Changes In Income

An increase in income shifts demand for a superior good to the right.

Changes In Income

A rise in income shifts the demand for an inferior good to the left.

Changes In Income

The infallible guaranteed test to tell whether a good is superior or inferior:

• If a rise in income increases demand, it is superior
• If a rise in income decreases demand, it is inferior

The Demand for Paper Plates

• Most people think of paper plates as an inferior good, and perhaps they are technically.
The Demand for Paper Plates
• Most people think of paper plates as an inferior good, and perhaps they are technically.
• But an inferior good is simply one whose demand falls with income.

To summarize:
• A good is superior or inferior if, and only if, demand increases or decreases as income rises.
To summarize:

- A good is superior or inferior if, and only if, demand increases or decreases as income rises.
- This is a question of fact. Technical superiority or inferiority is not an issue.

Complements and Substitutes

- The demand for a product depends on the price of other goods.

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Complements and Substitutes

- The demand for a product depends on the price of other goods.
  - A rise in the price of a substitute shifts the demand function to the right.

Complements and Substitutes

- The demand for a product depends on the price of other goods.
  - A rise in the price of a complement shifts the demand function to the left.

Substitution Illustrated

- A rise in the price of a substitute shifts the demand function to the right.
- A rise in the price of a complement shifts the demand function to the left.
When the price of Pepsi® rises, the demand for Coca Cola rises

When gas prices fall, the demand for automobiles rises

Summarizing the effects

When the Price of a Substitute Falls

Demand Falls (Shifts to the Left)

When the Price of a Complement Rises

Demand Falls (Shifts to the Left)
Demand Functions and Demand Shifters

Summarizing the effects

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A basic mistake

- Do not confuse increases or decreases in demand with movements along the demand function.
- When the price of a good changes, there is a movement along the demand function.  There is no change in demand.

Complement or Substitute?

<table>
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<th>When an increase in the price of another good causes</th>
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Complement or Substitute?

When an decrease in the price of another good causes

Demand to Rise
You have a Complement

When an decrease in the price of another good causes

Demand to Fall
You have a Substitute

End

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