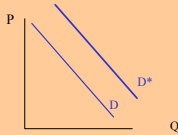
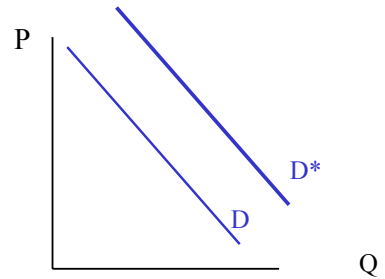


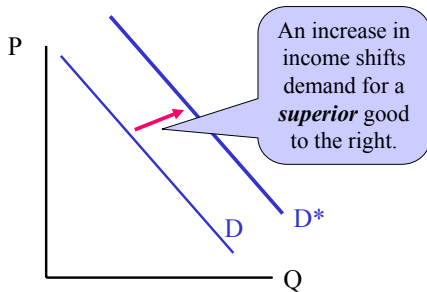
Demand Functions and Demand Shifters



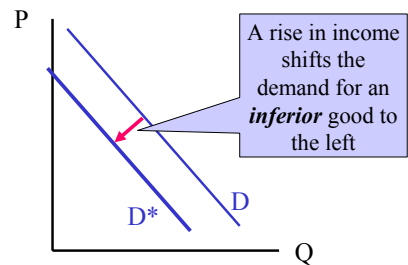
Demand Shifters



Changes In Income



Changes In Income



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*.

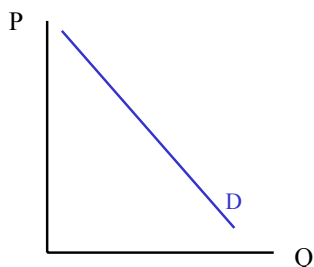
The Demand for Paper Plates

- 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.

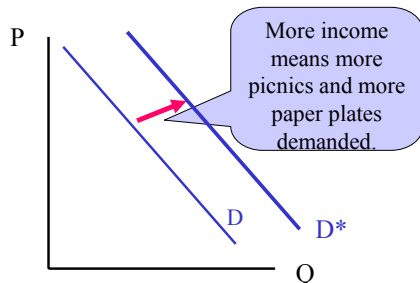
The Demand for Paper Plates

- 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.
- Are paper plates an inferior good? Read on.

The Demand for Paper Plates

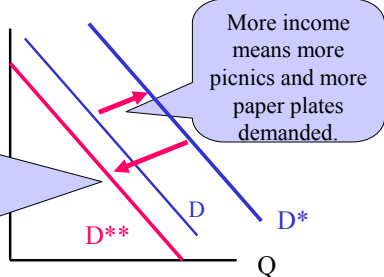


The Demand for Paper Plates



The Demand for Paper Plates

With enough income, we switch to china for the picnics and let the butler handle them



To summarize:

- A good is superior or inferior if, and only if, demand increases or decreases as income rises.

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- 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.
- Goods can be superior and then, as income rises enough, become inferior again.

Complements and Substitutes

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

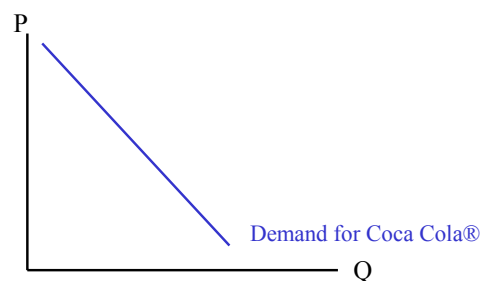
Complements and Substitutes

- 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.

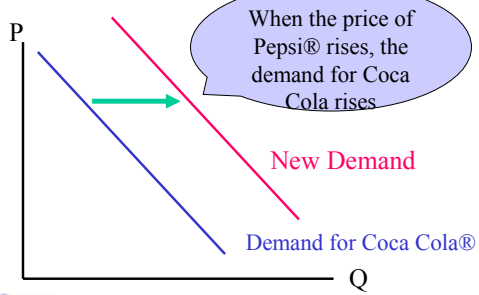
Complements and Substitutes

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

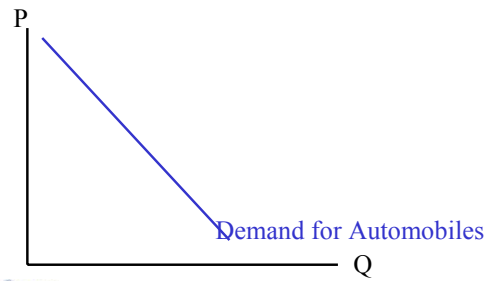
Substitution Illustrated



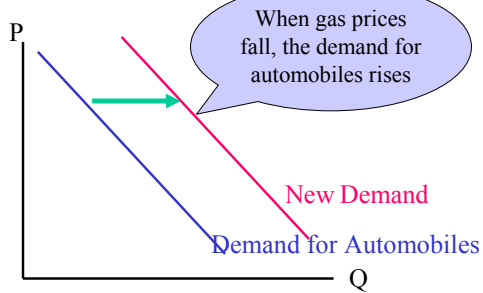
Substitution Illustrated



Complimentary Illustrated



Complimentary Illustrated



Summarizing the effects

When the Price of a
Substitute Rises
Demand Rises (Shifts to the Right)

Summarizing the effects

When the Price of a
Substitute Falls
Demand Falls (Shifts to the Left)

Summarizing the effects

When the Price of a
Complement Rises
Demand Falls (Shifts to the Left)

Summarizing the effects

When the Price of a

Complement Falls

Demand Rises (Shifts to the Right)

A basic mistake

- Do not confuse increases or decreases in demand with movements along the demand function.

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There is no change in demand.

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.
- When the price of a substitute or complement changes, there *is* a change in demand.

Complement or Substitute?

When an increase in the price of another good causes

Demand to Fall

You have a Complement

Complement or Substitute?

When an increase in the price of another good causes

Demand to Rise

You have a Substitute

Complement or Substitute?

When an decrease in the price of another good causes

Demand to Rise

You have a Complement

Complement or Substitute?

When an decrease in the price of another good causes

Demand to Fall

You have a Substitute

End

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