SECTION 3.3 SHIFTS IN THE DEMAND CURVE

- Consumers are influenced by the prices of goods when they make their purchasing decisions. At lower prices, people prefer to buy more of a good than at higher prices, holding other factors constant, primarily because many goods are substitutes for one another.
- A change in a good's price leads to a **change in quantity demanded**, illustrated by moving along a given demand curve. A change in a good's price does not change its demand.
- The other factors that affect the quantity that people will buy are called the *determinants of demand*. A change in these factors shifts the entire demand curve, called a **change in demand**.

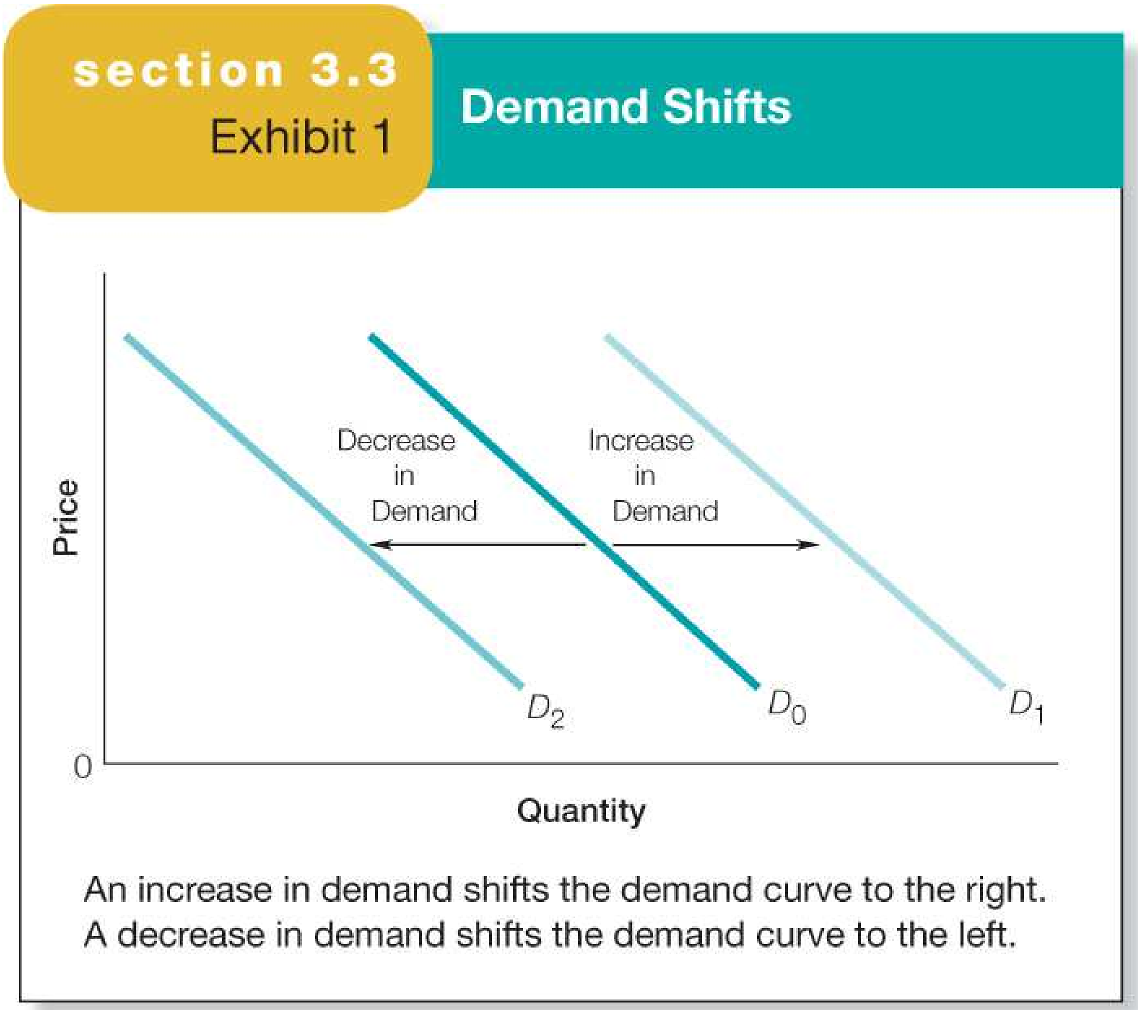

Exhibit 1: *Demand Shifts*

- The determinants of demand include the prices of related goods. **Substitutes** are generally goods for which one can be used in the place of the other, like butter and margarine. Two goods are called substitutes if an increase (decrease) in the price of one causes an increase (decrease) in the demand for the other good.

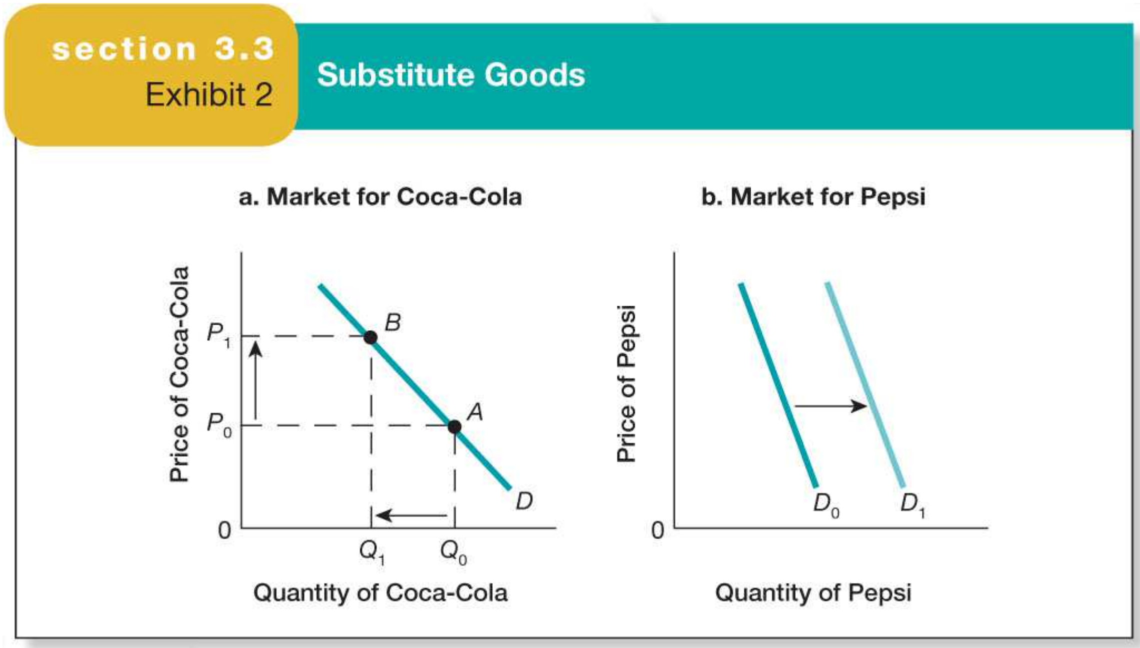

Exhibit 2: *Substitute Goods*

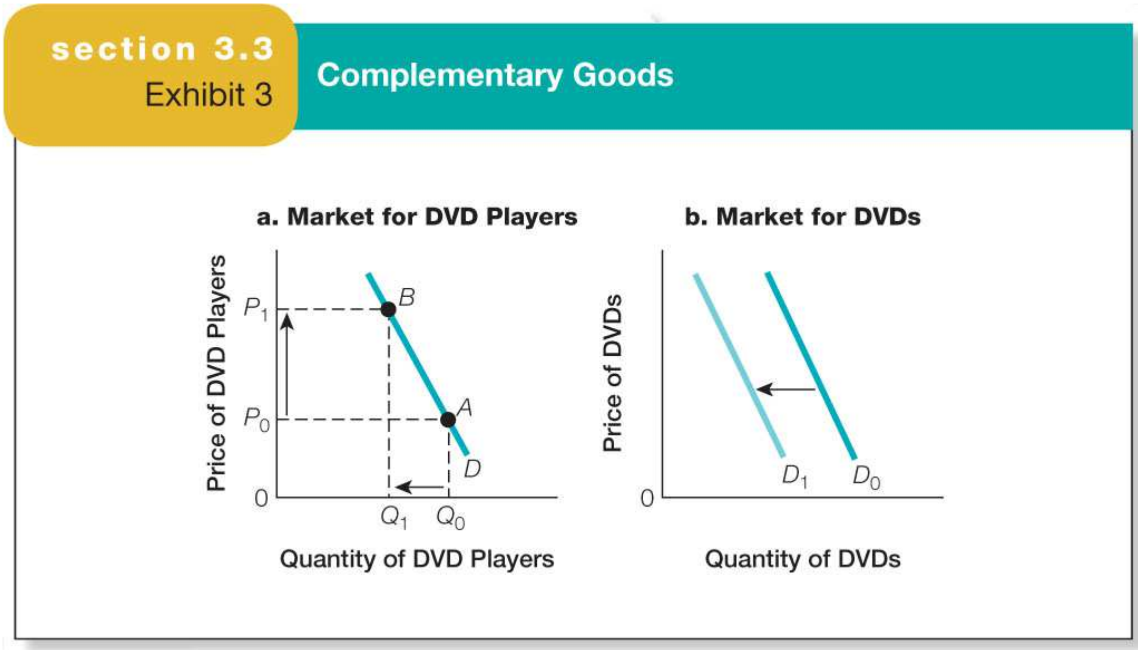

Exhibit 3: *Complementary Goods*

- Two goods are complements if an increase (decrease) in the price of one good causes a decrease (increase) in the demand for the other good. Complements are goods that "go together," often consumed or used simultaneously (e.g., skis and bindings; DVDs and DVD players).

- The consumption of goods and services is generally positively related to the income available to consumers. As individuals receive more income, they tend to changes the amounts of goods and services they purchase. Most goods are **normal** goods, which are those goods that people demand more of if their incomes rise. For normal goods, other things being equal, an increase in income leads to an increase in demand for goods (rightward shift), and decreasing income usually leads to a decrease in the demand for goods (leftward shift). Examples of normal goods are CDs and movie tickets.

- Some goods exist for which rising (falling) income leads to reduced (increased) demand. These are called **inferior goods** (e.g., thrift shop clothes, store-brand products, bus rides, macaroni and cheese). This does not mean the goods are inferior in quality (it may be the finest macaroni available), but simply describes how changes in income affect demand.

- The demand for a good or service will vary with the size of the potential consumer population. An increase in the potential consumer population will increase (shift right) the demand for a good or service.

- Changes in fashions, fads, advertising, etc. can change tastes or preferences. An increase in tastes or preferences for a good or service will increase (shift right) the demand for a good or service. While changes in preferences lead to shifts in demand, much of the predictive power of economic theory stems from the assumption that tastes are relatively stable over a substantial period of time.

- Sometimes the demand for a good or service in a given time period will dramatically increase or decrease because consumers expect the good to change in price or availability at some future date. An increase in the expected future price of a good or a decrease in its expected future availability will increase (shift right) the current demand for it; a decrease in the expected future price of a good or an increase in its expected future availability will decrease (shift left) the current demand for it.
- Changes in demand versus changes in quantity demanded revisited: If the price of a good changes, we say this leads to a change in quantity demanded. If one of the demand determinants changes, we say there is a change in demand.