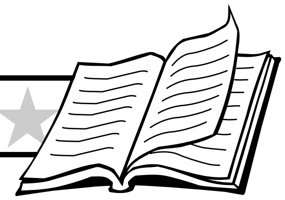
Name ______________________ Date ______________ Class ______________



Study Guide

Chapter 20, Section 1

For use with textbook pages 448–451

What Is Demand?

KEY TERMS

demand the desire, willingness, and ability to buy a good or service *(page 448)*

demand schedule a table that lists the various quantities of a product or service that someone is willing to buy over a range of possible prices *(page 449)*

demand curve a graph that shows the amount of a product that would be bought at all possible prices in the market *(page 449)*

law of demand an economic principle that states that quantity demanded and price move in opposite directions *(page 449)*

market demand the total demand of all consumers for their product or service *(page 449)*

utility the pleasure, usefulness, or satisfaction people get from using a product *(page 450)*

diminishing marginal utility the principle that people's additional satisfaction, or their marginal utility, tends to go down as more and more units are consumed *(page 451)*

DRAWING FROM EXPERIENCE

How much are you willing to pay for a CD? Do you buy more CDs if there is a sale? Why?

In this section, you will learn about demand and its relationship with price.

ORGANIZING YOUR THOUGHTS

Use the cause-and-effect diagram to help you take notes. List the effects on demand when prices increase and decrease.

When prices rise, → **1. demand ______________ .**

When prices fall, → **2. demand ______________ .**

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Chapter 20, Section 1 (continued)

READ TO LEARN

• An Introduction to Demand *(page 448)*

Prices in the United States are set by demand and supply. In economics, **demand** refers to the desire, willingness, and ability of people to buy a good or service. For demand to exist, a consumer must want a good, must be willing to buy it, and must have a way to buy it.

Demand can be shown on a **demand schedule.** This table lists the various quantities of a product or service that a person is willing to buy at a range of prices. Demand can also be shown on a **demand curve.** This line graph lists prices on the vertical axis and quantities along the horizontal axis. Each point on the graph shows how many units of an item a person is willing to buy at a given price. The line on the graph shows that people are willing to buy less of a product if the price is high and more of the product if the price is low. The **law of demand** states that quantity demanded and price move in opposite directions.

3. What do the demand schedule and demand curve show?

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• Individual vs. Market Demand *(page 449)*

When companies try to sell their goods, they look at **market demand.** This is the total demand of all consumers for a company's product or service. Knowing the demand is important for good business planning. Companies need to know what the demand is for their products. They need to know the reaction of consumers to different prices. They may find this out by polling consumers about prices.

Almost everything people buy provides **utility.** This is the pleasure, usefulness, or satisfaction people get from using the product. The utility varies from person to person. Utility changes as people consume more of a certain product. For example, people have the most satisfaction eating the first slice of pizza when they are hungry. Because they are not as hungry after the first slice, they get less marginal utility, or less additional satisfaction, after eating each additional slice. This shows **diminishing marginal utility.** It means that people's marginal utility, or additional satisfaction, generally goes down as more and more units of

Study Guide

Chapter 20, Section 1 (continued)

something are consumed. This idea helps to explain why the demand curve slopes downward. If the marginal utility, or the extra benefits, to be gained are greater than the marginal cost, or the money given up to pay for the product, then people usually buy it. If the benefits are less than the cost, people usually do not buy it. Because the marginal utility lessens as people use more and more of a product, they are not willing to pay as much for the second and third items as they did for the first.

4. What happens to marginal utility as people consume more and more of a product?

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