

## SECTION 3.2 DEMAND

- According to the **law of demand**, the quantity of a good or service demanded varies inversely with its price, *ceteris paribus*. When the price of a good or service falls (other things being equal), the quantity demanded increases.
- The law of demand puts the concept of basic human “needs” to rest as an analytical tool. Needs are those things that you must have at any price. That is, there are no substitutes. There are usually plenty of substitutes available for any good, some better than others. The law of demand, with its inverse relationship between price and quantity demanded, implies that even so-called needs are more or less urgent depending on the circumstances (opportunity costs).
- The primary reason for the inverse relationship between price and quantity demanded is the **substitution effect**. At higher prices, buyers have an incentive to substitute other goods for the good that now has a higher relative price.
- The **income effect** will also tend to create an inverse relationship between price and quantity. As prices rise, people will feel poorer and will buy fewer goods and services.
- An **individual demand schedule** reveals the different amounts of a particular good a person would be willing and able to buy at various possible prices in a particular time interval, other things equal.

### section 3.2 Exhibit 1

### Elizabeth's Demand Schedule for Apples

Price (per kilogram)	Quantity Demanded (kilograms per year)
\$5	5
4	10
3	15
2	20
1	25

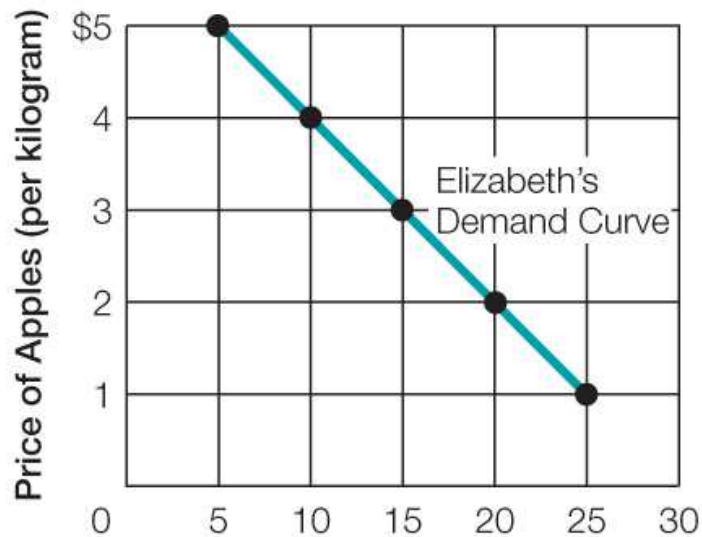
*Exhibit 1: Elizabeth's Demand Schedule for Apples*

- An **individual demand curve** for a particular good illustrates the same information as the individual demand schedule. It reveals the relationship between the price and the quantity demanded, showing that when the price is higher, the quantity demanded is lower.

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### Exhibit 2

## Elizabeth's Demand Curve for Apples



Quantity of Apples Demanded (kilograms per year)

The dots represent various quantities of apples that Elizabeth would be willing and able to buy at different prices in a given time period. The demand curve shows how the quantity demanded varies inversely with the price of the good when we hold everything else constant—*ceteris paribus*. Because of this inverse relationship between price and quantity demanded, the demand curve is downward sloping.

**Exhibit 2:** Elizabeth's Demand Curve for Apples

- Economists usually speak of the demand curve in terms of large groups of people. The horizontal summing (adding quantities) of individual demand curves is called the **market demand curve**.

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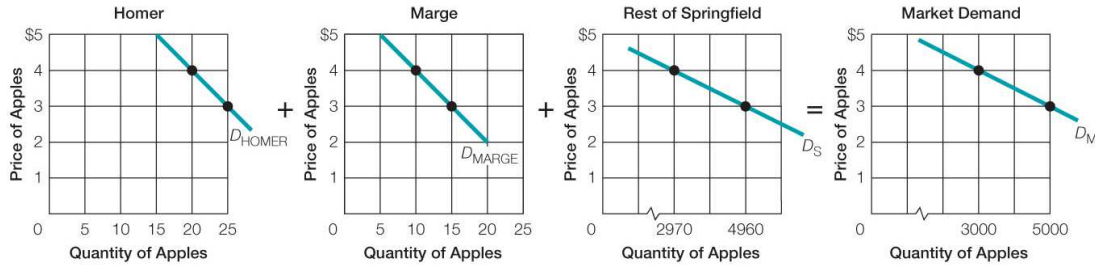
**Exhibit 3**

**Creating a Market Demand Curve**

**a. Creating a Market Demand Schedule for Apples**

Price (per kilogram)	Quantity Demanded (kilograms per year)					=	Market Demand
	Homer	+	Marge	+	Rest of Springfield		
\$4	20	+	10	+	2970	=	3000
\$3	25	+	15	+	4960	=	5000

**b. Creating a Market Demand Curve for Apples**



**Exhibit 3: Creating a Market Demand Curve**

- The market demand curve shows the amounts that all the buyers in the market would be willing to buy at various prices.

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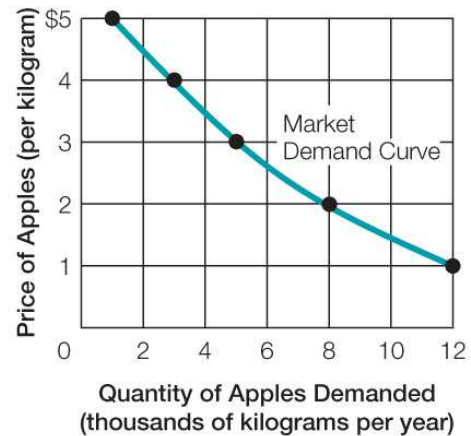
### Exhibit 4

## A Market Demand Curve

**a. Market Demand Schedule for Apples**

Price (per kilogram)	Total Quantity Demanded (kilograms per year)
\$5	1 000
4	3 000
3	5 000
2	8 000
1	12 000

**b. Market Demand Curve for Apples**



The market demand curve shows the amounts that all buyers in the market would be willing to buy at various prices. If the price of apples is \$2 per kilogram, consumers in the market would collectively be willing to buy 8000 kilograms per year. At \$1 per kilogram, the amount demanded would be 12 000 kilograms per year.

**Exhibit 4: A Market Demand Curve**

- The market demand curve is the negative (inverse) relationship between price and the total quantity demanded, while holding constant all other factors that affect how much consumers are able and willing to pay, *ceteris paribus*.