1.2.2 Demand

a) The distinction between movements along a demand curve and shifts of a demand curve
b) The factors that may cause a shift in the demand curve (the conditions of demand)
c) The concept of diminishing marginal utility and how this influences the shape of the demand curve

- Demand for goods and services is the quantity that consumers are **willing and able to buy** at a given price in a period of time
- Demand curve: shows the relationship between price and quantity demanded. At any particular point the curve shows the quantity of the good or service that would be bought at a particular price
- Effective demand: demand is backed up by a willingness and ability to pay at the market price
- The basic law of demand is that demand varies inversely with price- lower prices make products more affordable
- A demand curve slopes downwards so at a higher price the quantity demanded is lower
- Latent Demand is basically the opposite of Effective Demand. Latent Demand (Induced Demand) occurs when the want or desire is of which a customer/consumer is unable to satisfy.
- Only changes in market price cause a movement along the demand curve
- Movements along a demand curve are caused by price changes (contraction or extension). Shifts occur when the whole curve moves left and right. If it moves left there is a decrease in the amount demanded at every price.
- A higher price leads to a contraction of quantity demanded
- A lower price leads to an expansion of quantity demanded
- Income effect:
    - A fall in price increases real purchasing power of consumers
    - This allows people to buy more with a given budget
    - For normal goods demand rises with increases to income
- Substitution effect:
    - A fall in the price of good X makes it relatively cheaper compared to substitutes
    - Some consumers will switch to good X lead to a higher demand
    - Much depends on whether the products are close substitutes
- Reasons for shift in demand curve:
    - Changes to real income
    - Advertising and marketing
    - Tastes, fashions or preferences
    - Seasonal demand
    - Changing prices of substitute goods in competitive demand
    - Changing price of complements- i.e. products in joint demand
    - Interest rates
    - Size and age structure of the population
    - Social and emotional factors

  - Changes in income distribution
- Reduced income causes reduction in demand except for inferior goods
- Normal goods increase in demand more if real income increases (+ve YED) and inferior goods decrease (-ve YED)
- A more equal distribution of income may cause the demand for luxury goods to decrease because there will be fewer rich people
- Utility is a measure of the satisfaction we get from purchasing and consuming a good or service
- Total utility: total satisfaction from a given level of consumption i.e. total possible satisfaction
- Marginal utility: the change in satisfaction from consuming an extra unit
- Standard economic theory believes in the idea of diminishing returns i.e. the marginal utility of extra units declines as more is consumed. There is an inverse relationship between price and quantity demanded.
- If marginal utility is falling, then consumers will only be prepared to pay a lower price which can help explain the downward sloping demand curve
- Reason for the paradox of value aka the diamond-water paradox:
  - Abundance in relation to demand
  - Value in use
  - Value in exchange- what a resource can be sold for
- Seasonality refers to fluctuations in output and sales related to the season of the year
- Derived demand: the demand for a factor of production used to produce another good or service
  - In factor markets, the demand for labour is derived
  - Demand for machinery is derived from demand for consumer goods
- Composite demand: It exists where goods have more than one use- an increase in the demand for one product leads to a fall in supply of the other. *If we build more houses, it leaves less land for farming and the price of farming land will tend to rise.*
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