

What factors cause changes to the Demand curve?

Section 1.1 Markets

The BIG ideas!

Big Idea 3

Supply+Demand = Market. Shifts and Movements allocate scarce resources on the X axis and price sends signals and non price determinants also result in allocation changes on the X axis.

Webnote 110
Please do not print this webnote. Class notes are available on webnotes in section 1 of website

Price of X

Quantity of X

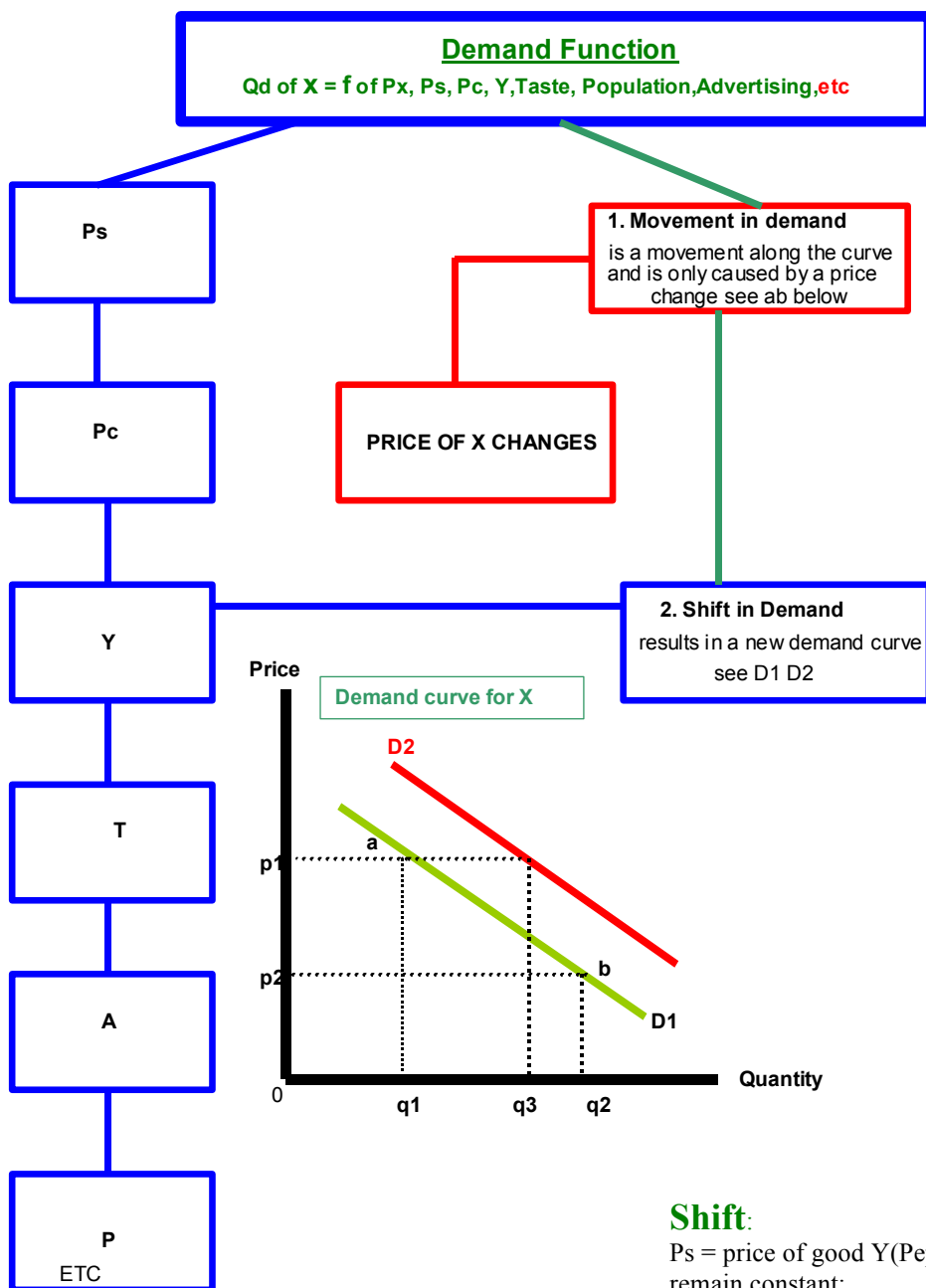
What possible changes need to take place for a market to adjust from e-10 to e-9?

The graph shows a coordinate system with 'Price of X' on the vertical axis and 'Quantity of X' on the horizontal axis. There are three downward-sloping demand curves: D1 (orange), D2 (red), and D3 (green). There are three upward-sloping supply curves: S1 (yellow), S2 (white), and S3 (pink). A horizontal line is drawn at price level 10, intersecting D1 at quantity 10 and S1 at quantity 11. A horizontal line is drawn at price level 9, intersecting D3 at quantity 9 and S3 at quantity 8. A green circle with a smiley face is centered at the intersection of D3 and S3. Numbers 1 through 12 are placed at various points on the curves to indicate shifts: 1 (D1 to D2), 2 (D2 to D3), 3 (S1 to S2), 4 (D1 to D3), 5 (D2 to D3), 6 (S1 to S2), 7 (S2 to S3), 8 (S1 to S3), 9 (D1 to S3), 10 (D2 to S3), 11 (D1 to S3), and 12 (D2 to S3).

Webnote 110: Big Ideas for 1.1

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What factors cause changes to the Demand curve?



Ps = price of substitute good
Pc = price of complementary good
Y = Income of consumer
T = tastes (change over time)
A = advertising, fashion, trends.
P = population

Movement:

Px = price of good X

If price of good falls ceteris paribus then other factors affecting demand remain unchanged. Therefore quantity demanded (**Qd**) rises from **q1 to q2** on D1 (green) This is the Law of Demand).

Shift:

Ps = price of good Y(Pepsi) rises and all other variables remain constant:

If price of good Y rises ceteris paribus then other factors affecting demand remain unchanged. Therefore quantity demanded (**Qd**) rises from **q1 to q3**. This is a non-price determinant).

Price + Non Price determinants. Demand Function Changes: explained in the context of 'Ceteris Paribus'.			
Non Price determinants	What does it mean?	Note	How does supply shift?
Price of substitutes	This refers to substitute goods that the firm produces. E.g. coca cola and pepsi. The goods are similar and the consumer can substitute one for the other.	Note substitutes here are competitive goods and the consumer will change from one to the other depending on a range of factors including price, taste, advertising etc.	Shift If price of substitute good Y rises then demand for X results in D1 shifting to D2
Price of complements	Consumer demand for our Good X is also influenced by the price of complementary goods i.e. goods that are used in conjunction with X. e.g. tennis ball and tennis racket	If price of good Y falls then consumers will be encouraged to buy more of good X.	Shift If Price of Y falls then demand for X results in D1 shifting to D2. The change would be reversed if the price of Y rose.
Income (Y)	More income then we expect the consumers to buy more of all goods (normal goods). Less income the opposite occurs.	Income is a key non price determinant of demand and causes key shifts in demand.	Shift: If income falls then demand of X results in D2 shifting to S1. Opposite occurs for an income increase.
Taste	Taste changes over time.	Key influences here are Internet influencers and celebrities, media hubs, fashion industry etc who cause changes in taste over time.	Shift If taste changes in favour of a good or service then this can have a big impact on demand. Rising taste for a product/service shifts Demand from D1 to D2 e.g. rise in demand for electric cars as consumer taste shifts to environmentally friendly transport
Advertising	Advertising is a key driver of demand.	Pepsi, Adidas, BMW, Samsung pay for huge advertising campaigns to impact consumer behaviour. Target is to make the consumer brand loyal.	Shift Goods that have close substitutes spend a lot of money advertising. This includes large multi national corporation but also your local fast food operator who is competing with many firms in your local area. Successful advertising shifts demand from D1 to D2.
Population	Changes in population affect demand.	Aging population affects demand for health care products or simply a growing population causes changes in demand for all goods particularly food and clothing.	Shift Some countries have a particularly aging population e.g. Japan, Germany have had this problem and therefore demand for health care products will tend to shift from D1 to D2.
Price Change	What does it mean?	Note	How does supply change?
Price of good X	Firms change the price of the good along the demand curve	Price change is a key factor influencing consumer/ household/buyer.	Movement along the demand curve following the law of demand: P rises- qD falls P falls- qD rises