



# Understanding Demand

# How is price determined

- Price is determined by:
- A. What and how much buyers demand Today
- B. What and how much sellers supply

Demand – I want it and I will pay for it



Law of Demand – If it cost less then I will buy more

25 cents a box - How many would you buy  
\$1.00 a box – How many would you buy



Substitution Effect – If something is too expensive I buy something similar that costs less

Past – \$1.00

Now - \$2.00



Too Expensive  
but I have to  
eat



I substitute – I buy egg  
fried rice instead

Income Effect – Change in how much of something I use based on how much money I have



Past – \$5

Now - \$10

I buy less  
because I can't  
afford it - I DO  
NOT BUY  
ANYTHING ELSE

You do not demand something if you can't afford it  
-That is a want

Demand



Want



# Normal Goods vs. Inferior Goods



I prefer to eat this



When I don't have enough money I usually buy this (I'd rather buy Cheerios)



# Complements

# Substitutes

Peanut Butter and Jelly Sandwiches



Price of gas goes up – My demand for a hummer goes down



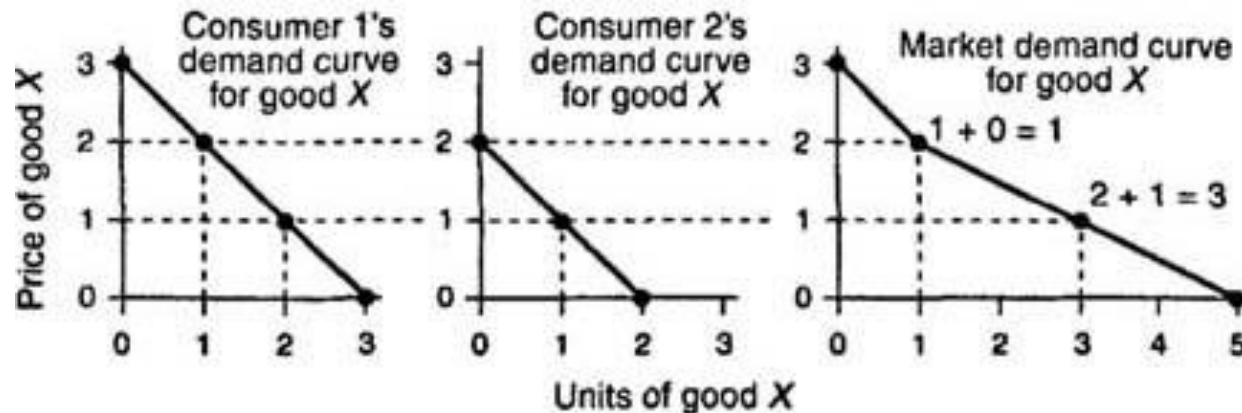
I buy this instead – demand for hybrid car went up

Price of Peanut Butter goes down – my demand goes up

I need jelly to go with my peanut butter – my demand for jelly also goes up

# Market Demand Schedule

- Market Demand – how much all of society demands



- Knowing this will tell a business how much to sell and for how much I should make
  - -Where am I going to make the most money

# In Class Activity: Demand Schedules

- Working with a partner graph this data to create your own demand curve
- Decide which price you should sell your pop at.

Market Demand Schedule	
Price of a Small Pop	Number demanded per day
\$0.25	890
\$0.50	500
\$0.75	480
\$1.00	470
\$1.25	410
\$1.50	350
\$1.75	280
\$2.00	240
\$2.25	200
\$2.50	150
\$2.75	100