

ECONOMICS

Chapter 4 Sec 2

○ Factors Affecting Demand

Change in Quantity Demand

- A movement along the demand curve that shows a change in the quantity of the product purchased in response to a change in price.

Income effect

- A change in quantity demanded because of a change in price that alters consumers' real income
 - OIL, GAS, FOOD, TRAVEL, CLOTHES
 - An increase in the cost of living.

The Substitution Effect

- Is the change in quantity demanded because of the change in the RELATIVE price of the product.
 - Replace an expensive item with an item that is less costly.

Change in Demand

- Because people are now willing to buy DIFFERENT amounts of the product at the same price.
 - As a result the demand curve shifts.

Consumer Income

- When income goes up, you can buy more goods and services.
- When income goes down, you buy less goods and services.

Consumer Tastes

- Not everyone likes the same thing.
 - Music, food, clothes, etc.
- As technology advances, consumers want the most up-to-date and “coolest” gadgets.
 - iPhone vs. the old “brick” car phones.
 - MP3/iPODs vs. portable CD players.



Substitutes

- A change in the price of related products can cause a change in demand.
- Because they can be used in place of other products.

Complements

- Other related goods are known as *complements* because the use of one increases the use of the other.
 - PC's and software are complements.

Change in Expectations

- Expectations refers to the way people think about the future.
 - Audio company announces a technology that allows more music to be downloaded at a time.