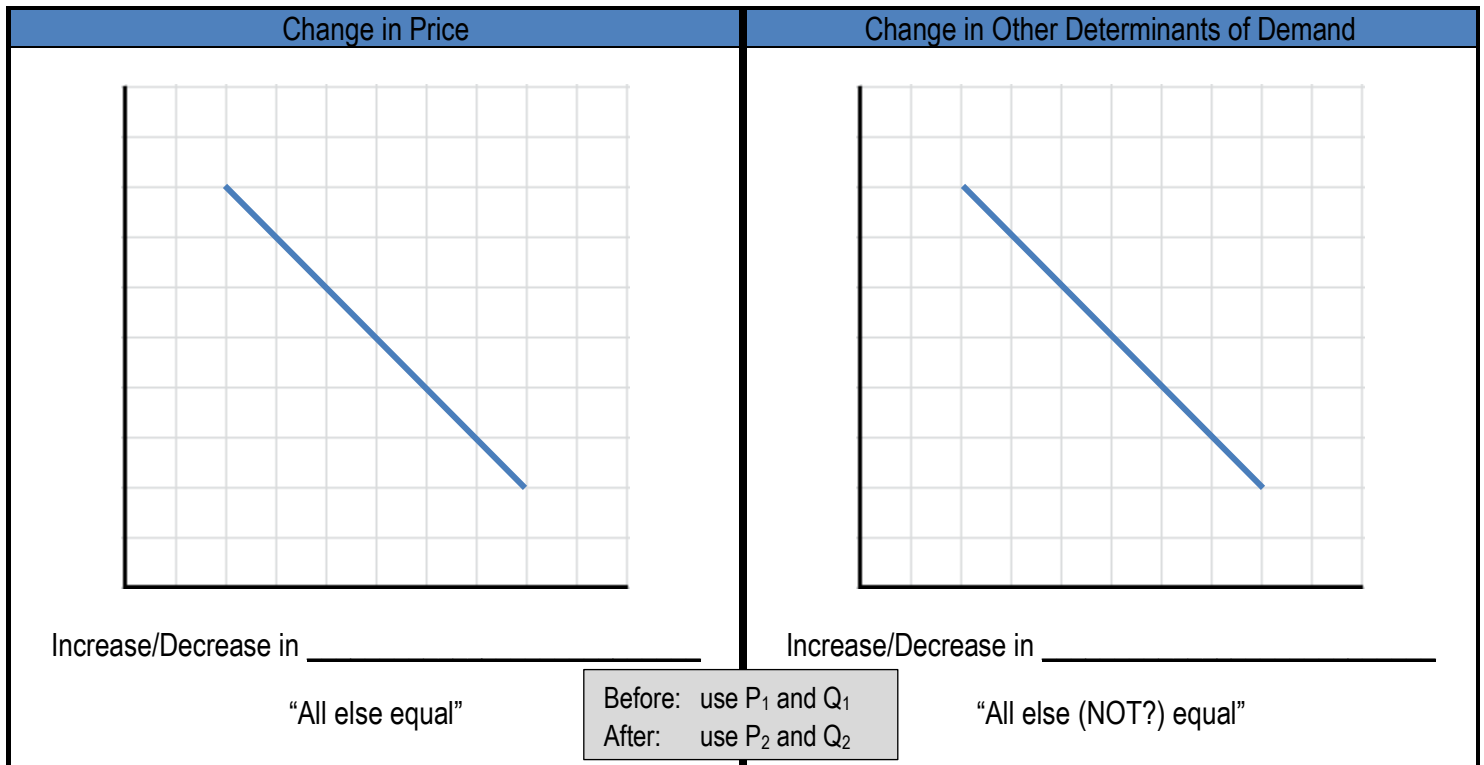


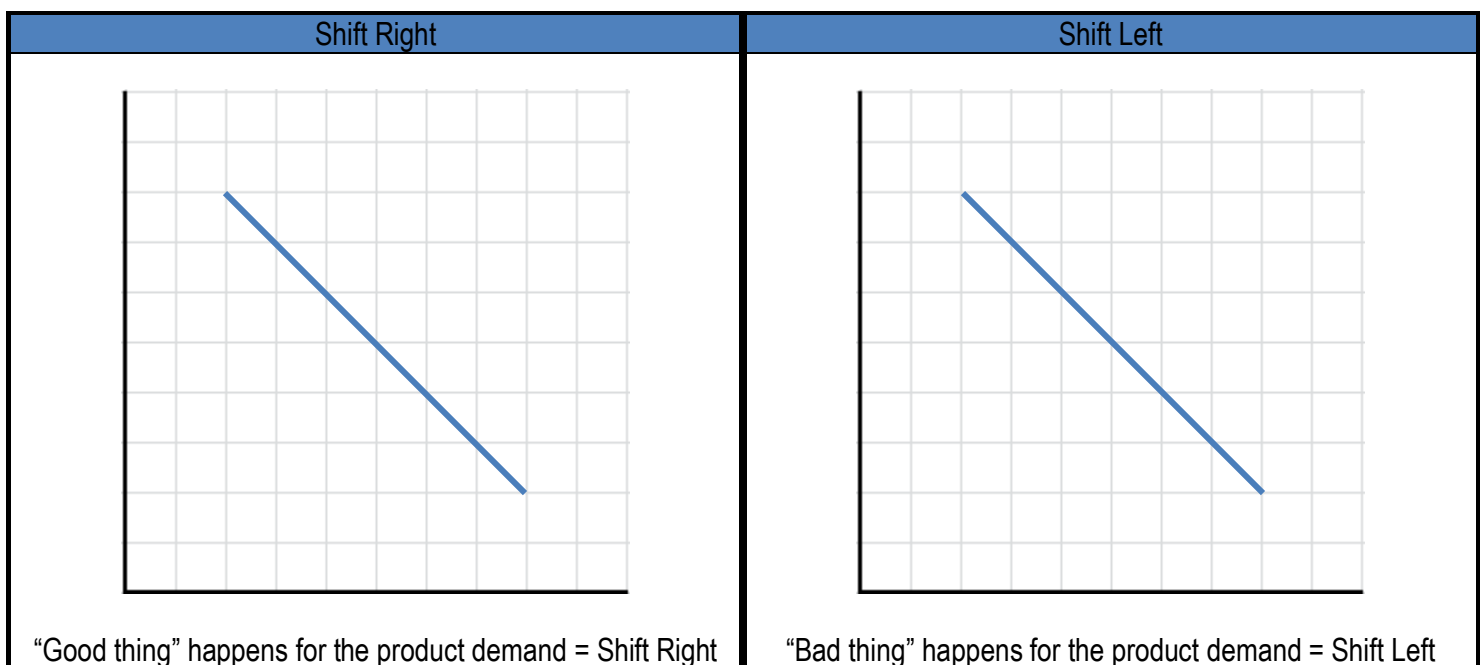
## CONCEPT: SHIFTING DEMAND – INTRODUCTION

- Certain events cause the demand curve to shift on the graph.

WARNING! A change in price **does not** shift the demand curve because it is already a variable in the graph.



- It helps to think of the events that shift demand in terms of “good” or “bad” events.



### CONCEPT: SHIFTING DEMAND – INCOME

- When a consumer's income changes, the types of goods she buys also changes.

| Mom's House: | Dorm Room: |
|--------------|------------|
|              |            |

☐ People buy more **normal goods** when they have \_\_\_\_\_ money.

- Organic food
- New furniture
- Vacation

☐ People buy more **inferior goods** when they have \_\_\_\_\_ money.

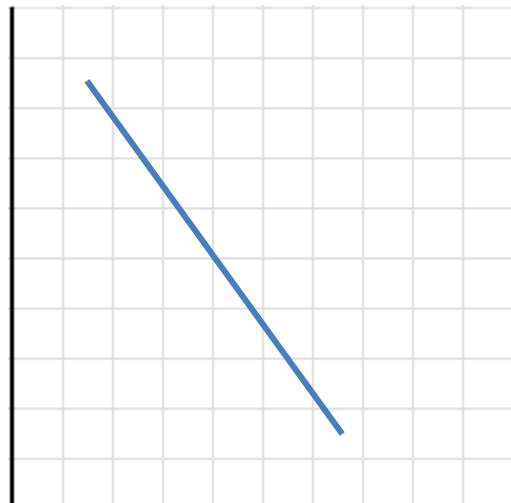
- Canned Soup
- Used furniture
- "Stay"-cation

**EXAMPLE:** If craft beer is a normal good, what happens to demand when consumer income rises? What if income decreases?

Income Increases



Income Decreases



## CONCEPT: SHIFTING DEMAND – SUBSTITUTE GOODS

- The price changes of other related goods can affect the demand for a good

□ Two goods are considered to be **substitute goods** if:

- The increase in the price of Good X causes the demand of Good Y to \_\_\_\_\_

› When two variables get larger (or smaller) together, the relationship is *directly proportional*.

- Note: This is NOT a change in price. This is a change in the price of a related product.

Examples of substitute goods:

- Coke and Pepsi

- Margarine and Butter

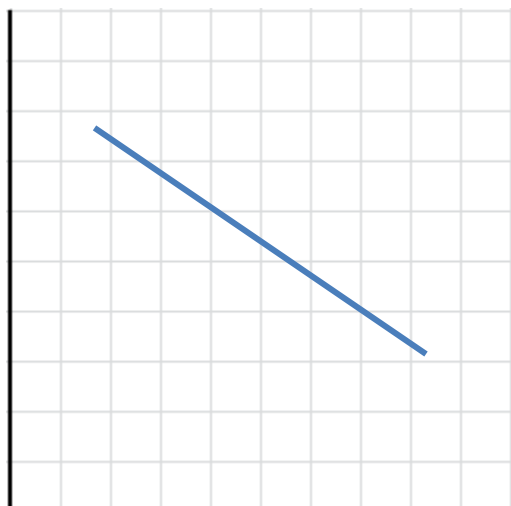
- Apples and Oranges

**EXAMPLE:** Assume that regular toasters and defibrillator toasters are substitute goods. If the *price of regular toasters rises*:

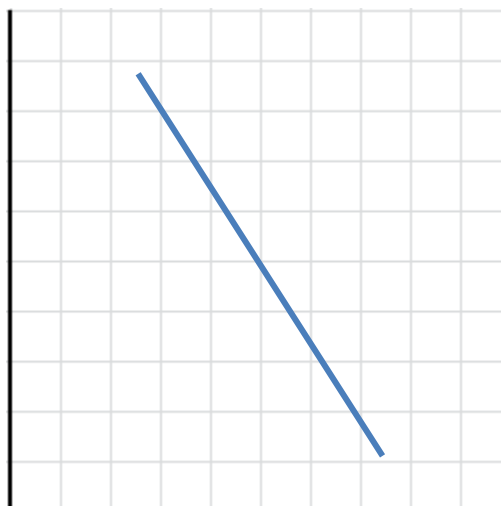
- a) What happens to the demand for defibrillator toasters?
- b) What happens to the demand for regular toasters?



Defibrillator Toasters



Regular Toasters



## CONCEPT: SHIFTING DEMAND – COMPLEMENTARY GOODS

- The price changes of other related goods can affect the demand of a good

□ Two goods are considered to be **complementary goods** if:

- The increase in the price of Good X causes the demand of Good Y to \_\_\_\_\_

› When one variable gets larger as the other falls, the relationship is *inversely proportional*.

- Note: This is NOT a change in price. This is a change in the price of a related product.

Examples of complementary goods:

- Peanut Butter and Jelly

- DVD players and DVDs

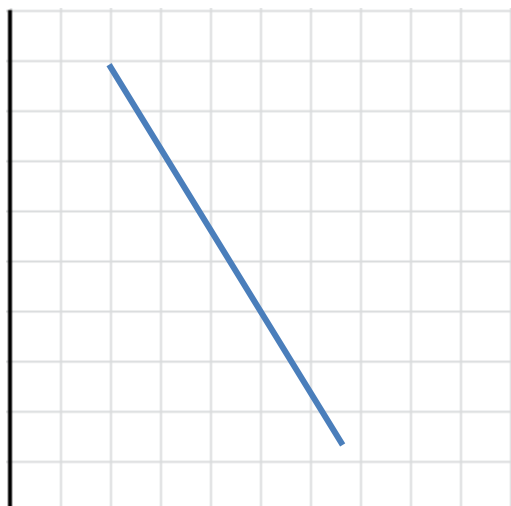
- Cars and Gasoline

**EXAMPLE:** Assume that defibrillator toasters and Wonderbread are complementary goods. If the *price of defibrillator toasters falls*:

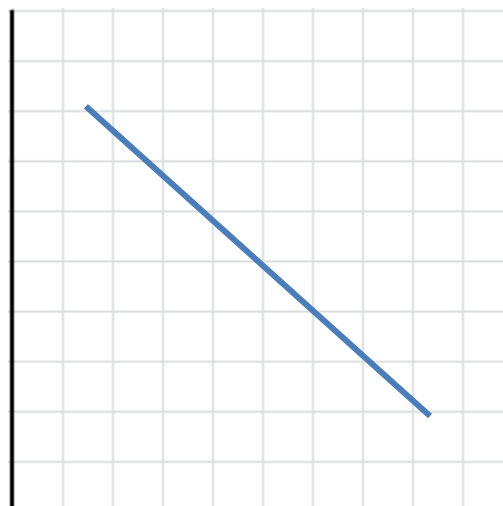
- a) What will happen to the demand for Wonderbread?
- b) What happens to the demand for defibrillator toasters?



Wonderbread



Defibrillator Toasters



Note: What if the two goods are neither substitutes nor complements?

## CONCEPT: SHIFTING DEMAND – CONSUMER PREFERENCES

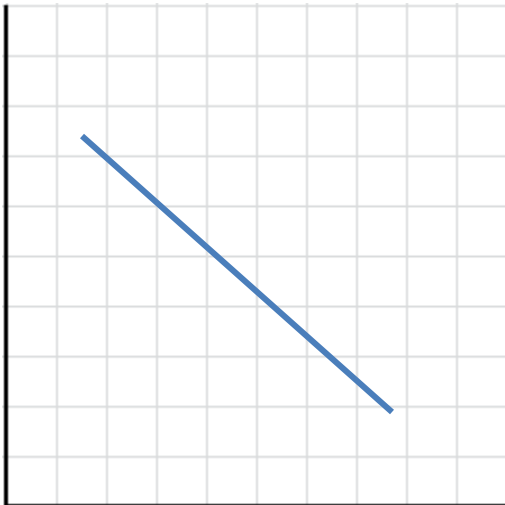
- Consumer preferences change over time. The demand for a product is affected by consumer taste.

□ If changes in customer preferences benefit a good, its demand will \_\_\_\_\_

Examples of changes in consumer preference:

- Fitness rises in popularity
- Fashion
- Cellular phones

**EXAMPLE:** As a fitness craze sweeps the nation, upside down yoga class membership has skyrocketed. What happens to the demand for protein shakes?



## CONCEPT: SHIFTING DEMAND – EXPECTATIONS

- Expectations about the future can affect current demand for a good.

□ If consumers expect prices to increase in the future, the demand for the good today \_\_\_\_\_

- Directly proportional

- Note: This is NOT a change in price. This is a change in *expectations* about price.

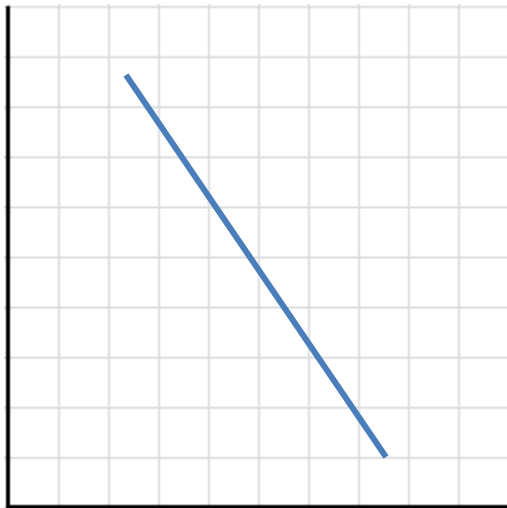
Examples of changes in consumer expectations:

- Inclement weather

- Future income

- Expected price changes

**EXAMPLE:** As a hurricane approaches Brazil, fear of a shortage of coffee spreads. What happens to the demand for coffee beans?



### CONCEPT: SHIFTING DEMAND – NUMBER OF CONSUMERS

- A change in the amount of consumers in a market will affect demand.

□ If the amount of consumers in a market increases, the demand for the good \_\_\_\_\_

- Directly proportional

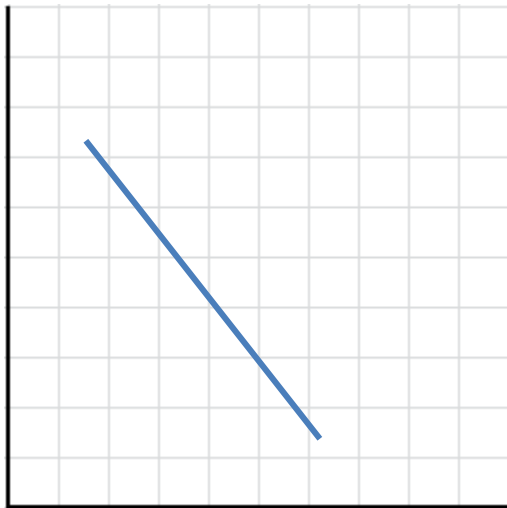
Examples of changes in number of consumers:

- Immigration

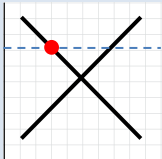
- Birth rate

- Advertising

**EXAMPLE:** After Clutchtopia introduced its “Free Pizza For Everybody” Policy, immigration to the awesome country skyrocketed, doubling its population. What happens to the demand for bar soap in Clutchtopia?



## CONCEPT: DEMAND SHIFT SUMMARY

| DEMAND                 |  |
|------------------------|--|
| Directly Proportional  | (INSPEC)   |
|                        | <b>Income: Normal Goods</b><br>Consumer Income $\uparrow \rightarrow$ Demand for Normal Goods $\uparrow$   |
|                        | <b>Substitutes</b><br>Price of Substitute $\uparrow \rightarrow$ Demand for Good $\uparrow$  |
|                        | <b>Preferences for a Good</b><br>Preferences for Good $\uparrow \rightarrow$ Demand for Good $\uparrow$  |
|                        | <b>Consumer Expectations</b><br>Expected Future Price $\uparrow \rightarrow$ Demand for Good (now) $\uparrow$  |
| Inversely Proportional | <b>Number of Consumers</b><br>Number of Consumers $\uparrow \rightarrow$ Demand for Good $\uparrow$  |
|                        | <b>Income: Inferior Goods</b><br>Consumer Income $\uparrow \rightarrow$ Demand for Inferior Goods $\downarrow$   |
|                        | <b>Complements</b><br>Price of Complement $\uparrow \rightarrow$ Demand for Good $\downarrow$  |
| Change in Price        | <p><b>Change in Price <math>\rightarrow</math> Change in Quantity Demanded</b></p> <p>A change in the price of a good does not shift the demand curve, we move along the demand curve.</p>  |

**PRACTICE:** What happens in the market for blenders if consumers decide that juicing their vegetables is better than blending their vegetables?

- a. Demand shifts to the left
- b. Demand shifts to the right
- c. Supply shifts to the left
- d. Supply shifts to the right

**PRACTICE:** What happens in the market for beef jerky if customers expect a price increase in the future?

- a. Demand shifts to the left
- b. Demand shifts to the right
- c. Supply shifts to the left
- d. Supply shifts to the right

**PRACTICE:** If cheese in a can is an inferior good, what happens to its market when consumer income increases?

- a. Demand shifts to the left
- b. Demand shifts to the right
- c. Supply shifts to the left
- d. Supply shifts to the right