2.2 Demand

Key Words

Demand	The willingness and ability to purchase a good or service at the given price over a given time period.
Demand curve	A graph showing how the demand for a good or service varies with changes in its price.
Individual demand	The demand for a good of a service by an individual consumer
Market demand	The total demand for a good or service found by adding together all individual demands
Substitutes	Goods and services that can be used in place of one another eg coffee and tea or Coca Cola and Pepsi
Complementary goods	A person or organisation that directly uses a good or service
Law of demand	For most products the quantity demanded varies inversely with its price

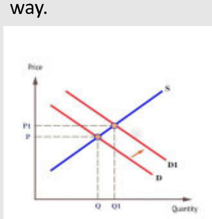
Demand

Demand is the willingness and ability to purchase a good or service in a time period

For most products the quantity demanded and the price move in opposite directions. This inverse relationship is called the law of demand.

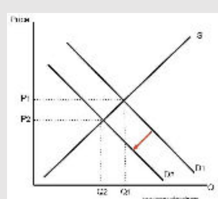
Shifts in Demand

An important consequence of a shift in demand is that both price and quantity move the same way.



If demand increases, ie from D to D1, the price and quantity demanded increase.

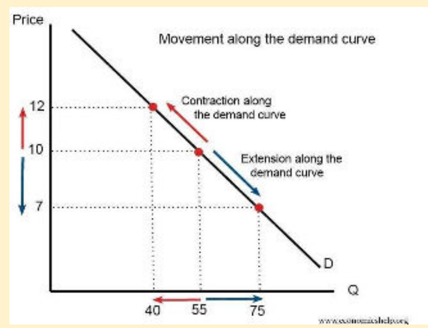
If demand decreases, ie from D1 to D2 the price and quantity demanded decrease.



Movements along the demand curve

A movement up or down an existing demand curve is caused by a change in price. The change in price will come from a shift in the supply curve.

The main consequence of a movement along a demand curve is that price and quantity demanded move in different directions. If price rises, quantity demanded falls and vice versa.



Contraction in demand. An increase in price from £10 to £12 causes a movement along the demand curve, and quantity demand falls from 55 to 40. We say this is a contraction in demand

Expansion/extension in demand. A fall in price from £10 to £7 leads to an expansion (increase) in demand. As price falls, there is a movement along the demand curve and more is bought. (from 55 to 70)

Factors leading to shifts in demand

Population: As the population increases, so does the demand for goods and services

Advertising: An increase in the amount firms spend in advertisements may shift the demand curve to the right

Substitutes : If the price of the Xbox rose, the demand for Playstations would shift to the right.

Income: If income rises, consumers will be able to afford more goods and services at every price.

Fashion and tastes: When a product becomes unfashionable or out-dated, demand can quickly fall away. The rapid decline in sales of Crocs is a great example.

Interest rates: for some goods and services the rate of interest will impact on the level of demand eg mortgages

Complements: If the price of a product's complement (e.g. a video game console to its games) were to rise, the demand for the product would shift to the left.

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