DEMAND LECTURE I

OBJECTIVE: To determine how people respond to price changes over time with respect to commodities. We will be dealing with the commodity markets for now, the input markets may be covered later in the course.

I. MORE PREFERRED RATHER THAN LESS

A. Remember that most people prefer more rather than less economic goods and that we will never reach the point at which so many goods are produced and distributed that no one wants more.

B. Must manage our incomes so that we satisfy as many wants as possible, or satisfy those wants having the highest priority

1. It is irrational to spend money indiscriminately and without any attention to the limitations of our incomes.

2. It is prudent to carefully consider alternative ways of spending our limited incomes consistent with maximum satisfaction (UTILITY).

II. SUBSTITUTES: There are substitutes for almost anything

A. Most goods are not free, they can only be obtained by sacrificing something else that is also a good (usually money, or what that money could buy)

1. This sacrifice is measured by PRICE

2. Intelligent choice among substitutes requires a balancing of additional costs against additional benefits

B. We think of food, clothing, and shelter as necessities. Are they?

C. Other items such as clean air, transportation, safety, medical care, and formal education are referred to as necessities
D. A varying number of substitutes can be found for almost all wants

1. Few substitutes for food!

2. BUT there is just about an endless number of substitutes for a pound of Maxwell House coffee sold at the Super Saver store on Western Blvd.

   a. IMPORTANT NOTE: as we more narrowly define a commodity, the number of available substitutes increase!

   b. gasoline for example:

3. At the consumer level:

E. Each consumer will choose from among varying alternatives based upon his/her personal preferences and the associated prices of the alternatives.
III. THE DEMAND CURVE

A. This is demand curve

Y-AXIS = the sacrifices that must be made to obtain a commodity
also known as the PRICE

X-AXIS = the QUANTITY DEMANDED per unit of time

B. Demand: the willingness and ability of buyers to purchase a given amount of
goods or services, over a range of prices, over a given period of time.
The relationship of the quantity of a good that will be bought at various
prices can be presented in the form of a demand schedule or portrayed
graphically as a demand curve.

OR

The relationship showing the various amounts of a commodity that
buyers would be willing and able to purchase at possible alter-
native prices during a given time period, all other things
remaining constant.

1. quantity demanded: the specific amount of a commodity that people
are willing to buy at a PARTICULAR price, during a given period of time

a. Qd is a flow variable (measured over a period of time) rather
than a stock variable (measured at a point in time)

b. one point on the demand curve represents a single price-
quantity demanded relationship PER UNIT OF TIME

c. a change in quantity demanded is represented by a movement
   along the existing demand curve
C. **Law of Demand**: principle stating that as the price of a commodity increases, the less consumers will purchase per unit of time. As price decreases, the quantity demanded increases per unit of time *ceteris paribus*.

IV. **MINIMUM WAGE LAWS**: A practical example

A. Assume the minimum wage is $4.00 per hour and the government proposes to increase the minimum wage to $5.00 per hour. This means that employers must pay an additional $1.00 per hour.

B. What do NC employers do?

1. They decide

2. Substitute

3. What did machinery and equipment dealers do whenever the minimum wage increased?
V. INFLATION AND RELATIVE PRICES

A. Many people often argue with economists that the law of demand is wrong! These people, however, have forgotten to take inflation into account!!

1. The inflation of the late 70's and early 80's in the US resulted in apparent price increases.

2. many of these price increases were not real increases at all.

B. Inflation is an increase in the general price level or an increase in the average money price of goods and services and is usually measured by the CPI

1. 

2. 

3. 

C. If the price of beef increases 10%, and the average of all other prices increase 10%, then the price of beef did not increase relative to all other prices. The real price of beef is unchanged.

D. IN THIS COURSE, WHEN THE PRICE OF A COMMODITY IS SAID TO INCREASE, WE ARE ASSUMING THAT THE PRICES OF ALL OTHER GOODS AND SERVICES HAVE NOT INCREASED, THEY REMAIN UNCHANGED ceteris paribus.

Therefore, we are looking at the price change of a commodity relative to all other prices!
E. **Relative Price**: is the price of any item compared to the price of other commodities, or relative to an average of all other prices in the economy.

1. **Nominal Price**:

2. **Consumer buying decisions** are dependent upon **relative price** not

F. **An example**:

<table>
<thead>
<tr>
<th>Nominal Price</th>
<th>Relative Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>Price</td>
</tr>
<tr>
<td>3 years ago</td>
<td>today</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hamburger</th>
<th>Average of prices in the economy (CPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Price</td>
<td>Relative Price</td>
</tr>
<tr>
<td>Price</td>
<td>Price</td>
</tr>
<tr>
<td>3 years ago</td>
<td>today</td>
</tr>
</tbody>
</table>

Hot dogs