Chapter 4: Section 2

The Demand Curve Shifts

When Demand Changes, the Curve Shifts

- Demand can change. It can go up, or it can go down.
- A rightward shift means that demand has INCREASED.
- A leftward shift means that demand has DECREASED.
What Factors Cause Demand Curves to Shift?

Five factors cause demand curves to shift:

- **Income.**
  - A good for which demand rises as income rises and falls as income falls is a (n) **NORMAL GOOD**.
  - A good for which demand falls as income rises and rises as income falls is a (n) **INFERIOR** good.
  - If a person buys the same amount of a good when income changes, the good is a neutral good.

- **Preferences.**
  - People’s **PREFERENCES** affect how much of a good they buy.
• *Prices of related goods.*
  
  • With **SUBSTITUTES**, the demand for one good moves in the same direction as the price of the other good.
  
  • With **COMPLEMENTS**, the demand for one good moves in the opposite direction as the price of the other. Complements are goods used together.

• *Number of buyers.* A change in the number of buyers, either an increase or a decrease, can change demand.
Future price.

Buyers who expect the price of a good to be **HIGHER** in the future may buy the good now. In this case, current demand for the good **INCREASES**.

Buyers who expect the price of a good to be **LOWER** in the future may wait and buy the good later. In this case, current demand for the good **FALLS**.
What Factor Causes a Change in Quantity Demanded?

- A change in quantity demanded refers to a movement **ALONG** a demand curve.
- Only the **PRICE** of the good can directly cause a change in the **QUANTITY DEMANDED**.

The only factor that affects quantity demanded is price.
Review Questions

1. Explain what it means if demand increases.

   It means that buyers want to buy more of the good at each and every price.

2. Identify a good that is a substitute for one good and a complement for another. (Hint: A Coca-Cola may be a substitute for a Pepsi but a complement for a hamburger.)

   Coffee and tea are substitutes. Coffee and sugar/cream are complements.

3. In recent years the price of a computer has fallen. What effect is this price change likely to have on the demand for software? Explain your answer.

   Computer hardware and software are complements. With complements, the price of one is inversely related to the demand for the other. Thus, as the price of computers falls, the demand for software is predicted to rise.