Changes in Demand
Economics – Chapter 4, Section 2 Class Notes

Section 2

I. When Demand Changes, the Curve Shifts
   A. A rightward shift means that demand has _____________________________.
   B. A leftward shift means that demand has _____________________________.

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) _____________.
      2. A good for which demand falls as income rises and rises as income falls is a (n) ______________________ good.
      3. If a person buys the same amount of a good when income changes, the good is a neutral good.
   B. ____________________________
      1. People’s __________________________ affect how much of a good they buy.
   C. Prices of Related Goods
      1. With __________________________, the demand for one good moves in the same direction as the price of the other good.
      2. With __________________________, the demand for one good moves in the opposite direction as the price of the other.
   D. Number of ____________________
   E. __________________________ Price
      1. Buyers who expect the price of a good to be ______________________ in the future may buy the good now. In this case, current demand for the good _____________________.
      2. Buyers who expect the price of a good to be ______________________ in the future may wait and buy the good later. In this case, current demand for the good _____________________.

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

---
**Review Questions**

1. Explain what it means if demand increases.

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.)

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.

---

**Chapter 4, Section 2**  
*Applying the Principles*

**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 for 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?

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

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

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

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.

*Affected:* 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.

*Affected:* 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.

*Affected:* 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.

*Affected:* 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: ________________________  23. Graph _______  
24. Mangos: ____________________________  25. Graph _______  
26. Fried Chicken: _______________________  27. Graph _______  
28. Yogurt: _____________________________  29. Graph _______  

![Graph A](image1.png)  ![Graph B](image2.png)  ![Graph C](image3.png)
IV. When Supply Changes, the Curve Shifts
A. A rightward shift means that supply has ___________________________.
B. A leftward shift means that supply has ___________________________.

V. What Factors Cause Demand Curves to Shift?
A. Resource Prices
   1. A decrease in a resource price increases supply. The supply curve shifts to the ________.
   2. An increase in a resource price decreases supply. The supply curve shifts to the ___________________________.
B. Technology
   1. ___________________________ is the body of skills and knowledge concerning the use of resources in production.
   2. The ability to produce more output with a fixed amount of resources is a(n) ___________________________.
   3. ___________________________ is the average cost of a good.
   4. An advancement in technology increases supply. The supply curve shifts to the right.
C. Taxes
   1. An increase in ___________________________ decreases supply. The supply curve shifts to the left.
   2. If a tax is ___________________________, the supply curve will shift back to the right.
D. Subsidies
   1. An increase in ___________________________ increases supply. The supply curve shifts to the right.
   2. If a subsidy is ___________________________, the supply curve will shift back to the left.
E. Quotas
   1. A legal limit on the number of units of a foreign-produced good (or import) that can enter a country is a(n) ___________________________.
   2. A quota ___________________________ supply. The supply curve shifts to the left.
   3. If a(n) ___________________________ is eliminated, the supply curve will shift back to the right.
F. Number of Sellers
   1. An increase in the number of sellers increases supply, and the supply curve shifts to the right.
   2. A decrease in the number of sellers decreases supply, and the supply curve shifts to the left.
G. Future ___________________________
   1. It is difficult for producers to keep their goods out of the market and wait for prices to rise if the goods are ___________________________ (eggs, fruits, vegetables, etc.) because they will go bad, or spoil, before the price increase.
H. Weather (in some cases)
   1. Bad weather may decrease the supply of some ___________________________ products. Unusually good weather can increase supply.
   2. Bad weather, such as hurricanes, can also affect the supply of ___________________________ products.

VI. What Factor Causes a Change in Quantity Supplied?
A. The only factor that can cause a change in the quantity supplied of a good is a change in the ________________ of the good.
B. A change in ___________________________ supplied is shown as a movement along a given supply
Applying the Principles
The Supply Curve Shifts (Chapter 5, Section 2)

30. If supply increases, the supply curve shifts ___________________ (right or left), meaning that sellers want to sell ________________ (more or less) of a good at each and every price.

31. If supply decreases, the supply curve shifts ___________________ (right or left), meaning that sellers want to sell ________________ (more or less) of a good at each and every price.

In questions 32-39, the factors that cause supply curves to shift are listed. For each factor, fill in the blanks to describe how the factor affects the supply of a good (whether the factor causes supply to rise or to fall).

32. **Factor:** Resource Prices  
   **Description:** If resources prices fall, supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).  
   If resources prices rise, supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).

33. **Factor:** Technology  
   **Description:** Advancements in technology reduce per-unit costs.  Supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).

34. **Factor:** Taxes  
   **Description:** Higher taxes make production more expensive so supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).  
   Lower taxes shift the supply curve to the ________________ (right or left).

35. **Factor:** Subsidies  
   **Description:** Subsidies make production less expensive so supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).  
   If a subsidy is removed, the supply curve shifts to the ________________ (right or left).

36. **Factor:** Quotas  
   **Description:** Quotas ________________ (increase or decrease) supply and shift the supply curve to the ________________ (right or left).  
   If a quota is eliminated, the supply curve shifts to the ________________ (right or left).

37. **Factor:** Number of Sellers  
   **Description:** If the number of sellers increases, supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).  
   If the number of sellers decrease, supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).

38. **Factor:** Future Price  
   **Description:** If sellers expect the price of a good to rise in the future, they may withhold the good from the market and wait to get the higher price.  In this case, supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).  
   If sellers expect the price of a good to fall in the future, they may supply more of the good now to get the higher price.  In this case, supply ________________ (rises or falls) and the supply curve shifts to the ________________ (right or left).

39. **Factor:** Weather  
   **Description:** Bad weather can reduce the supply of agricultural goods and the supply curve shifts to the ________________ (right or left).  
   Good weather can increase the supply of agricultural goods and the supply curve shifts to the ________________ (right or left).
Supply is not the same as quantity supplied. Answer questions 40-43 on the lines provided.

40. What will cause a change in the supply of a good?

_________________________________  __________________________________

_________________________________  __________________________________

41. What will cause a change in the quantity supplied of a good?

_________________________________

42. How is a change in supply represented on a graph?

_________________________________

43. How is a change in quantity supplied represented on a graph?

_________________________________

In questions 44-52, fill in the blanks to describe how each event will affect the country's total supply of corn and then graph the result.

44. The U.S. government increases the subsidy for corn production.
   Will the supply of corn increase, decrease, or stay the same? _________________
   In which direction will the supply curve shift? ___________________________
   Which of the eight factors causes the shift? _______________________________

45. A major drought destroys crops in America's heartland.
   Will the supply of corn increase, decrease, or stay the same? _________________
   In which direction will the supply curve shift? ___________________________
   Which of the eight factors causes the shift? _______________________________

46. The price of fuel used in farm machinery increases to a new high.
   Will the supply of corn increase, decrease, or stay the same? _________________
   In which direction will the supply curve shift? ___________________________
   Which of the eight factors causes the shift? _______________________________

47. The U.S. government places a quota on all imported farm products.
   Will the supply of corn increase, decrease, or stay the same? _________________
   In which direction will the supply curve shift? ___________________________
   Which of the eight factors causes the shift? _______________________________

48. A newly developed seed increases the corn yield.
   Will the supply of corn increase, decrease, or stay the same? _________________
   In which direction will the supply curve shift? ___________________________
   Which of the eight factors causes the shift? _______________________________
49. As property values rise, many farm fields are turned into housing developments and shopping malls.

Will the supply of corn increase, decrease, or stay the same? ____________________
In which direction will the supply curve shift? ___________________________
Which of the eight factors causes the shift? ________________________________

50. The U.S. government gives farmers a tax cut by allowing them to deduct most expenses.

Will the supply of corn increase, decrease, or stay the same? ____________________
In which direction will the supply curve shift? ___________________________
Which of the eight factors causes the shift? __________________________________

51. Corn prices are expected to rise next month as more ethanol refineries start production.

Will the supply of corn increase, decrease, or stay the same? ____________________
In which direction will the supply curve shift? ___________________________
Which of the eight factors causes the shift? __________________________________

52. Chocolate-covered corn on a stick becomes a new fad at state fairs.

Will the supply of corn increase, decrease, or stay the same? ____________________
In which direction will the supply curve shift? ___________________________
Which of the eight factors causes the shift? ________________________________