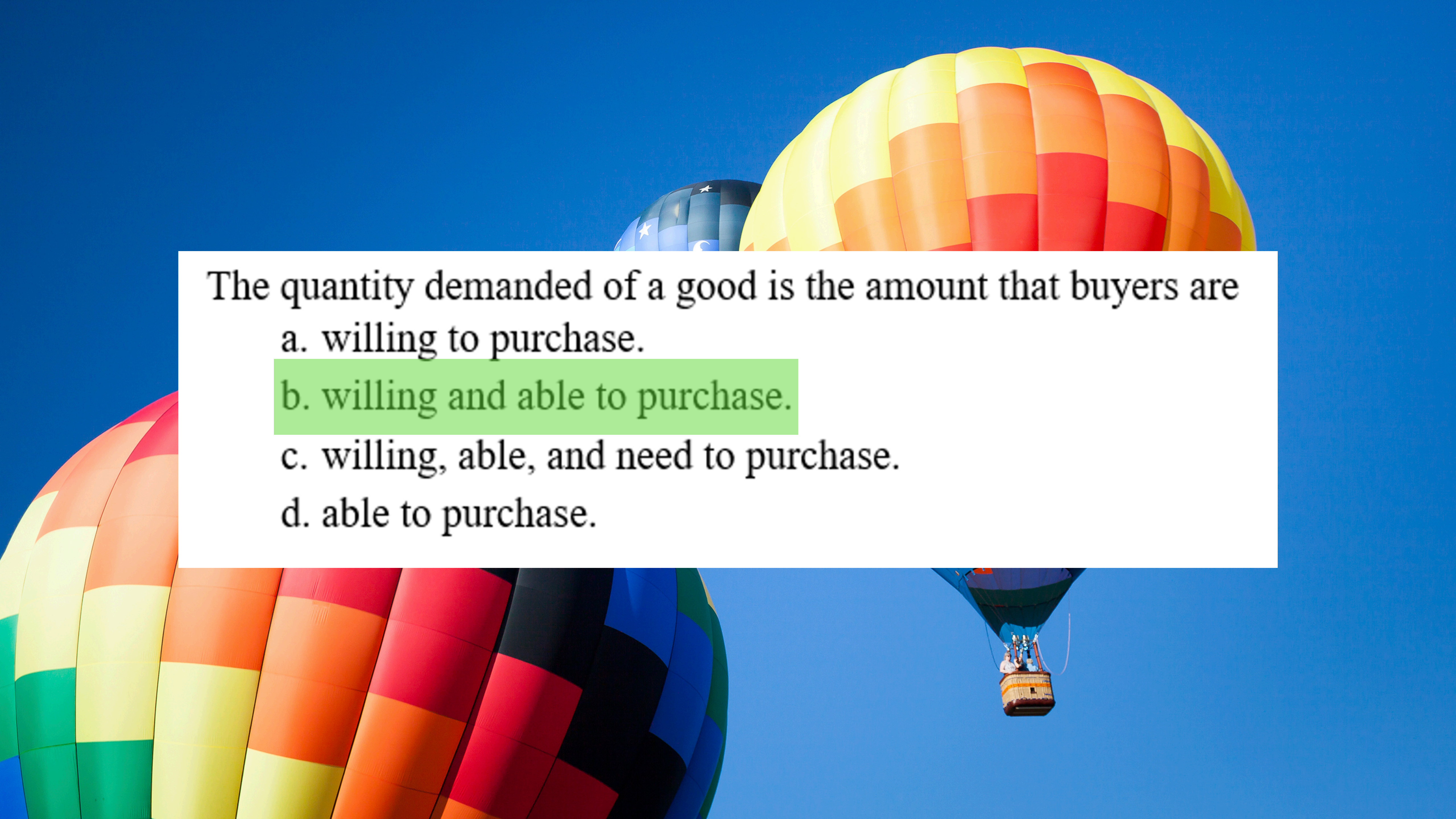
# Quantity Demanded

- Amount of a good that buyers are willing and able to purchase at a given price.



The quantity demanded of a good is the amount that buyers are

- willing to purchase.
- willing and able to purchase.
- willing, able, and need to purchase.
- able to purchase.



The quantity demanded of a good is the amount that buyers are

a. willing to purchase.

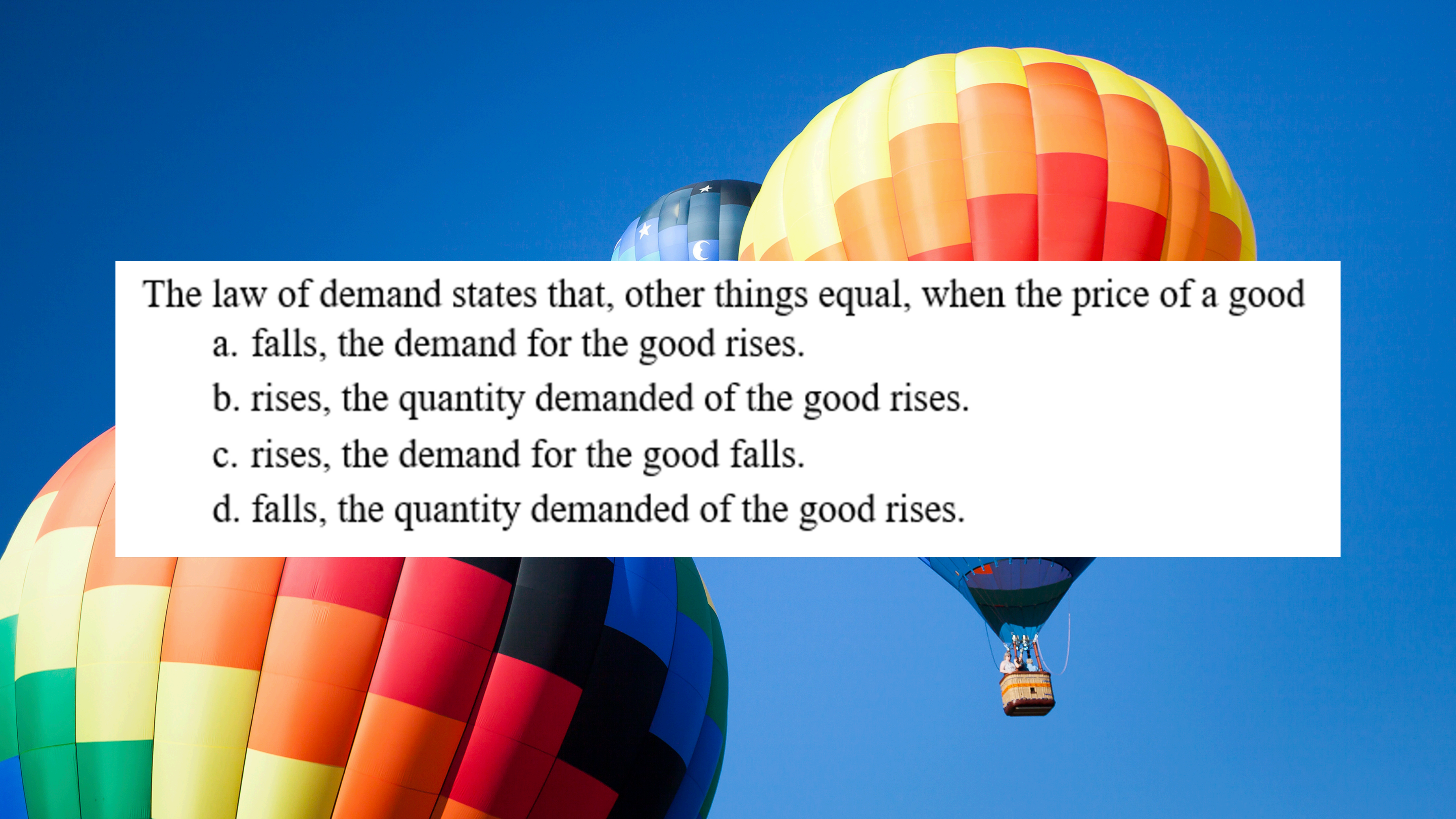
b. willing and able to purchase.

c. willing, able, and need to purchase.

d. able to purchase.

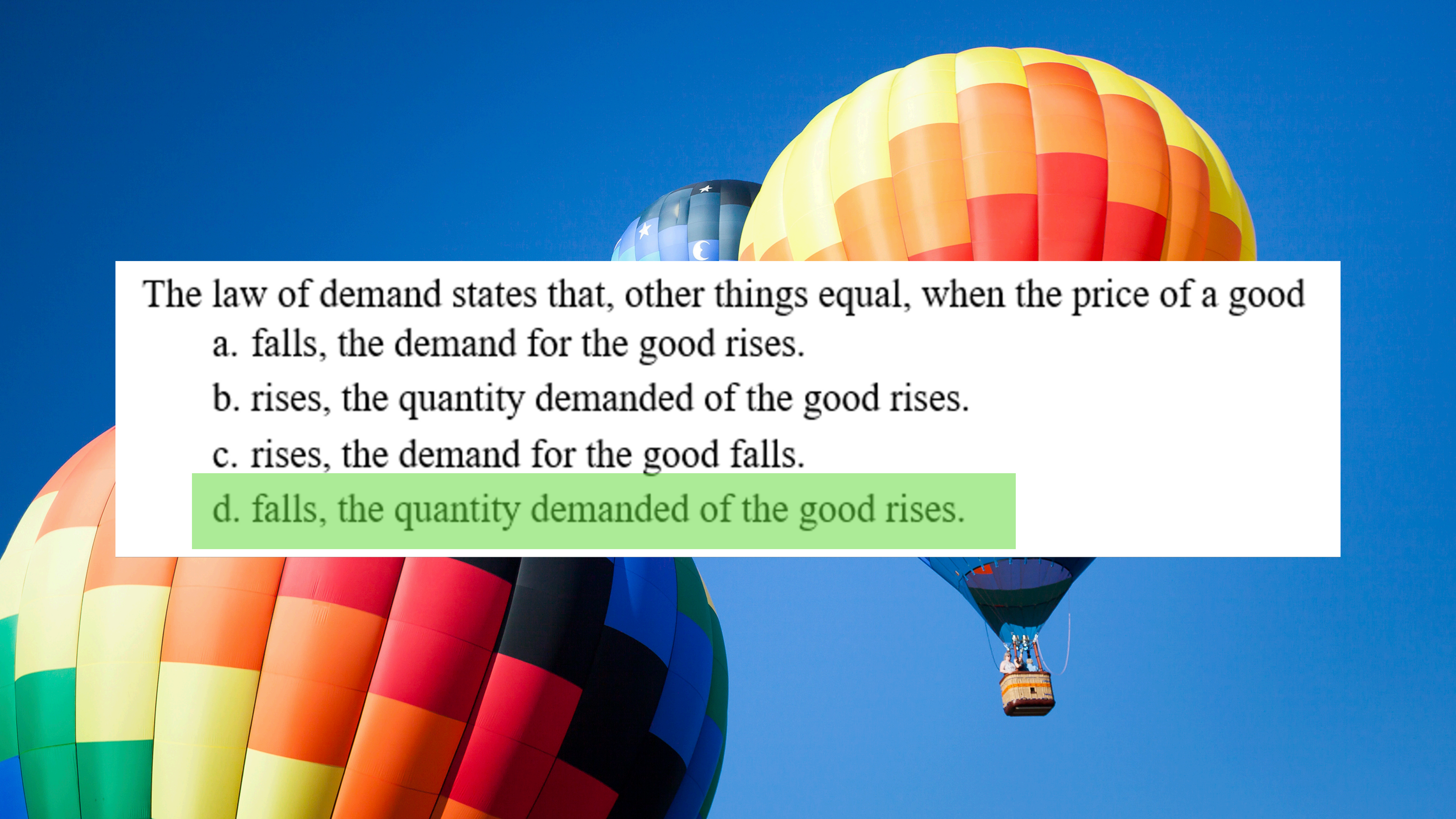
# Demand Slopes Down!

- Why?
  - People respond to prices
- When the cost of doing something increases, we do less of it.
- When the cost of doing something decreases, we do more of it.



The law of demand states that, other things equal, when the price of a good

- a. falls, the demand for the good rises.
- b. rises, the quantity demanded of the good rises.
- c. rises, the demand for the good falls.
- d. falls, the quantity demanded of the good rises.



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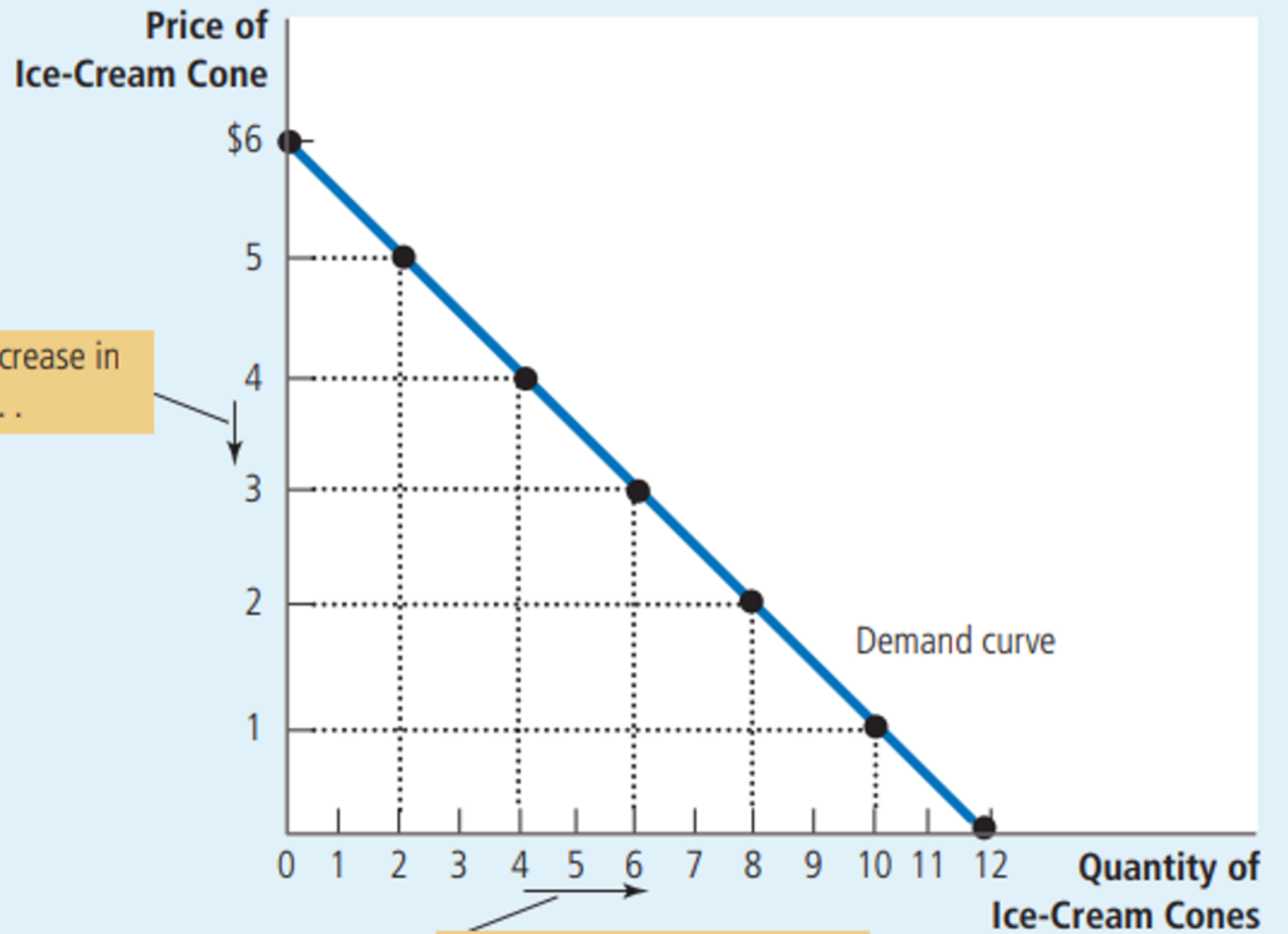
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# The Law of Demand

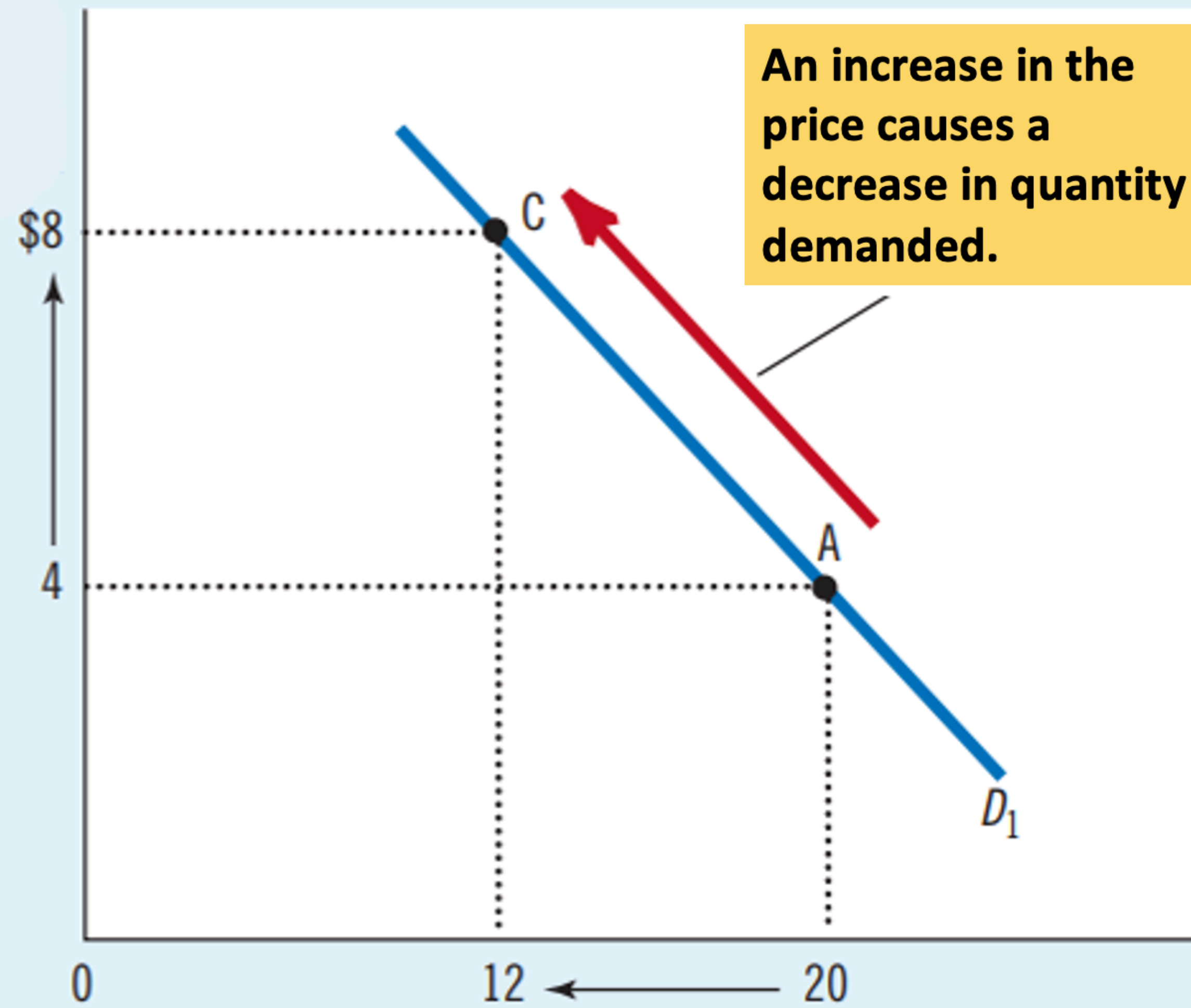
- When the price of a good falls, the quantity demanded of the good increases.
- When the price of a good rises, the quantity demanded of the good decreases.
- ALL ELSE CONSTANT (Ceteris Paribus)

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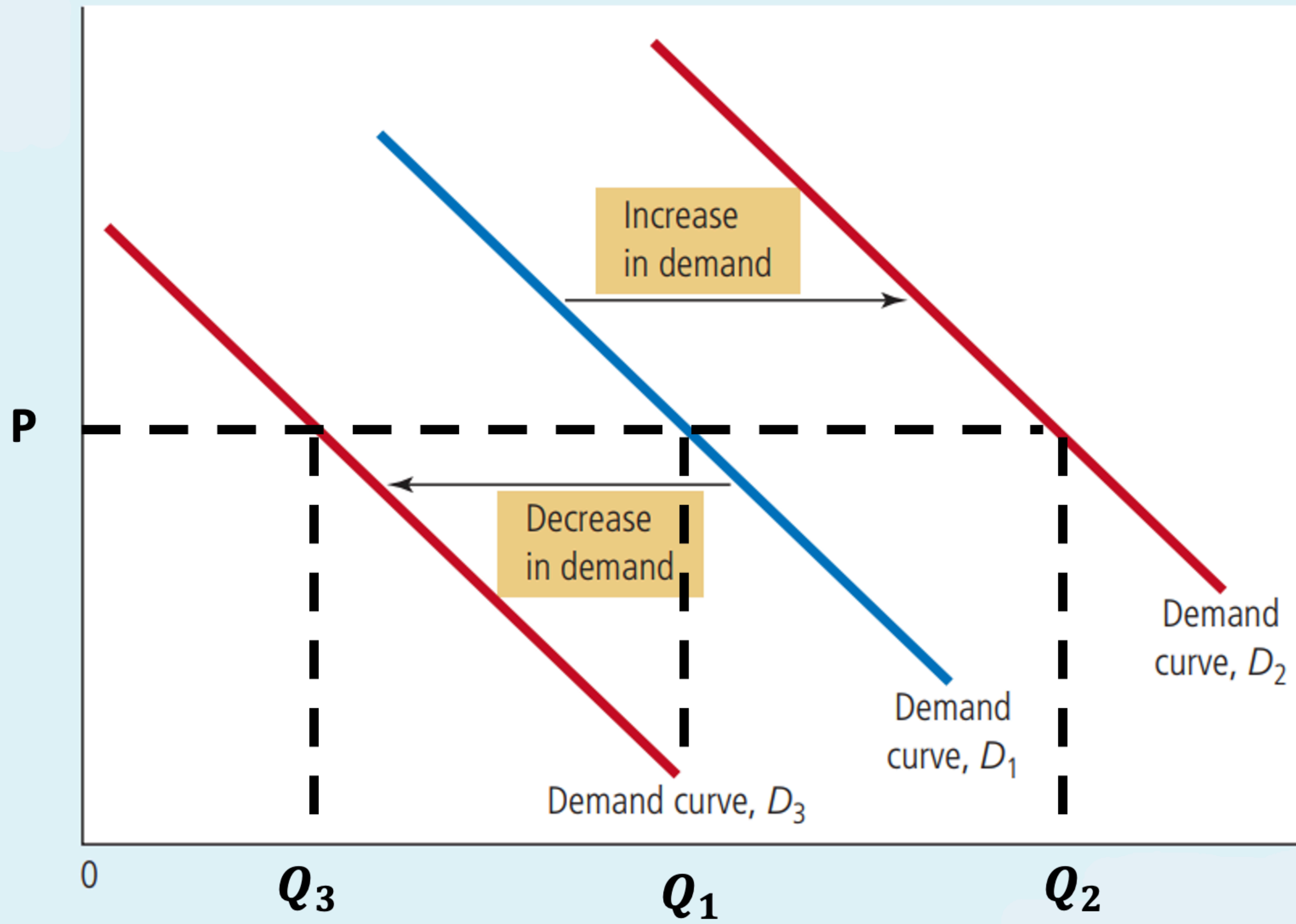
1. A decrease in price ...



2. ... increases quantity of cones demanded.



**An increase in the price causes a decrease in quantity demanded.**

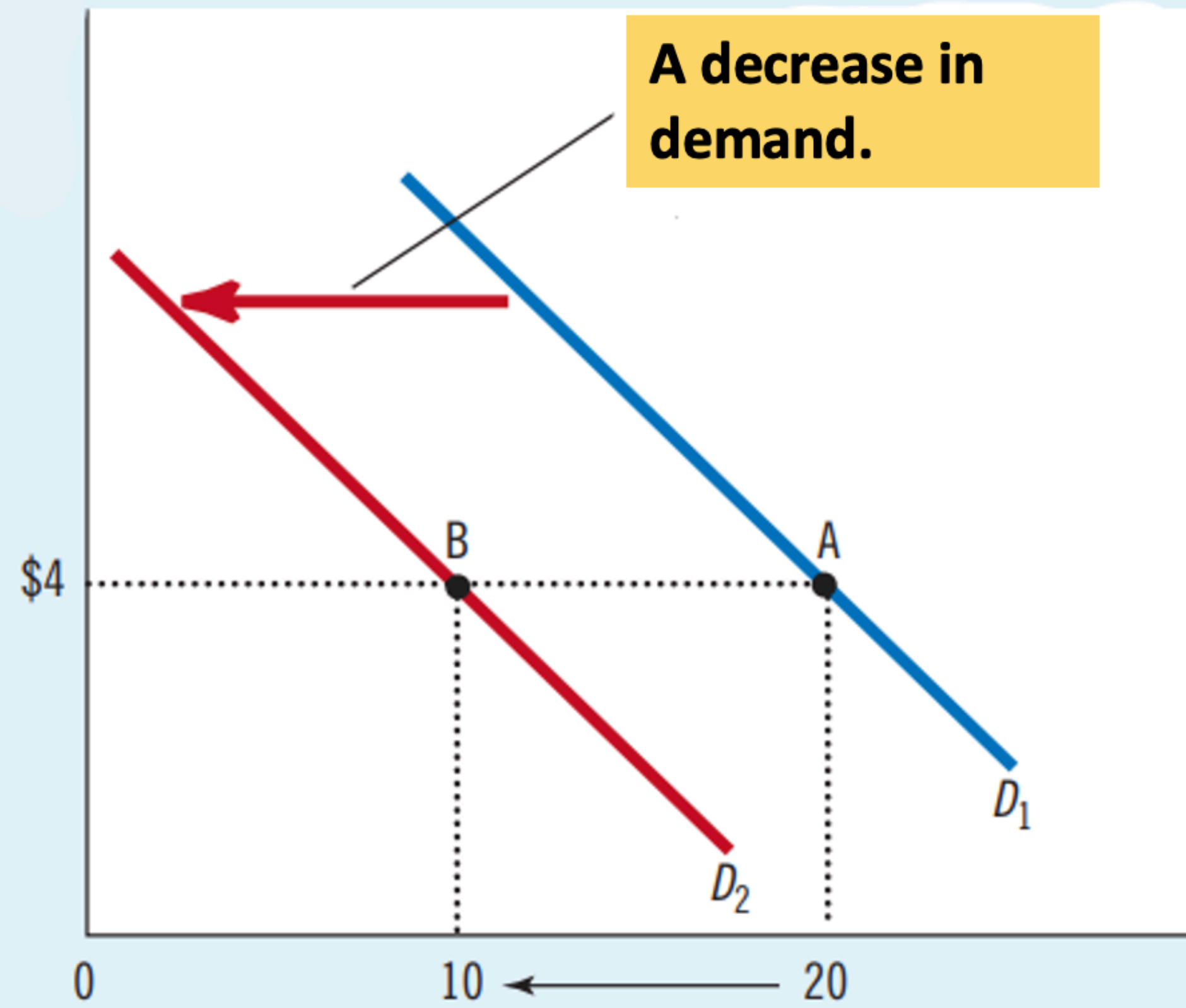


**Change in demand**

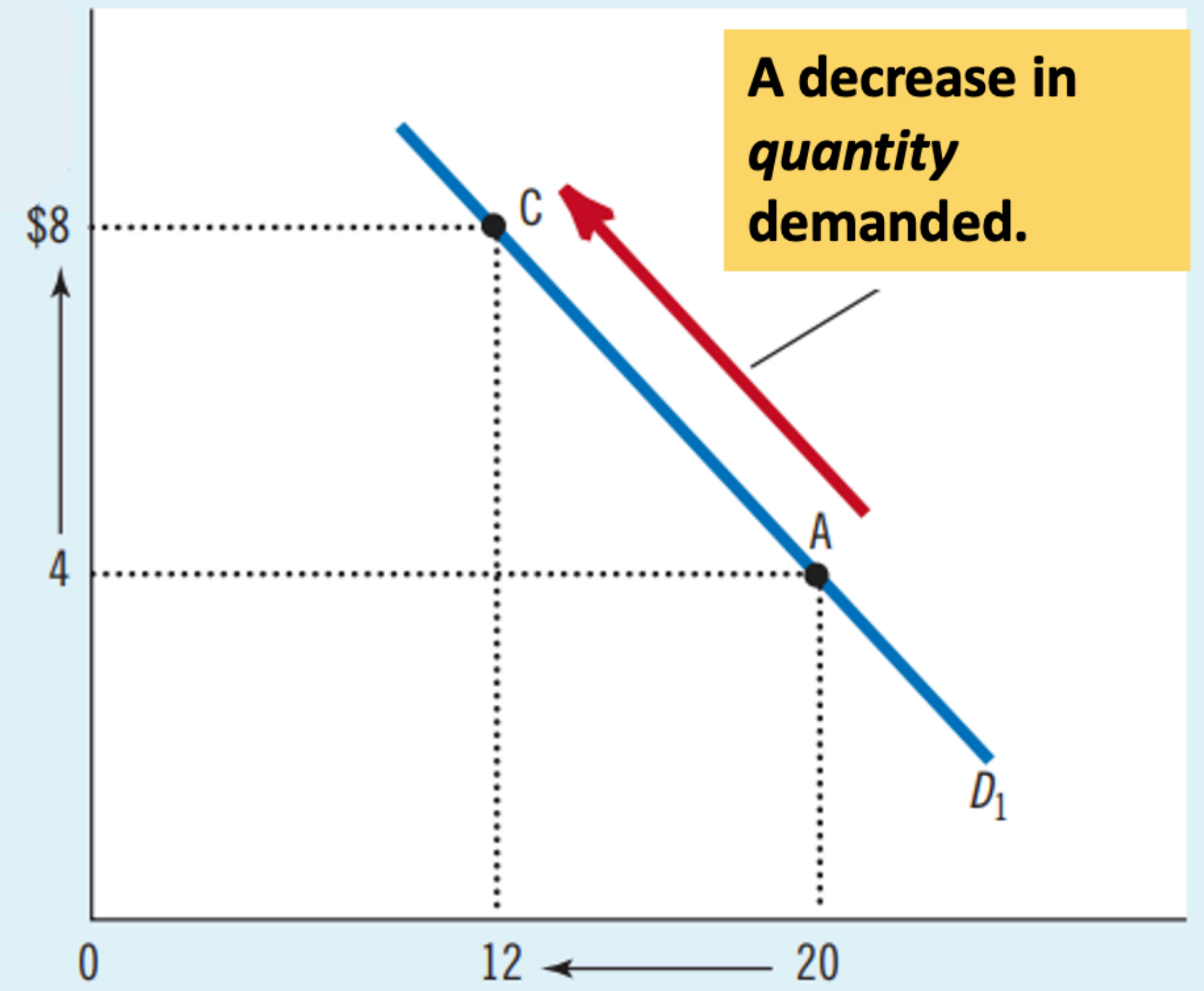
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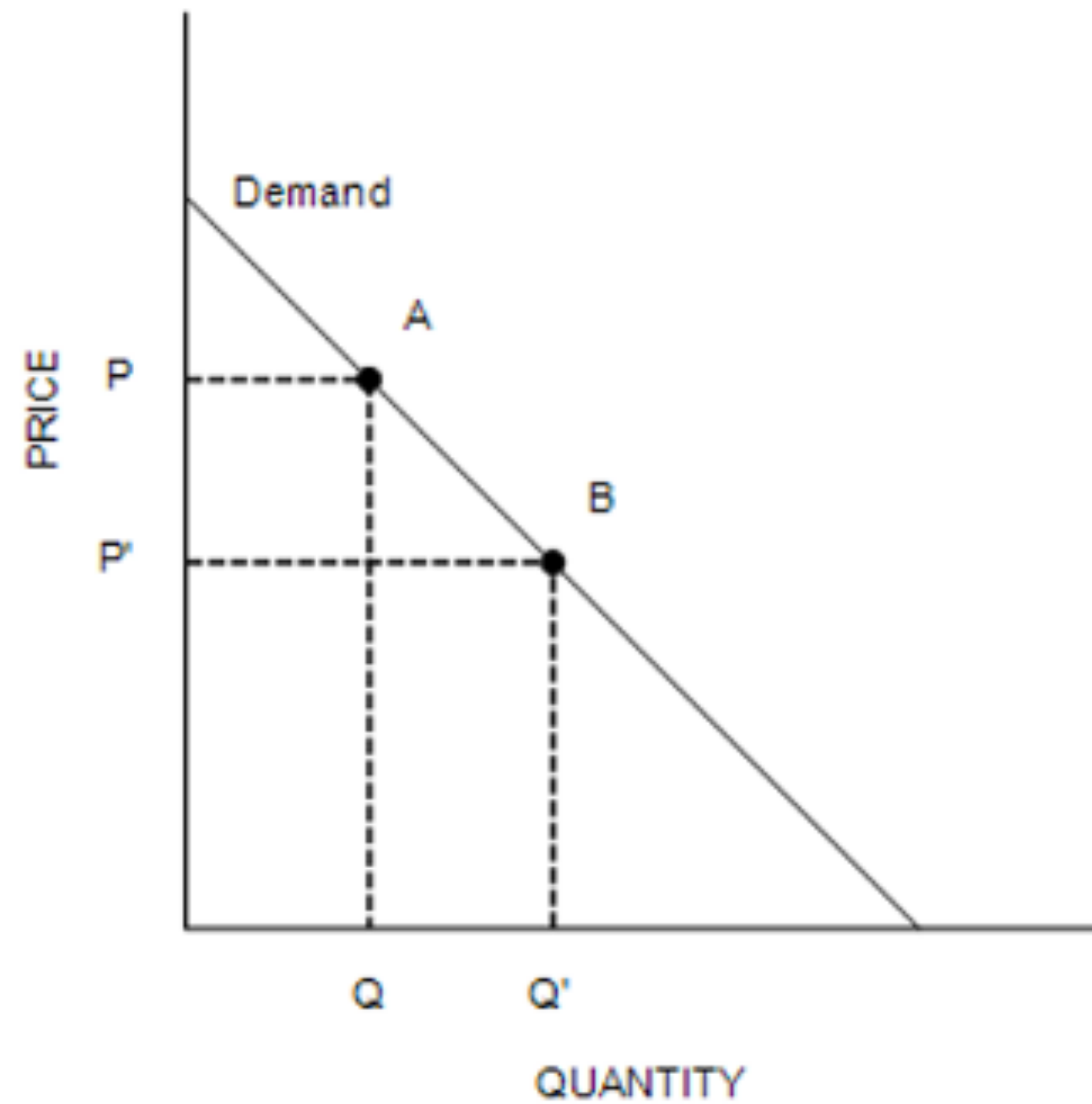
**Change in Quantity Demanded**

(a) A Shift in the Demand Curve

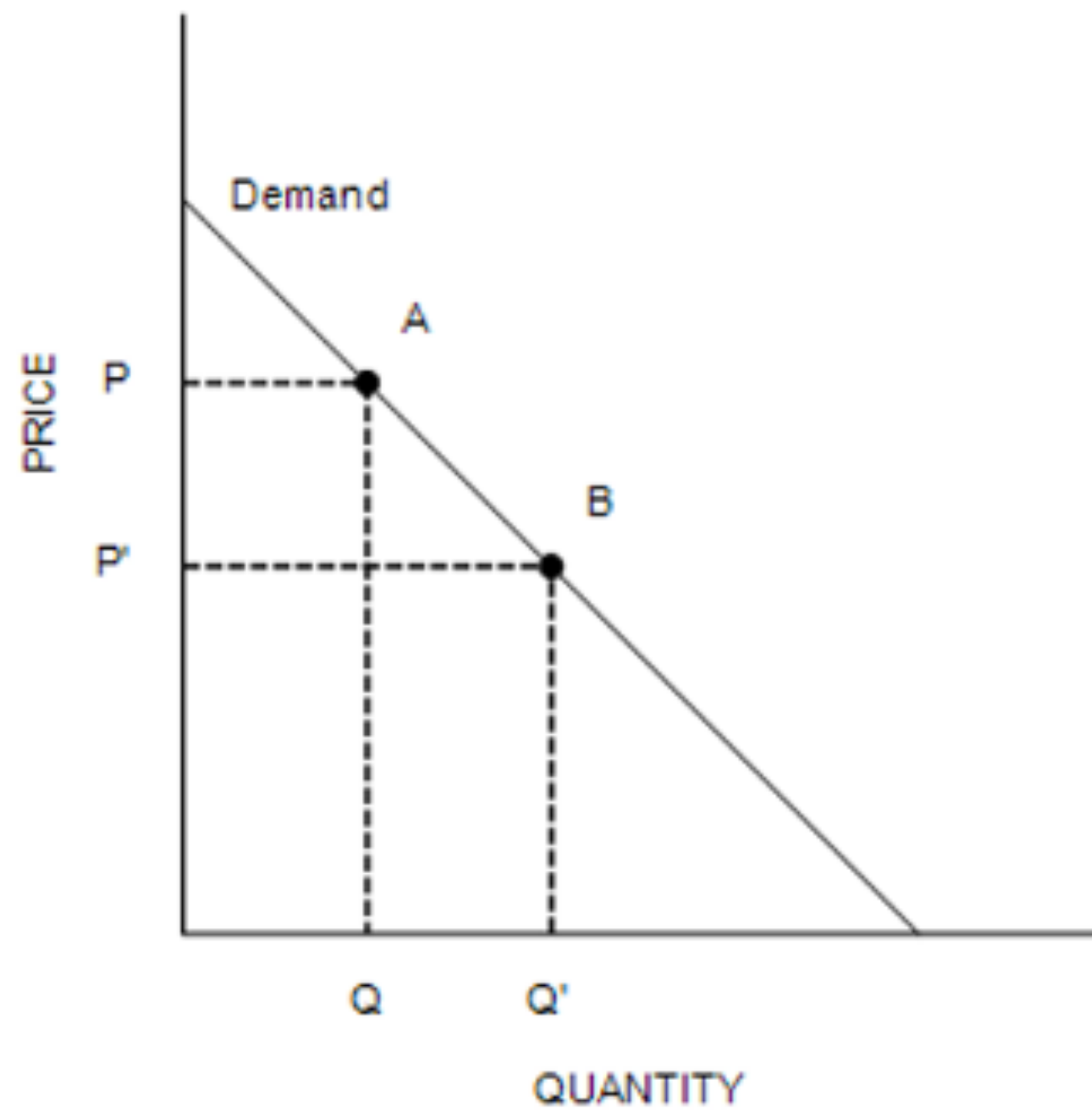


(b) A Movement along the Demand Curve





- The movement from point A to point B on the graph shows
- a. a decrease in demand.
  - b. an increase in demand.
  - c. a decrease in quantity demanded.
  - d. an increase in quantity demanded.



The movement from point A to point B on the graph shows

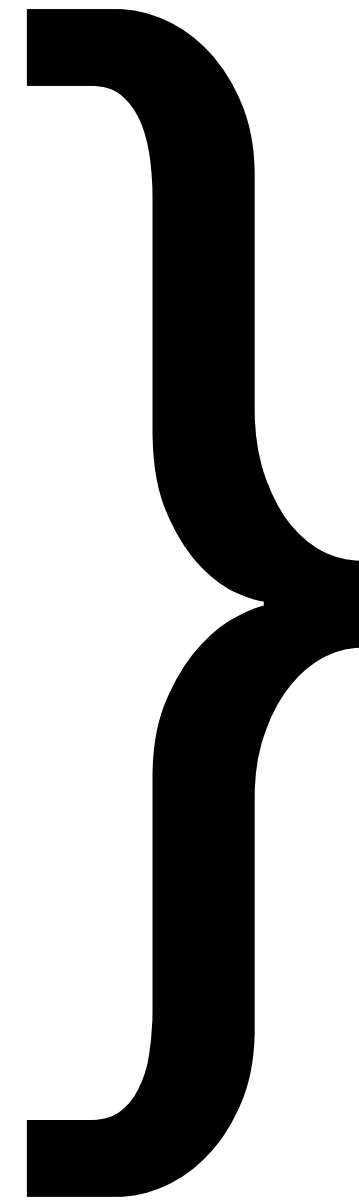
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# Variables that Shift Demand

- Income
- Tastes
- Expectations
- Number of Buyers
- Prices of Related Goods

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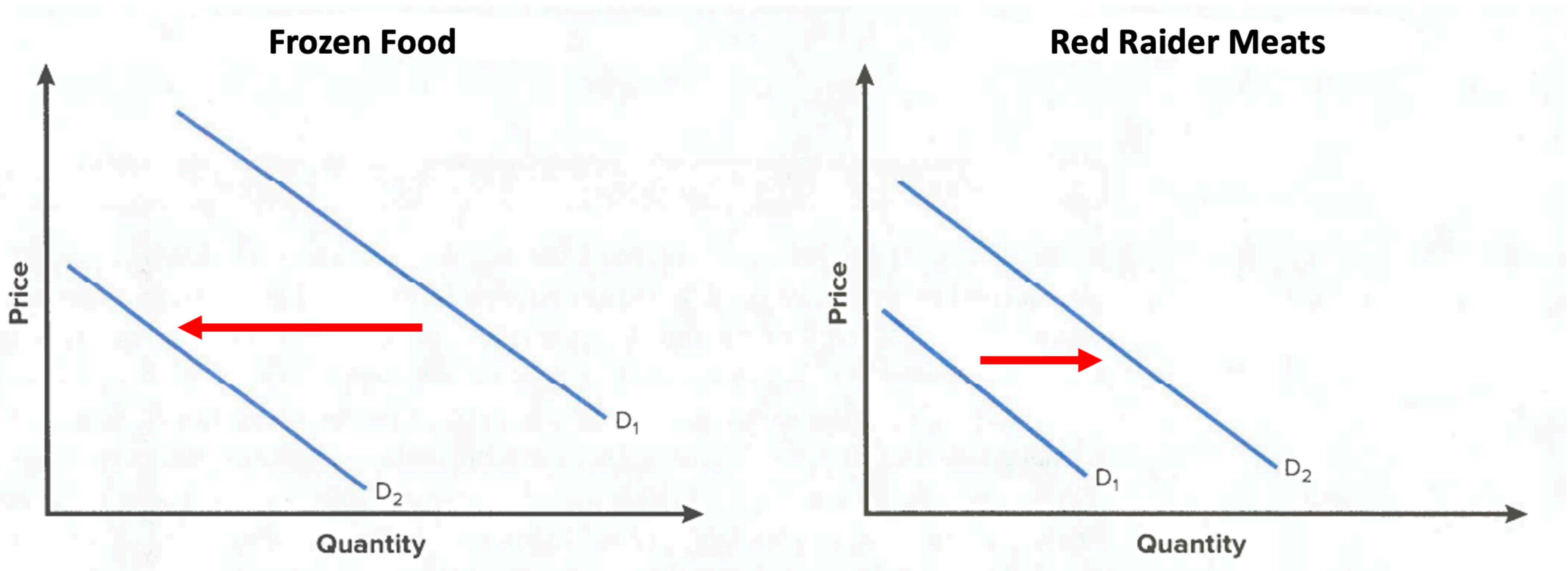


Non-price  
Determinants

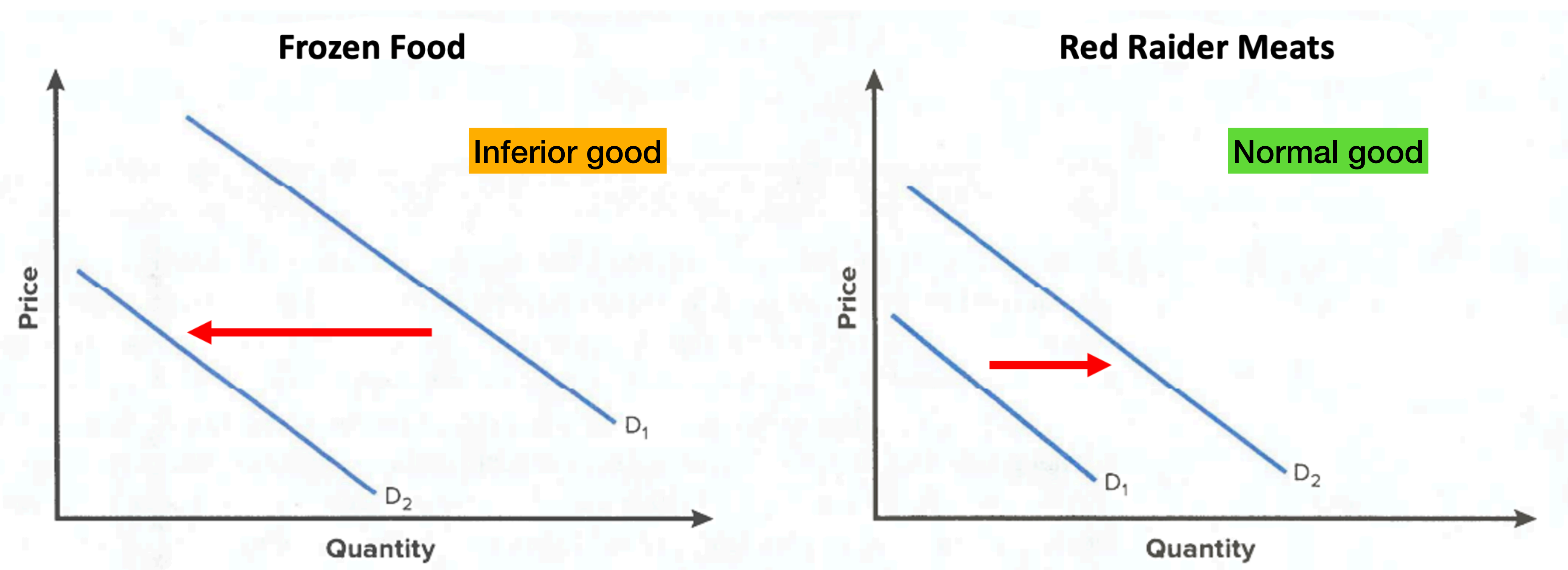
# Income

- Increases or decreases in income either increase or decrease the demand for a given good, shifting demand to the right or left.
- **Normal Goods**
  - A good for which an increase in income leads to an increase in demand for the good.
- **Inferior Goods**
  - A good for which an increase in income leads to a decrease in demand for the good.

Look at these graphs: Assume an increase in income causes a change in the demand for these two goods. Which good is a normal good? Which good is an inferior good?



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# Income

- **Normal Goods**
  - Fancy food (steak, caviar), nice cars, etc.
- **Inferior Goods**
  - Frozen food, ramen noodles, bus rides, etc.
- These depend on the individual's **subjective values!**
  - What is a normal/inferior good for me, may not necessarily be a normal or inferior good to you.

# Tastes

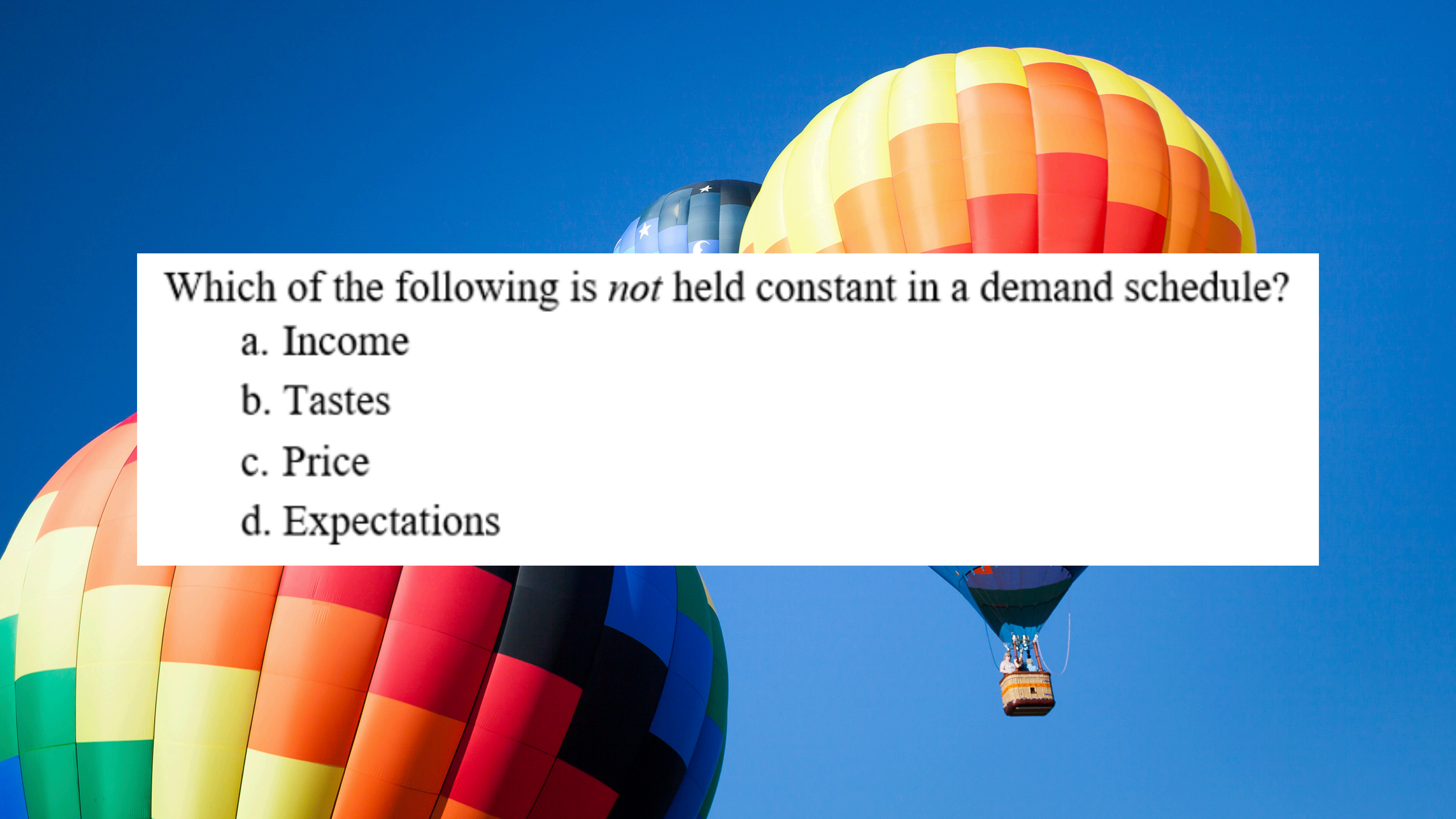
- The perception of the desirability with the consumption of a good.
- Different consumers have different tastes (subjective value).
  - These tastes can change over time.
  - Ex: Old vs. Young People

# Expectations

- Expectations about the future can influence the decisions consumers make.
- The price system has a lot to say about this!
  - If you expect the price of a good to increase tomorrow, you may demand more today at the current price.
  - If you expect the price of a good to decrease tomorrow, you may demand less today at the current price.

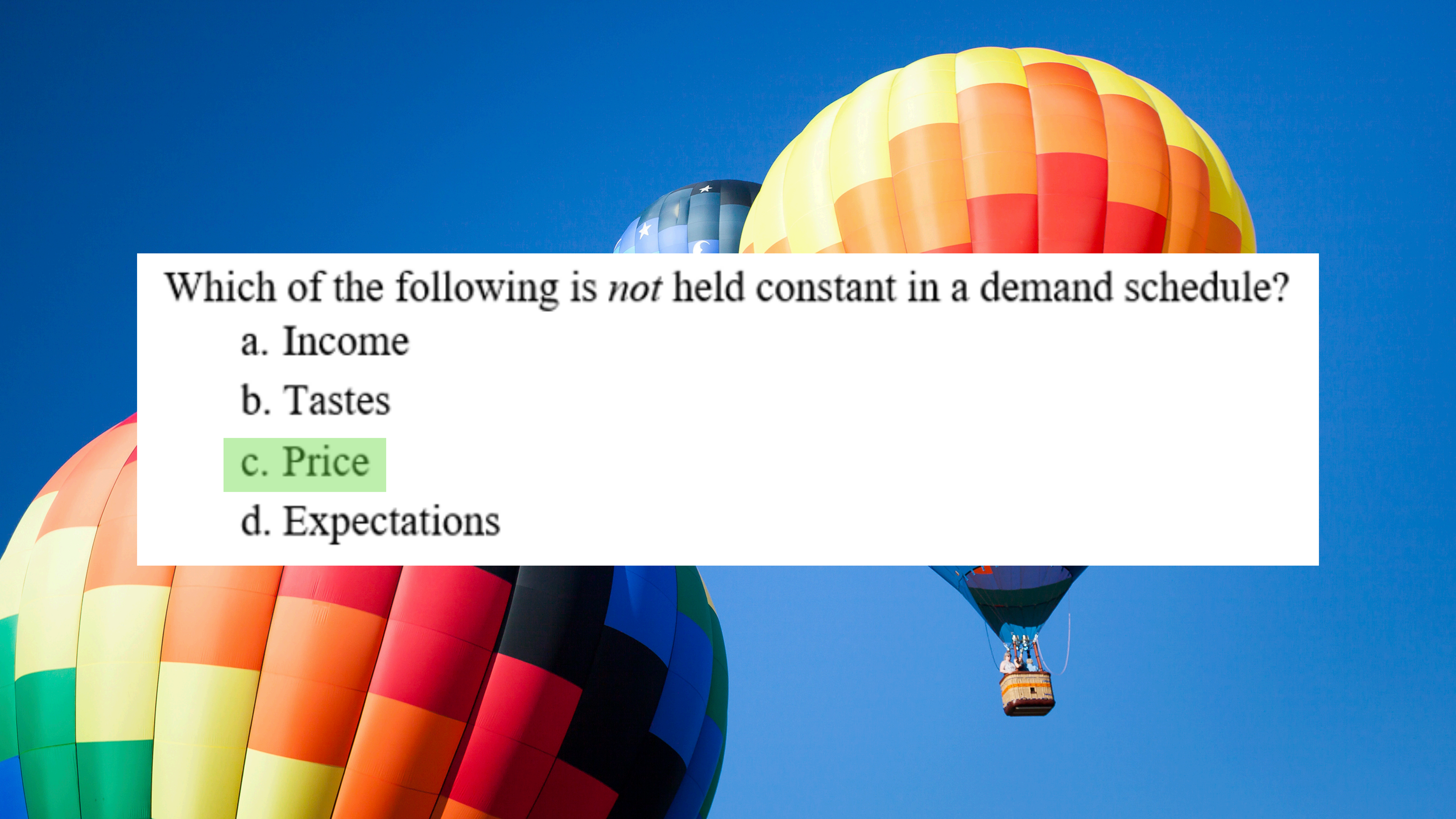
# Number of buyers

- If more consumers enter the market, then more of the good will be demanded in the market.
- If more consumers leave the market, then less of the good will be demanded in the market.



Which of the following is *not* held constant in a demand schedule?

- a. Income
- b. Tastes
- c. Price
- d. Expectations



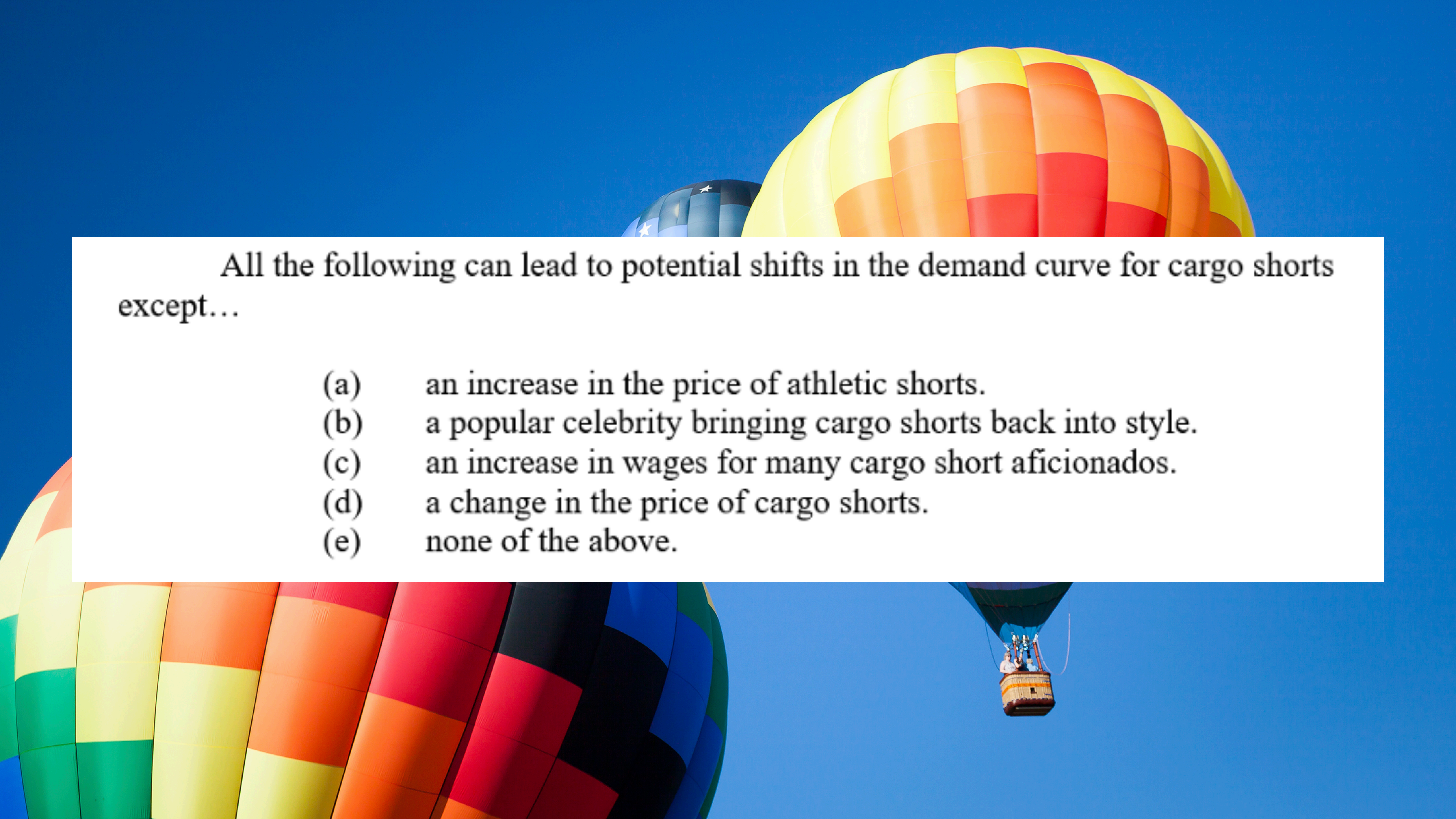
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c. Price

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All the following can lead to potential shifts in the demand curve for cargo shorts except...

- (a) an increase in the price of athletic shorts.
- (b) a popular celebrity bringing cargo shorts back into style.
- (c) an increase in wages for many cargo short aficionados.
- (d) a change in the price of cargo shorts.
- (e) none of the above.



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# Prices of related goods

- Substitutes
- Complements

# Substitutes

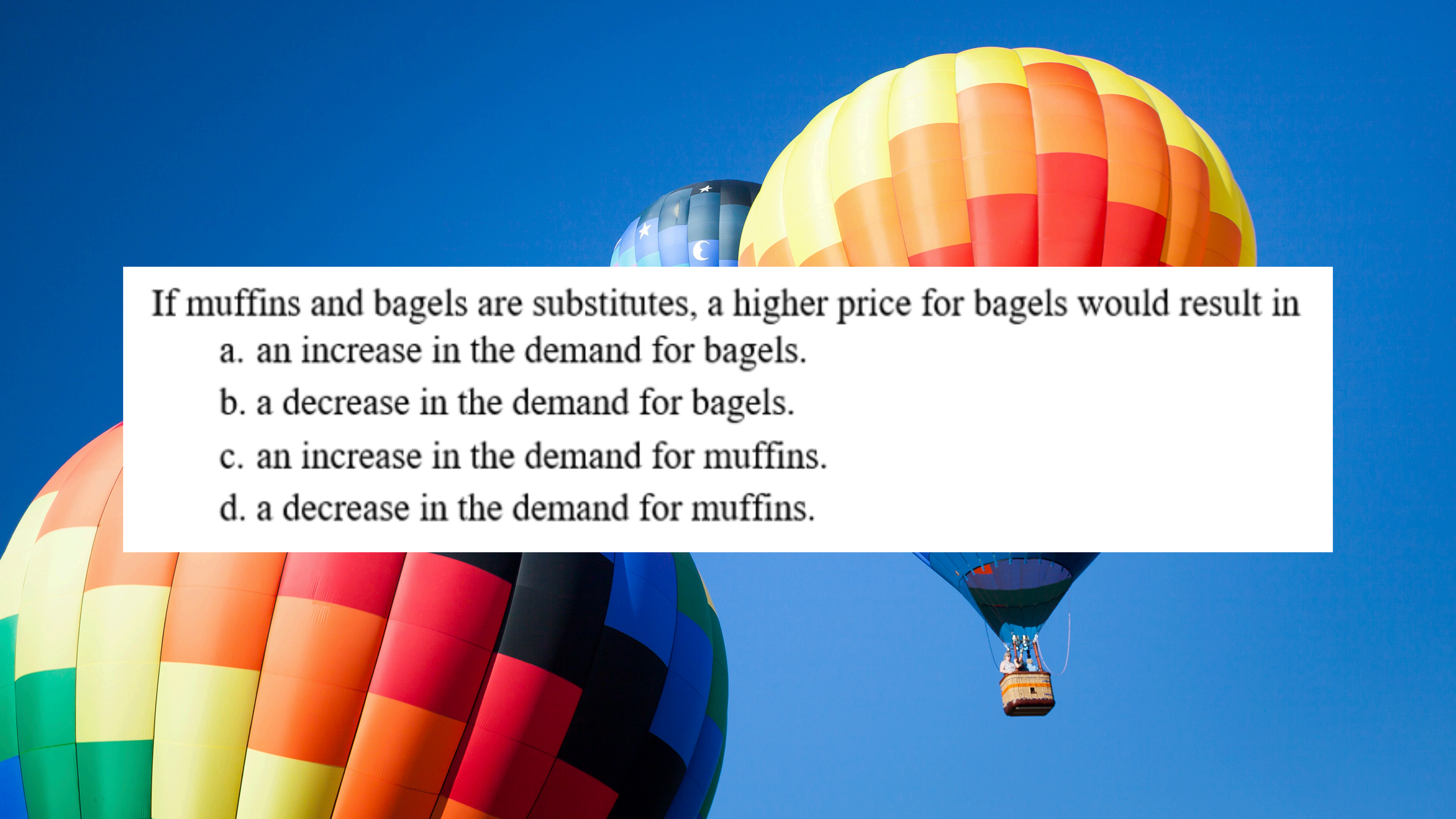
## Prices of related goods

- Two goods for which an increase in the price of one, leads to an increase in demand for the other.
- Why does this happen?
- The goods are seen as replacements for one another.
  - Ex: Coke & Pepsi, XBOX & Playstation, Public Transportation & Uber.

# Complements

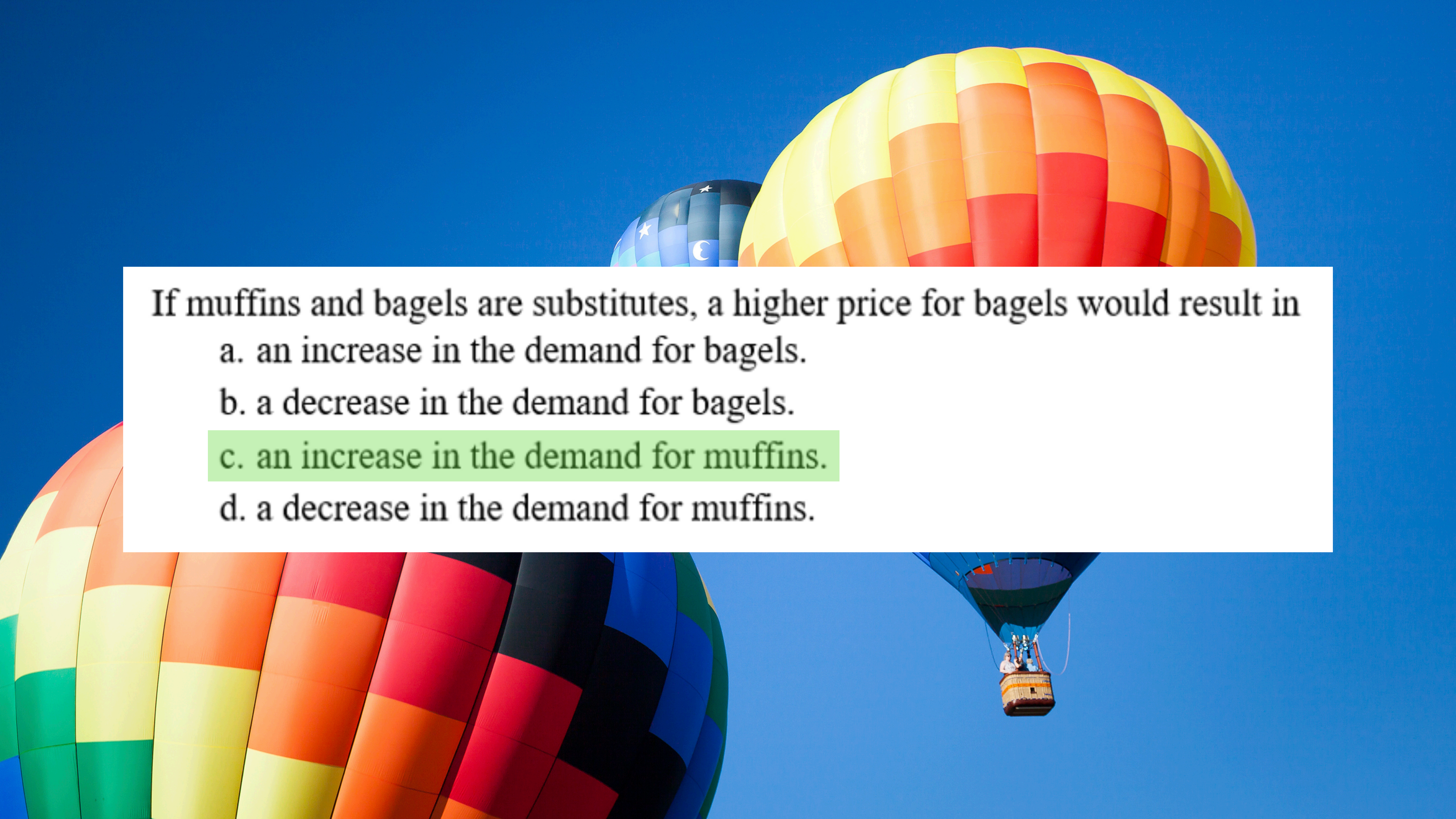
## Prices of related goods

- Two goods for which an increase in the price of one, leads to a decrease in demand for the other.
- Why does this happen?
- The goods are consumed with one another.
  - Ex: Cereal & Milk, Burger patties & Buns, Guitars & Guitar strings



If muffins and bagels are substitutes, a higher price for bagels would result in

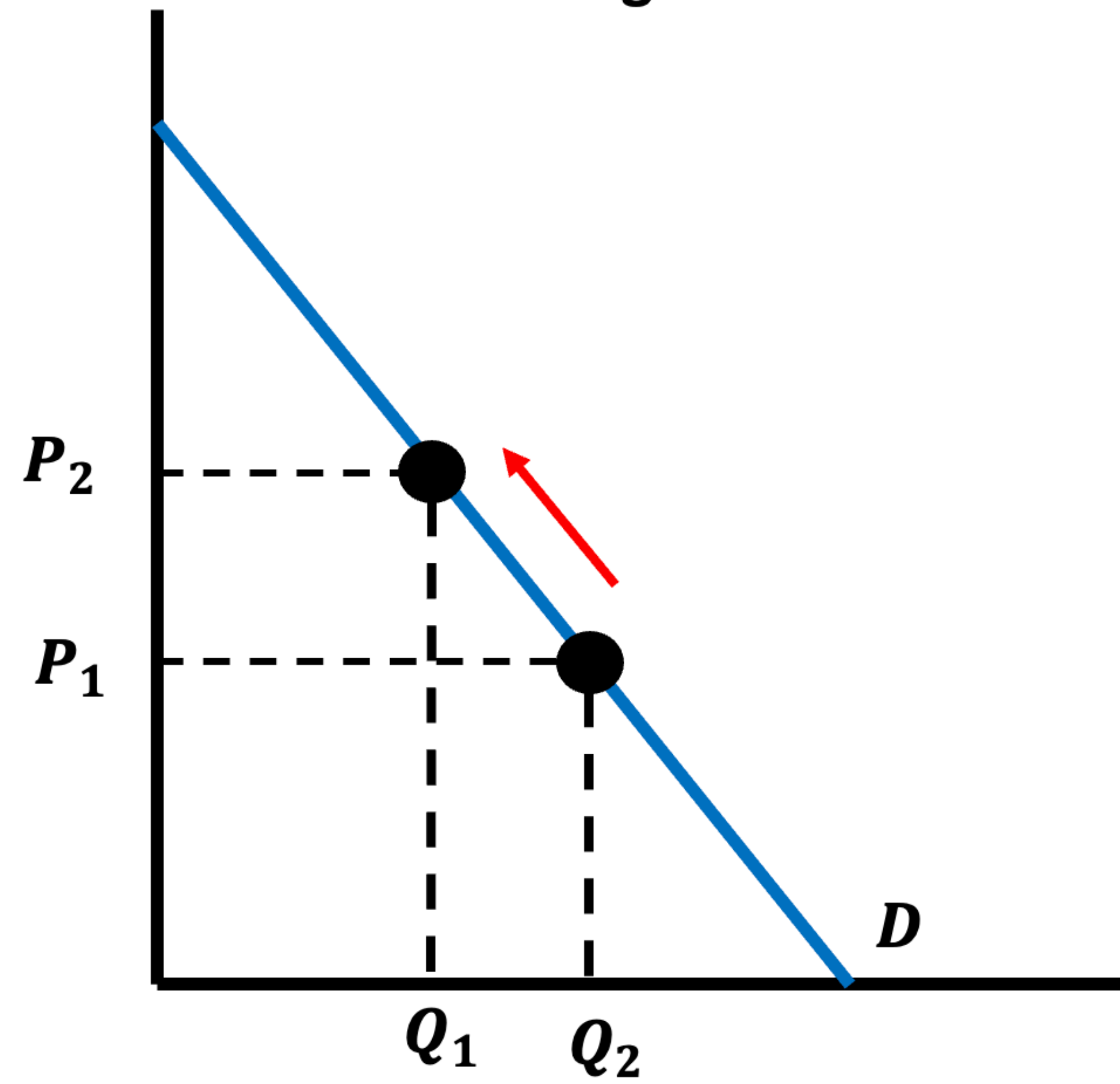
- an increase in the demand for bagels.
- a decrease in the demand for bagels.
- an increase in the demand for muffins.
- a decrease in the demand for muffins.



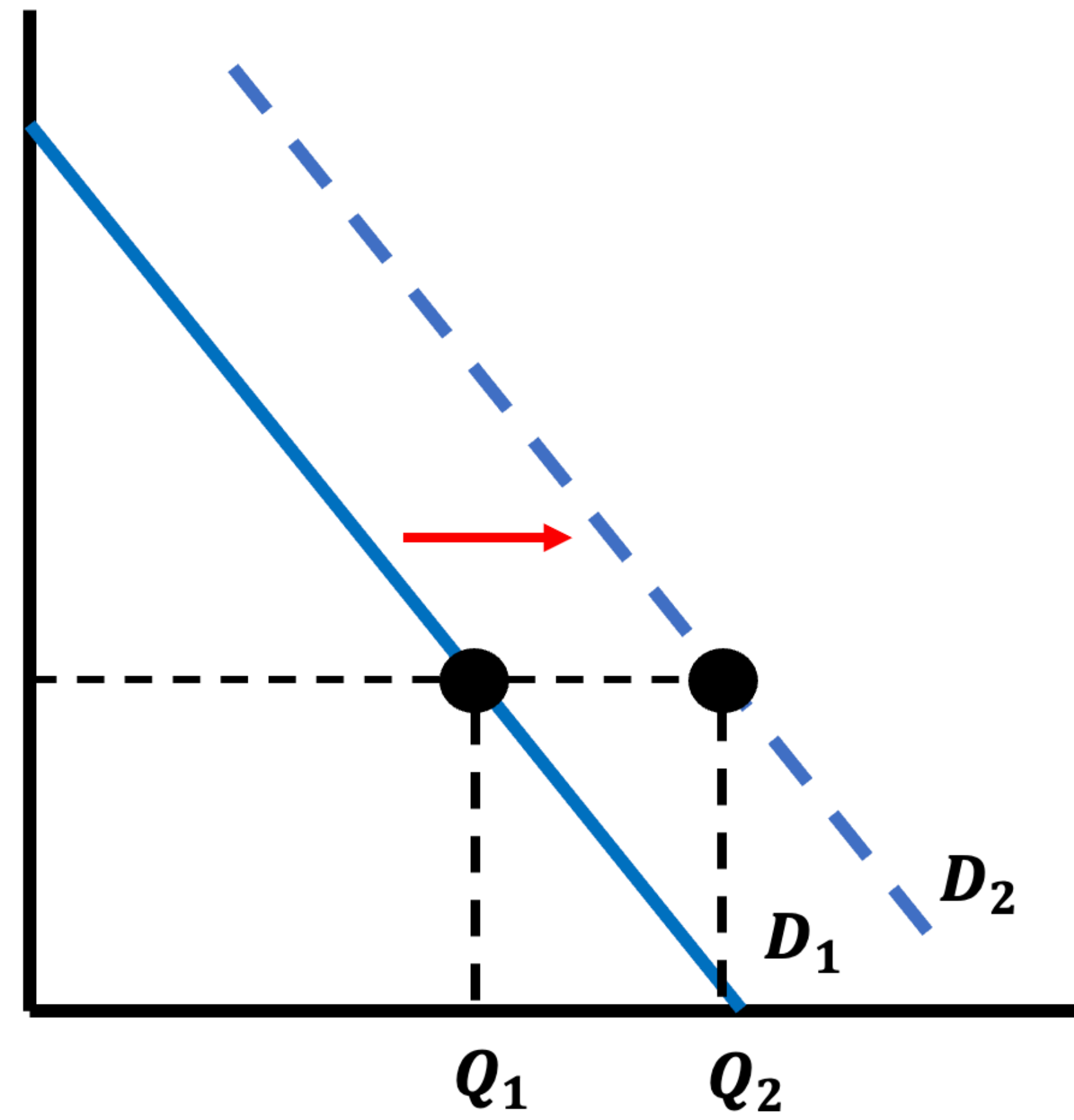
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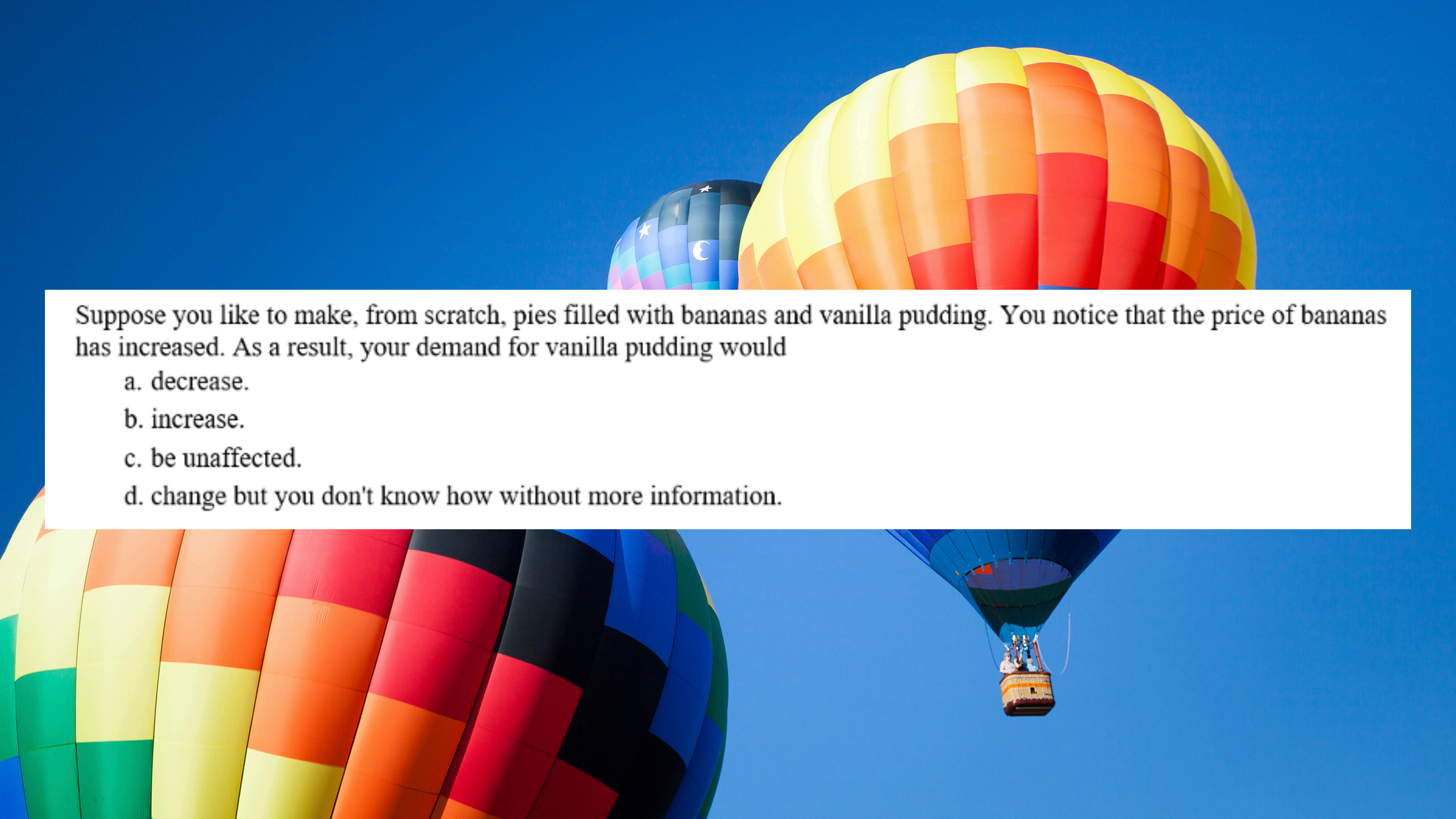
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Bagels



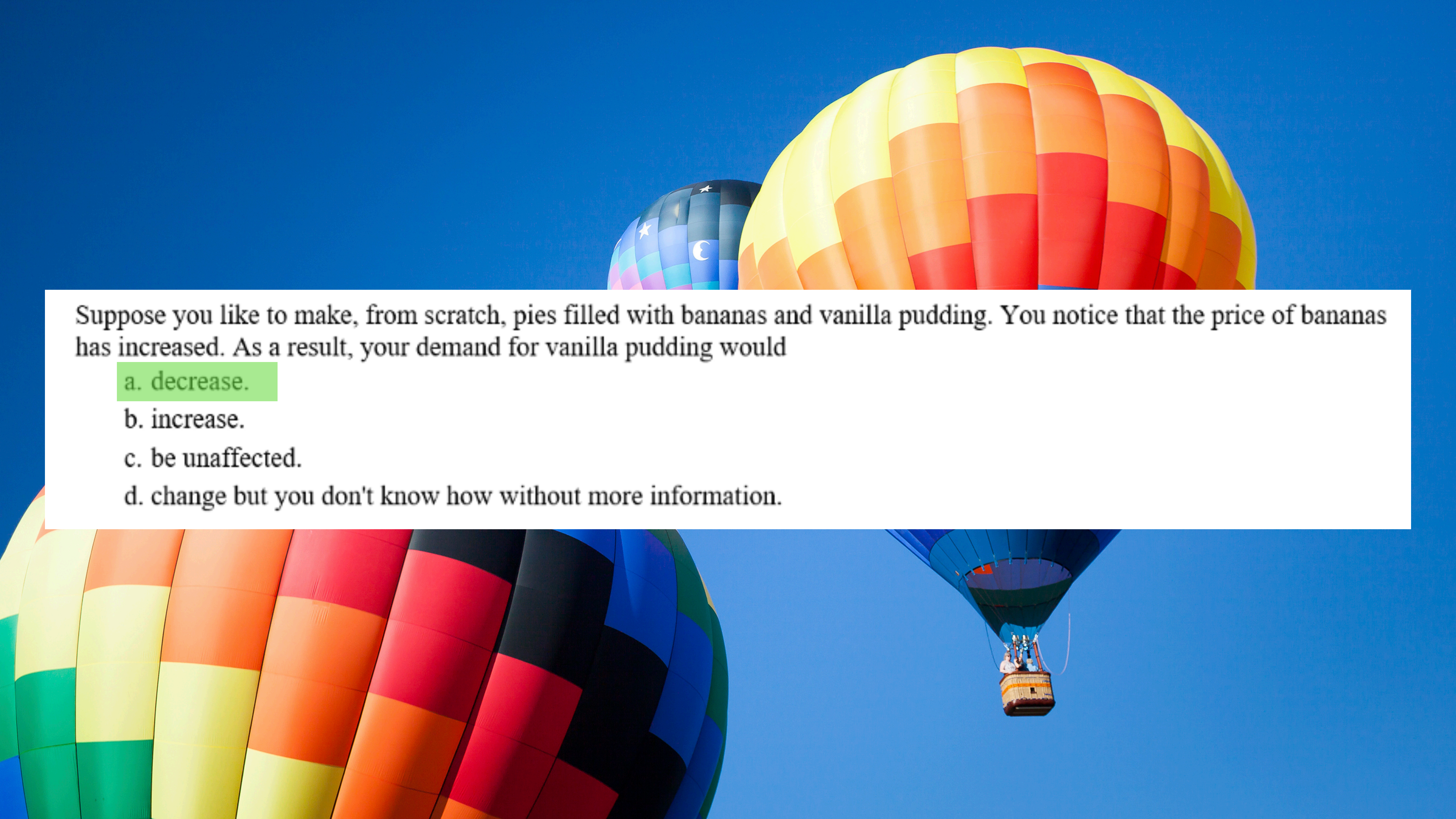
Muffins





Suppose you like to make, from scratch, pies filled with bananas and vanilla pudding. You notice that the price of bananas has increased. As a result, your demand for vanilla pudding would

- a. decrease.
- b. increase.
- c. be unaffected.
- d. change but you don't know how without more information.



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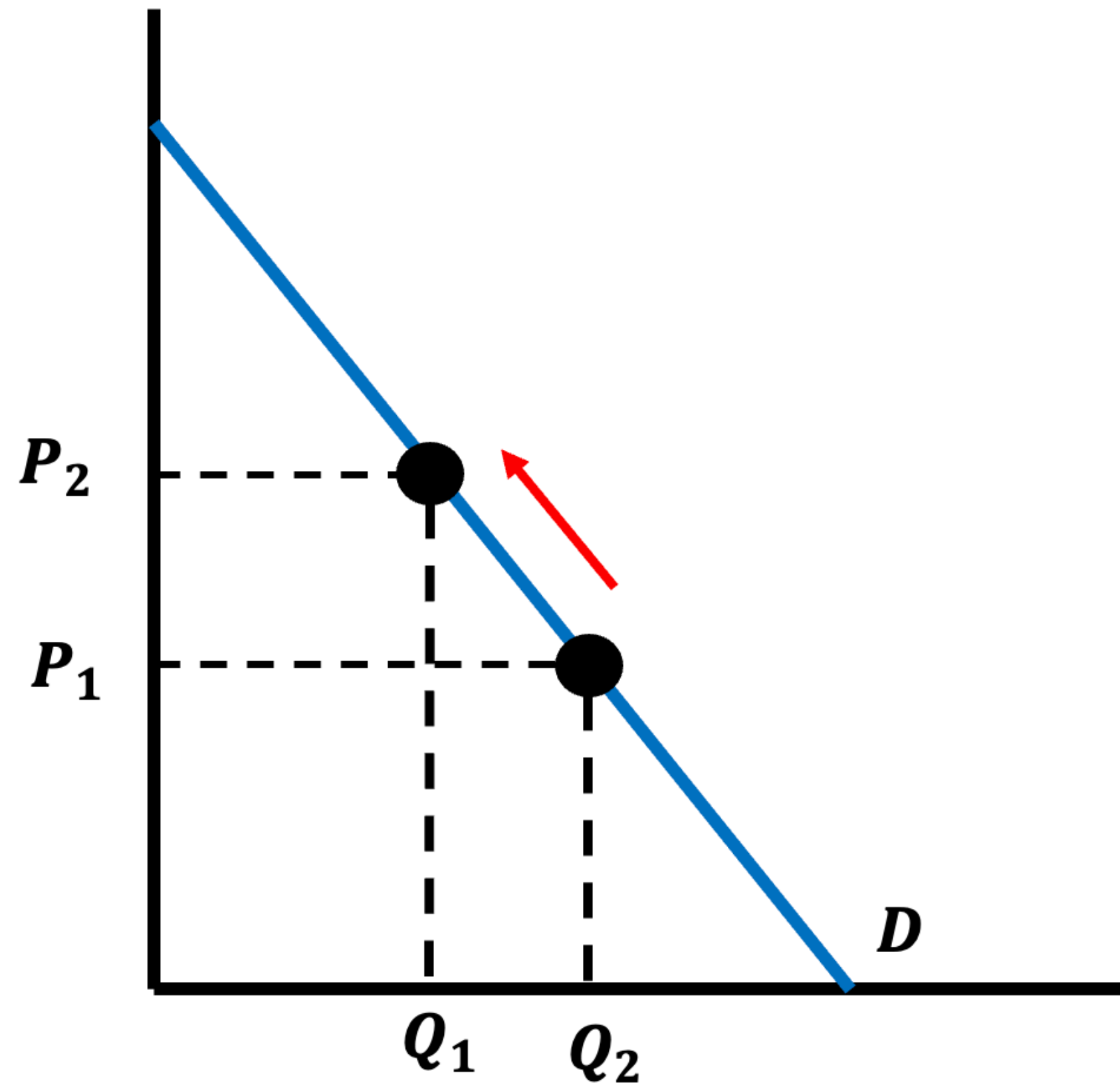
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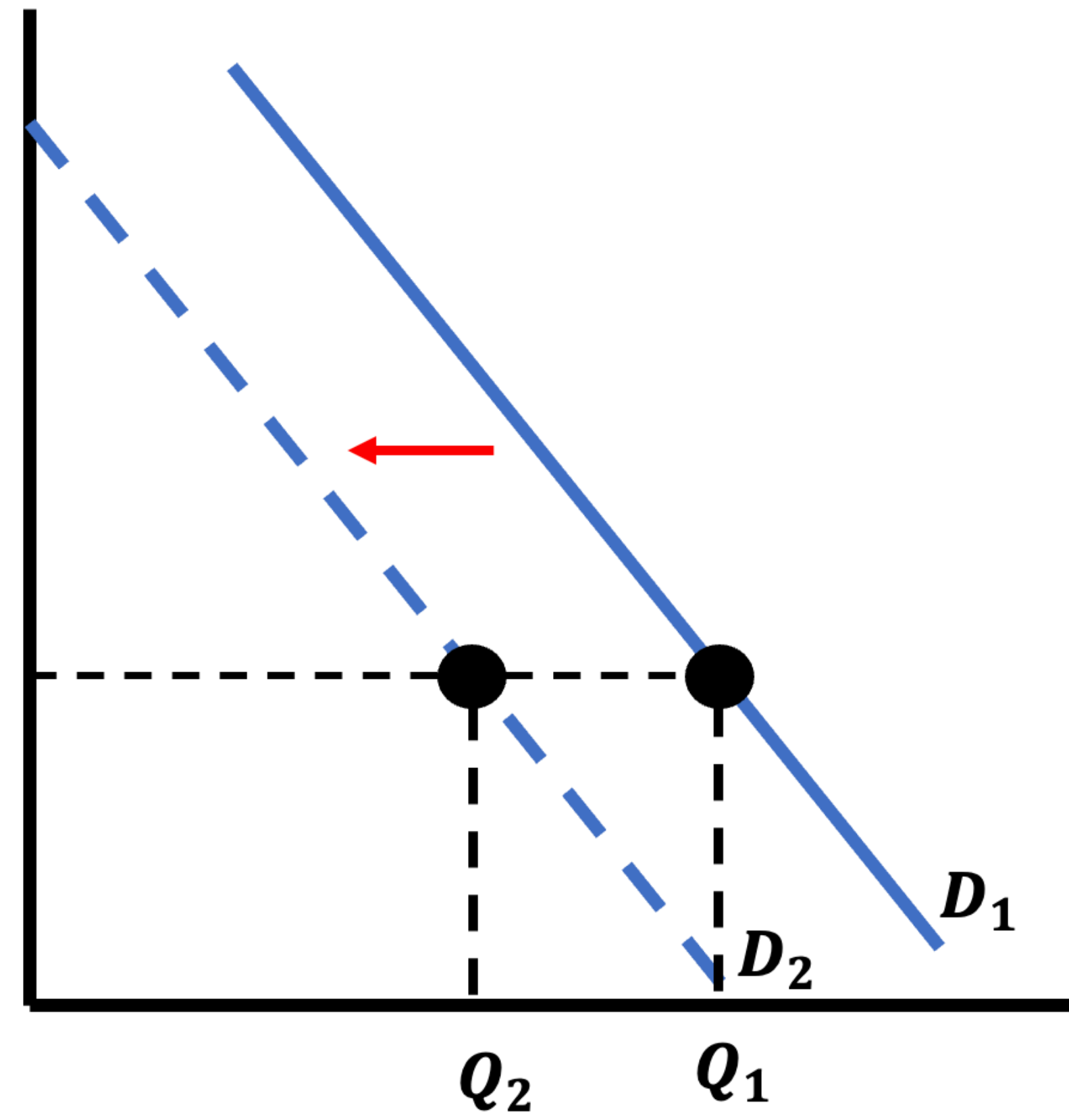
c. be unaffected.

d. change but you don't know how without more information.

**Bananas**



**Vanilla Pudding**



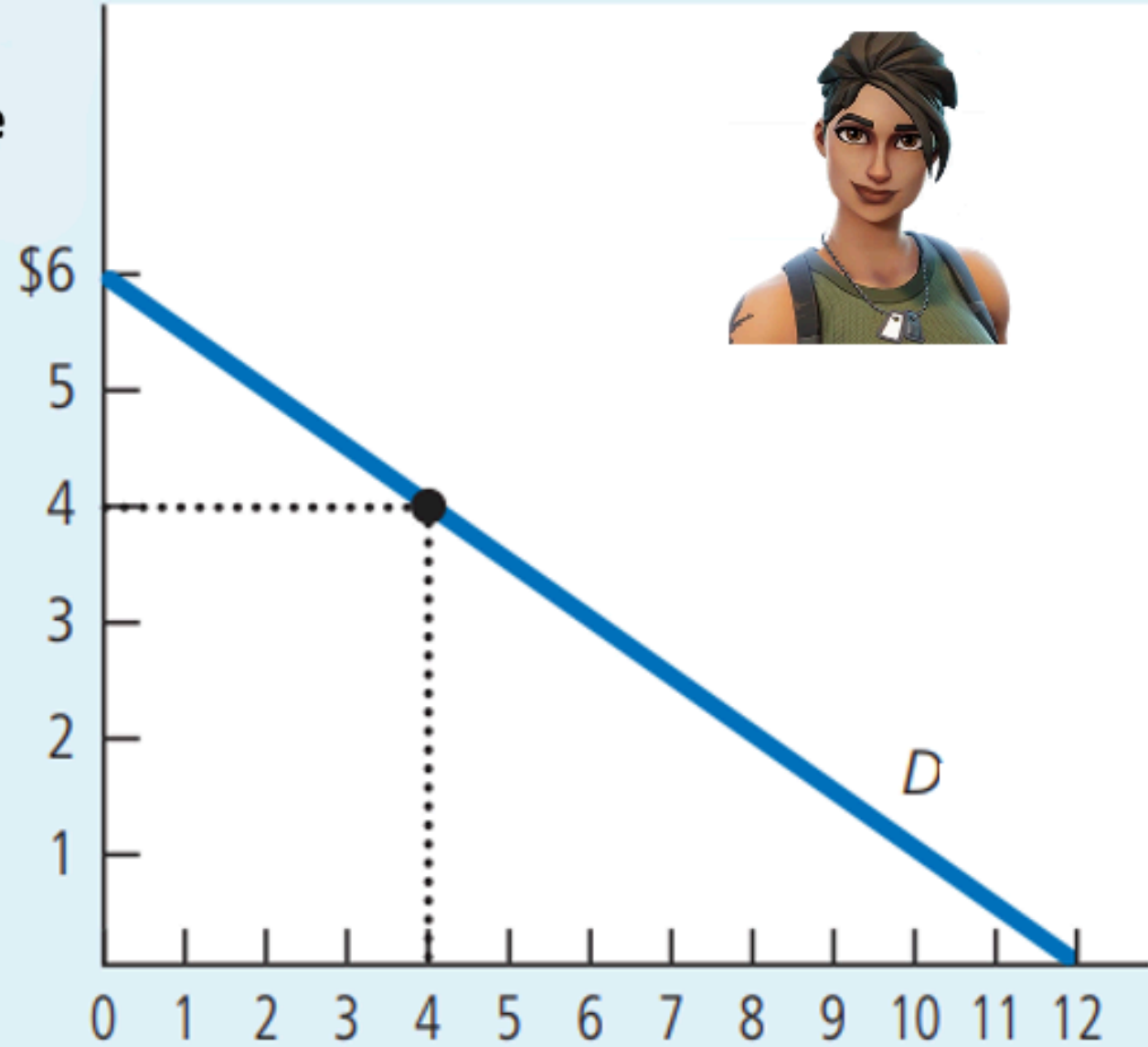






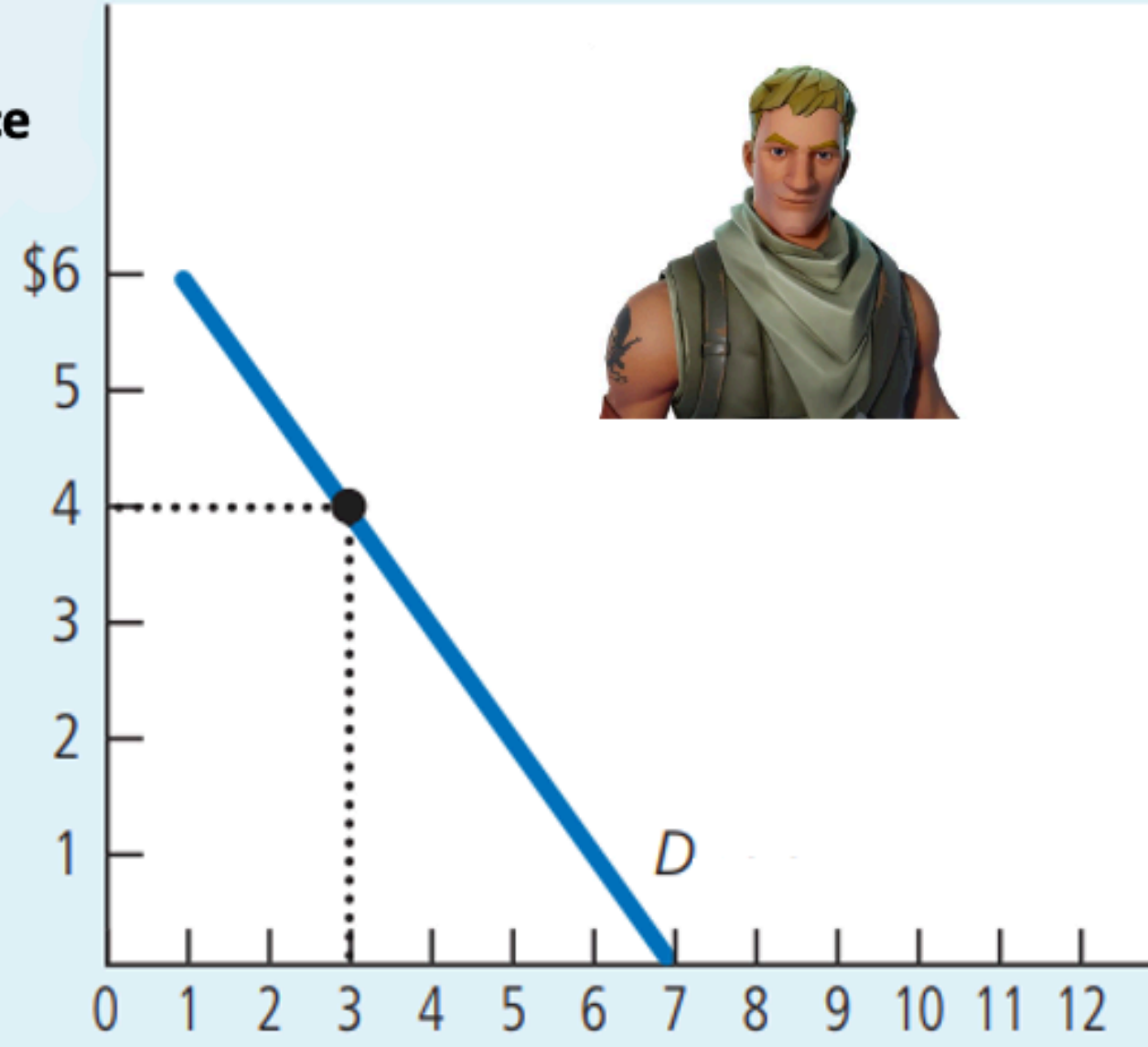
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Price of Slurp Juice



Quantity of Slurp Juice

Price of Slurp Juice

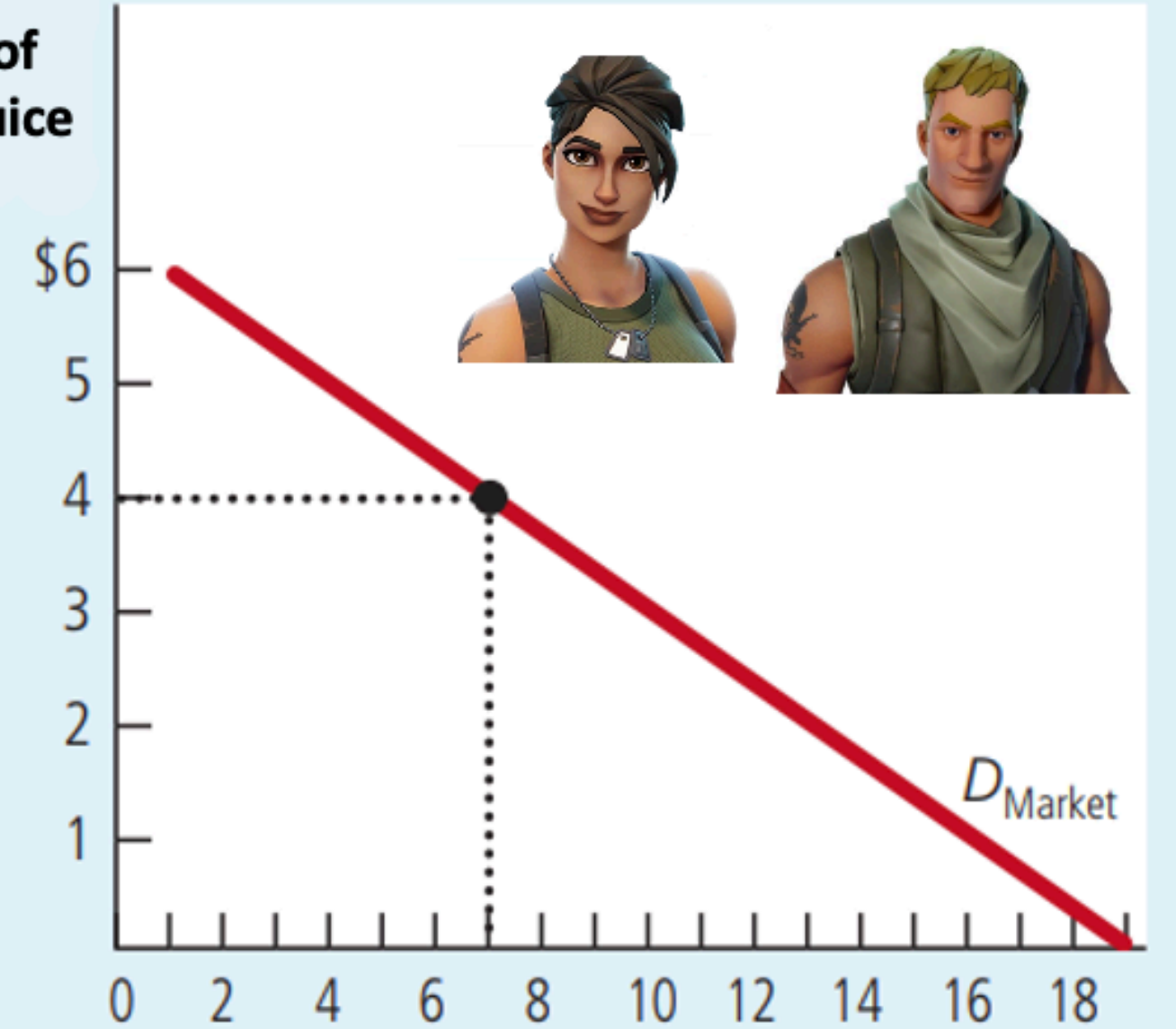


Quantity of Slurp Juice

=

Market Demand

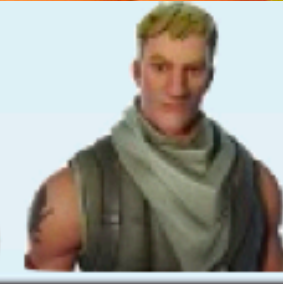
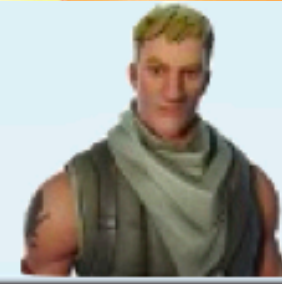
Price of Slurp Juice



Quantity of Slurp Juice



## Slurp Juice



\$0

12

+

7

=

19

1

10

6

16

2

8

5

13

3

6

4

10

4

4

3

7

5

2

2

4

6






0

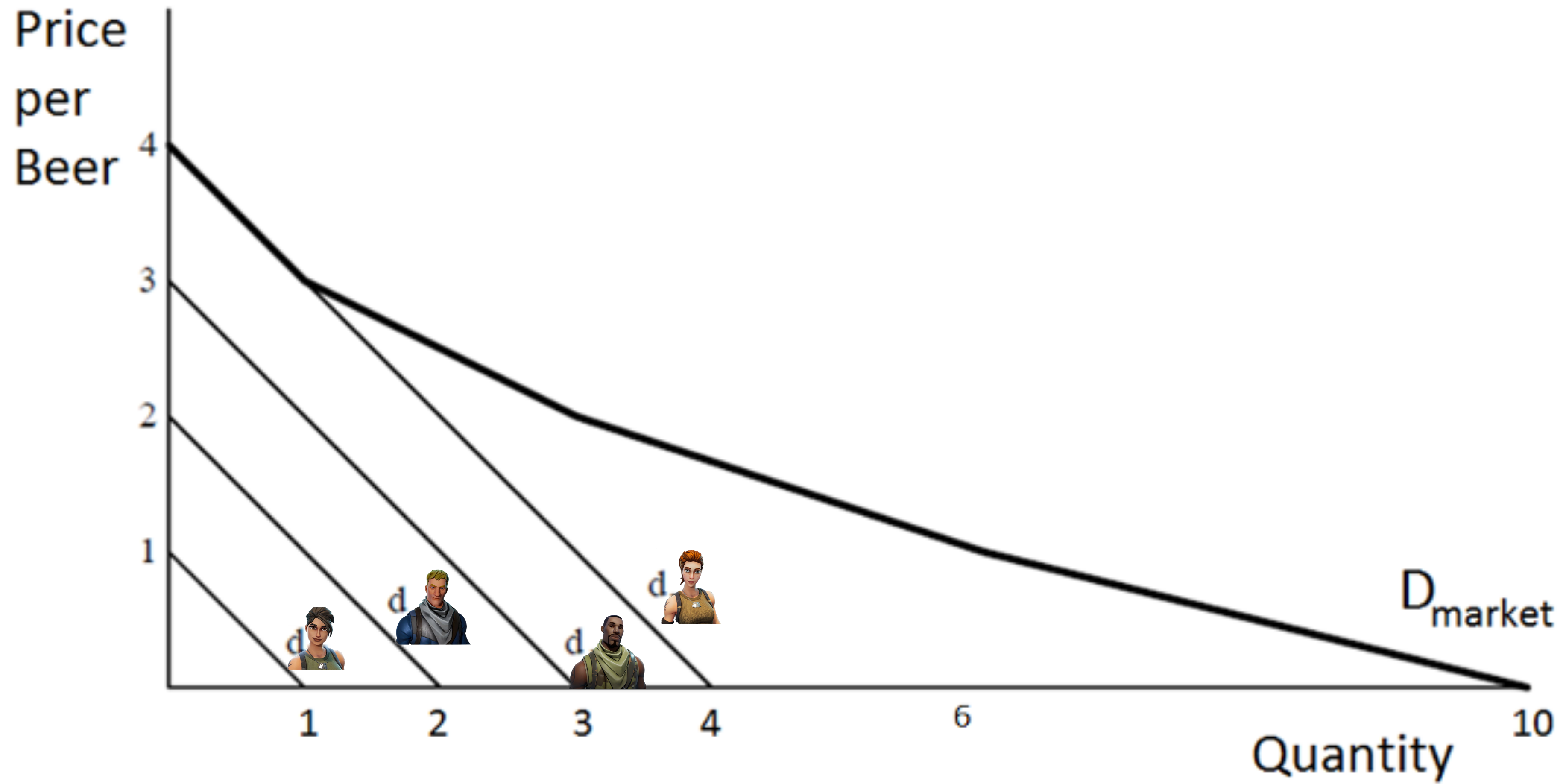
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# Let's expand the market!



Price					
\$0	1	2	3	4	10
\$1	0	1	2	3	6
\$2	0	0	1	2	3
\$3	0	0	0	1	1
\$4	0	0	0	0	0



**Thanks for your attention!**