DEMAND LECTURE II

I. LETS LOOK AT THE COMMODITIES WHEAT AND GASOLINE (leave room for 2 graphs)

A. Pe and Qe represent the market clearing price
   1. 
   2. 

B. Assume the government sets a price at P1:
   1. 
   2. 

C. Assume the government sets a price at P2:
   1. 
   2. 

D. We could have a surplus and still have a scarce commodity, RIGHT?
   1. 
   2.
II. As a commodity's own price changes, we move along the existing demand curve

A. Other factors affect the demand curve's position, shape, and slope

   1. These other determinants, in addition to the commodity's own price are:

      a.

      b.

      c.

      d.

      e.

      f.

      g.

      h.

      i.

      j.

B. Consumer's disposable income

   1. If we increase consumer's disposable income ceteris paribus, what happens?

   2. The demand curve shifts to the right
3. If we decrease the consumer’s disposable income \textit{ceteris paribus}, what happens?

4. The demand curve is said to shift to the left.

5. Associated with this income phenomenon we have created another classification of commodities:

   a. \textbf{Normal good or service}:  
      
      increase in disposable income shifts curve right
      
      decrease in disposable income shifts curve left

   b. \textbf{Inferior good or service}:
      
      increase in disposable income shifts curve left
      
      decrease in disposable income shifts curve right

   examples:
C. Change in the price of substitutes, *ceteris paribus*:

1. an increase in the price of a substitute will result in an increase in the demand for the commodity of interest (COI) (demand shifts right)

2.

3. For example, let's look at beef while considering pork as a substitute

   a. If the quantity of pork available were somehow restricted resulting in a price increase in pork:

   b. Result is an increase in the demand for beef, this

4. Therefore, an increase in the price of a substitute will shift the entire demand curve of the commodity of interest to the right.

5. A decrease in the price of a substitute will shift the entire demand curve of the commodity of interest to the left.
6. Immediate effect of a supply restriction for the substitute is a price ________________.

This will affect the demand curve for the COI by ________________ the demand (shifts to the right) for the COI.

7. Immediate effect of an increase in supply is a
D. Change in the price of a complement, ceteris paribus:

1. Complements are goods that go together, such as left and right shoes, gas and cars, milk and cereal, bread and butter, guns and ammo, etc.

2. If the price of a complement increases, then the demand of the COI decreases.

3. If the price of a complement decreases, the demand of the COI increases.

Examples:
E. Consumer preferences and taste

1. As preferences change the demand curve will also change.

2. For example: What would be the result of the following statements, if true, on the demand curve for each commodity?

   Animal fat leads to a higher risk of heart attacks.

   Result:

   Nitrites in bacon have been linked to cancer.

   Result:

   Increasing fiber in the diet reduces the chance of getting colon cancer

   Result:
Trichinae can be eliminated in pork by a new irradiation process

Result:

National Inquirer says that people who own and care for rose bushes live 20 years longer than the average person.

Result:
F. Expectations about the future

1. The peanut butter scare: a news release said that the peanut crop would be short that year and peanut butter prices were expected to double.

   a. Result:

   b. NOTE: If the commodity we were analyzing was not storable, then the demand curve may NOT shift

2. Shifting indicates the change in demand that occurs due to a change in one of the determinants of demand
G. Changes in the population of consumers

H. Weather

NOTE:

WE HAVE BEEN DISCUSSING DEMAND SHIFTERS. IF A DEMAND SHIFTER IS A VARIABLE IN THE ANALYSIS, WE MUST RE-EVALUATE THE DEMAND CURVE OF THE AFFECTED COMMODITY (shift it) BEFORE WE CAN TALK ABOUT PRICES OR THE QUANTITY DEMANDED.
I. Length of the adjustment period

1. This is tied to or related to the availability of substitutes

2. Demand for gasoline:
   
   a. Are we going to give the consumer a day to adjust, a week, a month a year, etc.
   
   b. The longer the time period considered the flatter the demand curve becomes or the more _________________ it becomes.
   
   c. What was a simplified sequence of events that occurred when gas prices at the pump increased so dramatically in the 1970's?

   (1)

   (2)

   (3)

   (4)

   (5)

   d. What was the result of this sequence of events over time?
J. The availability of substitutes

1. If a commodity has _______ substitutes, its demand curve usually has a very _______________________.

2. If a commodity has _______ substitutes, its demand curve usually has a very _______________________.

3. If the slope of the demand curve is very ___________ (few substitutes), the quantity demanded will __________________ very much. The demand curve is _______________________.

4. If the slope of the demand curve is _______________ (many substitutes), the quantity demanded will _______________________ very much. The demand curve is _____________________.
K. Proportion of the consumers budget a good or service represents

1. The less of a consumers budget a commodity represents the more __________________________ the demand curve will be.

2. The more of a consumer's budget a commodity represents the more __________________________ the demand curve will be.