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STUDY GUIDE Chapter 4, Section 1

For use with textbook pages 89–93

LT 2.1

WHAT IS DEMAND?

KEY TERMS

demand The desire, ability, and willingness to buy a product *(page 89)*

microeconomics The area of economics that deals with behavior and decision making by small units such as individuals and firms *(page 89)*

demand schedule A listing that shows the various quantities demanded of a particular product at all prices that might prevail in the market at a given time *(page 90)*

demand curve A graph showing the quantity demanded at each and every price that might prevail in the market *(page 91)*

Law of Demand The quantity of a good or service demanded varies inversely with its price *(page 91)*

market demand curve The demand curve that shows the quantities demanded by everyone who is interested in purchasing the product *(page 91)*

marginal utility The extra usefulness or satisfaction a person gets from acquiring or using one more unit of a product *(page 93)*

diminishing marginal utility The extra or additional satisfaction received from using additional quantities of the product begins to diminish *(page 93)*

DRAWING FROM EXPERIENCE

Have you ever wanted to buy something that was expensive? Did you wait until the price came down before you bought it, or did you not worry about the price and buy it anyway? After you bought the item, did you want to buy more of it? Why or why not?

This section focuses on why people buy a product at a certain price and how people decide how much of the product they will need.

ORGANIZING YOUR THOUGHTS

Use the cause-and-effect diagram below to help you take notes as you read the summaries that follow. Think about how price changes affect the quantity demanded, or the amounts of goods that people buy.

Change in Price		Effect on Quantity Demanded
If the price increases,	→	then quantity demanded ________.
If the price decreases,	→	then quantity demanded ________.

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STUDY GUIDE (continued) Chapter 4, Section 1

READ TO LEARN

Introduction *(page 89)*

Economics can be studied from different viewpoints. ***Microeconomics*** looks at how individuals and small companies act and make decisions. The concept of demand is a part of microeconomics. ***Demand*** represents all of the different amounts of a good or service that people will buy at different prices.

There are three elements needed in order for demand to take place:

A. A person must want to buy the product.

B. A person must have the money or the ability to buy the product.

C. A person must be willing to spend money on the product.

1. What is demand?

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An Introduction to Demand *(page 89)*

Demand can be measured by gathering information on consumers' habits. This is not always easy to do, however. Economists use different tools to help them see how many products can be sold at different prices. ***Demand schedules*** are tables that list the various prices of an item and how many of the items are sold at each of those prices. ***Demand curves*** show this same information in a graph.

2. What is the difference between a demand schedule and a demand curve?

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The Law of Demand *(page 91)*

The ***Law of Demand*** states as the price of a good or service drops, consumers are likely to buy more of it. The opposite is also true: as the price of a good or services goes up, consumers are less likely to buy it. Economists use the Law of Demand because people tend to buy an item if the price goes down and less if the price goes up. It is also common sense that the Law of Demand works the way it does.

Whereas the demand curve shows the quantity demanded for a certain product by an individual, the ***market demand curve*** shows the quantity demanded for *everyone* who is interested in buying the product.

3. How does an increase or decrease in price affect how much of a product is bought?

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Demand and Marginal Utility *(page 93)*

When a person buys a product, the person thinks about how much use or satisfaction (utility) he or she will get out of it. For example, if you are very thirsty, you might order a cola to ease your thirst. After you drink your cola, your thirst will probably be satisfied and you will not feel the need to drink another one. If you are still thirsty, you might order another one. The amount of additional satisfaction, or ***marginal utility,*** will lessen after every cola you drink. This example shows the idea of ***diminishing marginal utility.*** As a person buys more of the same product, the person feels fulfilled and does not need to continue buying that same product. Demand, then, decreases.

4. How does diminishing marginal utility affect demand?

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STUDY GUIDE Chapter 4, Section 2

For use with textbook pages 95–99

FACTORS AFFECTING DEMAND

KEY TERMS

change in quantity demanded A movement along the demand curve that shows a change in the quantity of the product purchased in response to a change in price *(page 95)*

income effect The change in quantity demanded because of a change in price that alters consumers' real income *(page 96)*

substitution effect The change in quantity demanded because of the change in the relative price of the product *(page 96)*

change in demand Demand increases or decreases because people are willing to buy different amounts of the product at the same price *(page 96)*

substitutes Products used in place of other products *(page 98)*

complements Related goods where the use of one increases the use of the other *(page 98)*

DRAWING FROM EXPERIENCE

Have you ever wanted to buy an item and found that it was on sale? Were you able to buy more of that item because of the sale? Often factors such as price change affect the different amounts of goods that people buy.

In the last section, you read about what demand is and how it is affected by diminishing marginal utility. This section focuses on what causes a change in the amount of a good or service that is bought and what affects the demand for a good or service.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Make sure that you know what the difference is between a change in quantity demanded and a change in demand.

Demand

Factors That Affect a Change in Quantity Demanded	Factors That Affect a Change in Demand
1.	1.
2.	2.
3.	3.
	4.
	5.
	6.

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STUDY GUIDE (continued) Chapter 4, Section 2

READ TO LEARN

Change in the Quantity Demanded *(page 95)*

People buy different amounts of a good or service when the price goes up or down. This is called a ***change in quantity demanded.*** Diminishing marginal utility brings about a change in quantity demanded. Two other factors also bring about a change in quantity demanded. One factor is the ***income effect,*** where the amount a person buys depends on whether or not the person has enough money. A person cannot keep buying the same amount of a good if its price goes up and the person's income does not. The ***substitution effect*** is also a factor that influences a change in quantity demanded. Often there are two products that meet the same need. If there is an increase in the price of one of the products while the other is priced lower, people will buy the product with the lower price.

1. How do the income effect and the substitution effect bring about a change in quantity demanded?

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Change in Demand *(page 96)*

Sometimes something other than price causes demand as a whole to increase or decrease. This is known as a ***change in demand,*** and people will buy different amounts of a good at the same prices.

There are six factors that affect a product's demand:

A. ***Consumer Income*** If a person's income increases, he or she can buy more products and demand grows. If income goes down, fewer products can be bought and demand decreases.

B. ***Consumer Tastes*** People buy more products when they are advertised, in the news, in fashion, new, or in season.

C. ***Substitutes*** Some products are similar and a change in price can affect the demand for one or the other. ***Substitutes*** are goods that can be used in place of other goods. Usually, as the price of a good goes up, demand for its substitute goes up. If the price of a good goes down, demand for its substitute goes down. Butter and margarine are examples of substitutes. If the price of butter increases, the demand for margarine grows. If the price of margarine increases, the demand for butter increases.

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STUDY GUIDE (continued) Chapter 4, Section 2

D. *Complements* are products that are used with each other where the demand for one increases the demand for the other. Two examples of complements are hot dogs and hot dog buns. When people eat hot dogs, they usually eat them with hot dog buns. If the price of hot dogs goes down, then more hot dog buns are bought. If the price of hot dogs goes up, then fewer hot dog buns are bought.

E. *Change in Expectations* The way that people think about the future affects what and how much they will buy. If people think that a product of the future will help them, they will hold off buying one that is available now, which decreases the demand for the product that is available now. If people think that a product will not be available in the future, they will stock up on it before it is hard to find. This increases its demand.

F. *Number of Consumers* As population increases, more people are buying more products. Demand as a whole increases.

2. How do each of the six factors contribute to a change in demand?

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Name ______________________ Date ______________________ Class ______________________

STUDY GUIDE Chapter 4, Section 3

For use with textbook pages 101–107

ELASTICITY OF DEMAND

KEY TERMS

elasticity A measure of responsiveness that tells how a dependent variable such as quantity responds to a change in an independent variable such as price *(page 101)*

demand elasticity The extent to which a change in price causes a change in the quantity demanded *(page 101)*

elastic A given change in price causes a relatively larger change in quantity demanded *(page 102)*

inelastic A given change in price causes a relatively smaller change in the quantity demanded *(page 102)*

unit elastic A given change in price causes a proportional change in quantity demanded *(page 103)*

DRAWING FROM EXPERIENCE

Have you ever bought a product that you needed and the cost wasn't important? What was the product? Why didn't the cost matter to you?

In the last section, you read about factors that affect demand. In this section, you will learn about why certain products are bought even if the price changes.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read through the summaries that follow. Think about how demand changes if a product's price increases or decreases by a large or small amount.

Type of Demand Elasticity	Description
Elastic	
Unit Elastic	
Inelastic	

READ TO LEARN

Introduction *(page 101)*

The study of economics tries to understand how an action will affect an outcome. This is a cause-and-effect relationship. An example of a cause-and-effect relationship in economics is elasticity. ***Elasticity*** is a measure of the change in how much a person will buy if there is a change in a product's price.

1. What is elasticity?

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Demand Elasticity *(page 101)*

Demand elasticity measures how much a change in price affects demand. Demand is ***elastic*** when a small change in the price of a product causes a larger change in demand. Demand is ***inelastic*** if people want nearly the same amount of a product at both higher and lower prices. Demand is ***unit elastic*** when a change in price causes a similar change in the amount demanded.

2. Describe how demand is different when it is elastic, inelastic, and unit elastic.

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The Total Expenditures Test *(page 103)*

One way to measure elasticity is to test the effect of a price change on total expenditures. Total expenditures are the amount that buyers spend on a product at a certain price. In economic terms, this is price multiplied by quantity demanded. When price and total expenditures move in opposite directions, demand is elastic. When both price and total expenditures move in the same direction, demand is inelastic. If there is no change in price and expenditures, demand is said to be unit elastic.

3. What are total expenditures?

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Determinants of Demand Elasticity *(page 106)*

Three questions can be asked to determine whether demand is elastic or inelastic:

A. ***Can the purchase be put off?*** A product that is needed, such as medicine, must be purchased no matter what the cost, making demand inelastic. If, on the other hand, the buyer thinks that the price of the product is too high and the product can be bought later, then demand is elastic.

B. ***Are enough substitutes available?*** If there are enough substitutes for a product, then the buyer can choose the one that has the best price. The more substitutes there are, the more elastic the demand. The fewer substitutes there are, the more inelastic the demand.

C. ***Does the purchase use a large portion of income?*** Products or services that require a small part of a person's income generally are inelastic. When the purchase takes a large amount of a person's income, the buyer is likely to notice increases or decreases in price, making demand elastic.

4. How can one determine whether demand is elastic or inelastic?

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STUDY GUIDE Chapter 5, Section 1

For use with textbook pages 113–120

WHAT IS SUPPLY?

KEY TERMS

supply The amount of a product that would be offered for sale at all possible prices that could prevail in the market *(page 113)*

Law of Supply The principle that suppliers will normally offer more for sale at high prices and less at lower prices *(page 113)*

supply schedule A listing of the various quantities of a particular product supplied at all possible prices in the market *(page 114)*

supply curve A graph showing the various quantities supplied at each and every price that might prevail in the market *(page 114)*

market supply curve The supply curve that shows the quantities offered at various prices by all firms that offer the product for sale in a given market *(page 114)*

quantity supplied The amount that producers bring to market at any given price *(page 115)*

change in quantity supplied The change in amount offered for sale in response to a change in price *(page 115)*

change in supply A situation where suppliers offer different amounts of products for sale at all possible prices in the market *(page 116)*

subsidy A government payment to an individual, business, or other group to encourage or protect a certain type of economic activity *(page 117)*

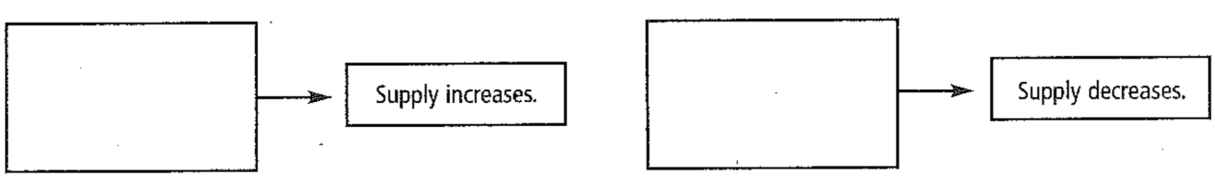
supply elasticity A measure of the way in which quantity supplied responds to a change in price *(page 118)*

DRAWING FROM EXPERIENCE

Have you ever gone to a store to buy something, only to find out that the store had sold out its supply of the item? What did you do? This section focuses on supply in the marketplace and how economists measure it.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Think about how different factors affect supply.



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STUDY GUIDE (continued) Chapter 5, Section 1

Introduction (page 113)

Supply is the amount of output (product) that producers will bring to market at each and every price. The ***Law of Supply*** states that the amounts of product offered for sale change depending on its price. If prices are high, suppliers will offer more amounts for sale. If prices are low, they will offer lesser amounts for sale.

1. In which case will a toymaker offer more fashion dolls: if the company can charge $20 for each doll, or if it can charge $10 for each doll? Explain your answer.

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An Introduction to Supply (page 113)

Supply can be represented in a ***supply schedule,*** which is a list of different amounts of a product that the manufacturer supplies at all prices that are possible. Supply can also be represented as a ***supply curve***—a graph showing the various amounts that a producer supplies at each and every price that might prevail at the market. The ***market supply curve*** shows the amount of the product offered at different prices by all the companies that sell the product.

2. How do a supply curve and a market supply curve differ?

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Change in Quantity Supplied (page 115)

The ***quantity supplied*** is the amount of a product that the producers offer for sale at any specific price. The change in the amount of product offered for sale in response to a price change is called ***change in quantity supplied.*** In general, if the price of a product goes up, the producer offers more of the product for sale.

3. What causes a change in the quantity of a product that is supplied?

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Change in Supply *(page 116)*

A ***change of supply*** is a change of the quantity that will be supplied at each and every price. Although a change in quantity supplied is caused by a price change, a change in supply—whether a decrease or an increase—is caused by several other reasons. Inputs are the materials and labor needed to make the product. If the cost of inputs drops, then the supply of a product increases. If the price of inputs increases, then the supply decreases. If management makes workers want to work harder, the supply increases. If workers are unhappy, the supply usually decreases.

New technology tends to decrease the cost of production, because newer machinery makes products better and more quickly than the old technology. This increases supply. If firms are taxed, it costs more for them to make products, and their supply decreases. A ***subsidy*** is payment that a government gives to a business to help the business. If a firm receives a subsidy, the extra money helps it increase its supply of product.

If producers expect a price to go up, they may decrease the supply for now. If they expect a price slump, they increase the supply while the price is still high. When the government makes businesses obey strict rules, the supply generally decreases because it becomes harder for firms to produce goods. Fewer government rules usually mean an increase in supply. If more firms produce a product, the supply goes up. If the number of firms decreases, the supply decreases too.

4. Do you think the supply of handmade clothing in the market is larger or smaller than the supply of machine-made clothing? Explain your answer.

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Elasticity of Supply *(page 118)*

Supply elasticity is a measurement of the effect of price change on the amount of a product that the maker supplies. A product has an elastic supply if, when its selling price increases, its supply increases quickly by a large amount. If the firm that makes the product can quickly increase its production, then the supply is likely to be elastic. If the production takes a long time to adjust, then the supply is generally inelastic.

5. Which firm is more likely to have an elastic supply—a candy producer or a shale oil producer? Explain your answer.

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