Changes in Demand
Economics – Chapter 4, Section 2 KEY

Section 2
I. When Demand Changes, the Curve Shifts
   A. A rightward shift means that demand has INCREASED.
   B. A leftward shift means that demand has DECREASED.

II. What Factors Cause Demand Curves to Shift?
   A. Income
      1. A good for which demand rises as income rises and falls as income falls is a (n) NORMAL GOOD.
      2. A good for which demand falls as income rises and rises as income falls is a (n) INFERIOR good.
      3. If a person buys the same amount of a good when income changes, the good is a neutral good.
   B. PREFERENCES
      1. People’s PREFERENCES affect how much of a good they buy.
   C. Prices of Related Goods
      1. With SUBSTITUTES, the demand for one good moves in the same direction as the price of the other good.
      2. With COMPLEMENTS, the demand for one good moves in the opposite direction as the price of the other.
   D. Number of BUYERS
   E. FUTURE Price
      1. 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.
      2. 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.

III. What Factor Causes a Change in Quantity Demanded?
   A. A change in quantity demanded refers to a movement ALONG a demand curve.
   B. Only the PRICE of the good can directly cause a change in the QUANTITY DEMANDED.

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. It might also relate to the factors that cause a shift in demand: income preferences, prices of related goods, the number of buyers, and expectations of future prices.

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.)
   Answers will vary.

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.
Changes in Demand and Shifts in Demand Curves

When demand changes, the demand curve shifts...

4. If demand increases, the demand curve shifts to the ________________ (right or left), meaning the buyers want to buy ________________ (more or less) of a good at each and every price.

5. If demand decreases, the demand curve shifts to the ________________ (right or left), meaning the buyers want to buy ________________ (more or less) of a good at each and every price.

Factors that Cause Shifts in Demand Curves

Listed below are the five factors that cause demand curves to shift. For each factor, fill in the blanks to describe how the factor affects the demand for a good.

Factor: INCOME

6. As income rises, demand for ________________ (normal or inferior) goods rises while demand for ________________ (normal or inferior) goods falls. As income falls, demand for normal goods ________________ (rises or falls) while demand for inferior goods ________________ (rises or falls).

Factor: PREFERENCES

7. Increased preference for a good ________________ (increases or decreases) demand; decreased preference for a good ________________ (increases or decreases) demand.

Factor: PRICES OF RELATED GOODS

8. If two goods are ________________ (substitutes or complements) and the price of one good rises, the demand for the other good rises. If two goods are ________________ (substitutes or complements) and the price of one good rises, the demand for the other good falls.

9. If two goods are ________________ (substitutes or complements) and the price of one good falls, the demand for the other good rises. If two goods are ________________ (substitutes or complements) and the price of one good falls, the demand for the other good falls.

Factor: NUMBER OF BUYERS

10. The more buyers in a particular market area, the ________________ (higher or lower) the demand; the fewer buyers, the ________________ (higher or lower) the demand.

Factor: FUTURE PRICE

11. If buyers expect prices to rise in the future, they will buy ________________ (now or later). If buyers expect prices to fall in the future, they will buy ________________ (now or later).

Demand Versus Quantity Demanded

12. What will cause a change in the demand for a good?

Future Price, Income, # of Buyers, Preferences, Price of Related Goods

13. What will cause a change in the quantity demanded of a good?

Price
14. How is a change in demand represented on a graph?

The demand curve shifts to the right if demand increases.
The demand curve shifts to the left if demand decreases.

15. How is a change in quantity demanded represented on a graph?

Movement along the demand curve.

Changes in Demand and in Quantity Demanded

In the following questions, fill in the blanks to describe how each event will affect the demand for large sport utility vehicles (SUVs).

16. The price of gasoline hits $5 a gallon.

Affect: The demand for large SUVs will ___________ (increase, decrease or stay the same). The demand curve will shift to the ___________ (right, left, or none) because of __________________________ (income, preferences, price of related goods – complements, price of related goods – substitutes, number of buyers, future price or a change in price).

17. Smaller, sportier “crossover vehicles” hit the market and become the latest craze.

Affect: The demand for large SUVs will ___________ (increase, decrease or stay the same). The demand curve will shift to the ___________ (right, left, or none) because of __________________________ (income, preferences, price of related goods – complements, price of related goods – substitutes, number of buyers, future price or a change in price).

18. Rising steel prices cause the prices of SUVs to rise.

Affect: The demand for large SUVs will ___________ (increase, decrease or stay the same). The demand curve will shift to the ___________ (right, left, or none) because of __________________________ (income, preferences, price of related goods – complements, price of related goods – substitutes, number of buyers, future price or a change in price).

19. Government data shows that the incomes of Americans are expected to rise faster than ever over the next year.

Affect: The demand for large SUVs will ___________ (increase, decrease or stay the same). The demand curve will shift to the ___________ (right, left, or none) because of __________________________ (income, preferences, price of related goods – complements, price of related goods – substitutes, number of buyers, future price or a change in price).

20. Word leaks to consumers that General Motors and Ford plan to offer big rebates on SUVs next month.

Affect: The demand for large SUVs will ___________ (increase, decrease or stay the same). The demand curve will shift to the ___________ (right, left, or none) because of __________________________ (income, preferences, price of related goods – complements, price of related goods – substitutes, number of buyers, future price or a change in price).

21. The government loosens immigration laws, allowing millions of immigrants into the country.

Affect: The demand for large SUVs will ___________ (increase, decrease or stay the same). The demand curve will shift to the ___________ (right, left, or none) because of __________________________ (income, preferences, price of related goods – complements, price of related goods – substitutes, number of buyers, future price or a change in price).
The Relationship Between Income and Demand

As a result of an increase in wages from his employer, Joe increased his consumption of Junior Mints and mangos, decreased his consumption of fried chicken, and maintained the same consumption of yogurt.

Identify each of the goods consumed by Kramer as a normal good, an inferior good, or a neutral good. Then write the letter of the graph that represents the change to Joe’s demand curve for each of the goods.

22. Junior Mints: **NORMAL GOOD**  
35. Graph A

36. Mangos: **NORMAL GOOD**  
37. Graph A

38. Fried Chicken: **INFERIOR GOOD**  
39. Graph B

40. Yogurt: **NEUTRAL GOOD**  
41. Graph C