Chapter 4:2: SECTION 2 SHIFTS IN DEMAND CURVE:
Objectives:

- We will study the factors that create changes in demand that can cause a shift in the demand curve.
- Give an example of how a change in demand for one good can affect for a related good.
Psa_37:4  Delight thyself also in the LORD; and he shall give thee the desires of thine heart.
Shift In Demand:

• When we counted the number of pizza slices that would sell as the price went up and down, we assumed that nothing besides the price of pizza would change.

• Economists refer to this assumption as ceteris paribus, a Latin phrase for “all other things held constant.”
• The demand schedule took into account only changes in price.
• It did not consider the effects of news reports or any one of thousands of other factors that change from day to day.
Shift In Demand:

- A demand curve is accurate only as long as there are no changes other than prices that could affect the consumer’s decision.
- In other words, a demand curve is accurate only as long as the ceteris paribus assumption is true.
Shift In Demand:

• When we drop the ceteris paribus rule and allow other factors to change, we no longer move along the demand curve.
• Instead, the entire demand curve shifts.
• A shift in the demand curve means that at every price, consumers buy a different quantity than before.
• This shift of the entire curve is what economists refer to as a change in demand.
Shift In Demand:

• Several other factors can cause demand for a good to change.
• These changes can lead to a change in demand rather than simply a change in the quantity demanded.
INCOME:

• A consumer’s income affects his or her demand for most goods.
• Most items that we purchase are normal goods, goods that consumers demand more of when their incomes increase.
• If an individual’s income increases in every level, it will cause her to buy a normal good at every price.
Inferior goods

• There are also other goods called inferior goods.
• They are called inferior goods because an increase in income causes demand for those goods to fall.
• Inferior goods are goods that you would buy in smaller quantities, or not at all, if your income were to rise and you could afford something better.
Inferior goods

- Used Cars
- Generic brand Food or medication
- Generic brand clothes
- Thrift Store goods
- Big Lots
Consumer Expectations:

• Our expectation about the future can affect our demand for certain goods today.
Discussion Question

• Hypothetical: Suppose that you have had your eye on a new Iphone for several months. One day you walk into the store to look at the Iphone, and the sales person mentions that the store will be raising the price in one week. What would you do?
Consumer Expectations:

- The current demand for a good is positively related to its expected future price.
- If you expect the price to rise, your current demand will rise, which means you will buy the good sooner.
- If you expect the price to drop, your current demand will fall, and you will wait for the lowest price.
Population:

• Changes in the size of the population will also affect the demand for most products.
• For example, a growing population needs to be housed and fed.
• Therefore, a rise in population will increase demand for houses, food, and many other goods and services.
• Example is the Baby boomers.
CONSUMER TASTES and ADVERTISING:

- Advertising and publicity often play an important role of trends and fads.
- Changes in tastes and preferences cannot be explained by changes in income or population or worries about future price increases.
Demographics

- Are the statistical characteristics of population such as age, race, gender, occupation, and income level.
- Businesses use this data to identify who potential customers are, where they live, and how likely they are to purchase a specific product.
- Demographics also have a strong influence on the packaging, pricing, and advertising for a product.
Advertising

• Companies spend monies on advertising because they hope it will increase the demand for the goods they sell.

• Considering the growing sum of money spent on advertising in the U.S. each year, companies must believe that investment is paying off.
Discussion Question

- Describe what type of advertising draws your attention?
- Describe if you have been influenced to buy a particular product and what advertisement caused you to buy that product?
Prices of Related Goods:

• The demand curve for one good can also shift in response to a change in the demand for another good.
• There are two types of related goods that interact this way.
• Complements and substitutes.
Complements and Substitutes:

• Complements are two goods that are bought and used together.
• Boots and Skis. (Complements)
• Cars and tires (complements)
• Cell phones and cell phone cases.
• I pads and I pad cases (complements).
Complements and Substitutes:

- Substitutes are goods that are used in place of one for another.
- For example: Butter versus margarine
- Galaxy versus I-Phone
- Lakers versus Celtics (j/k)
Discussion Question

• Go online on your I-pad and copy and paste pictures of two examples of an inferior good, two examples of substitutes, two examples of compliments. Please create a PDF document.