Name ______________________ Date ______________ Class ______________

Study Guide

Chapter 20, Section 2

For use with textbook pages 452–456

Factors Affecting Demand

KEY TERMS

substitutes competing products in which one can be used in place of another *(page 454)*

complements products that are used together *(page 454)*

demand elasticity the extent to which a change in price causes a change in the quantity demanded *(page 455)*

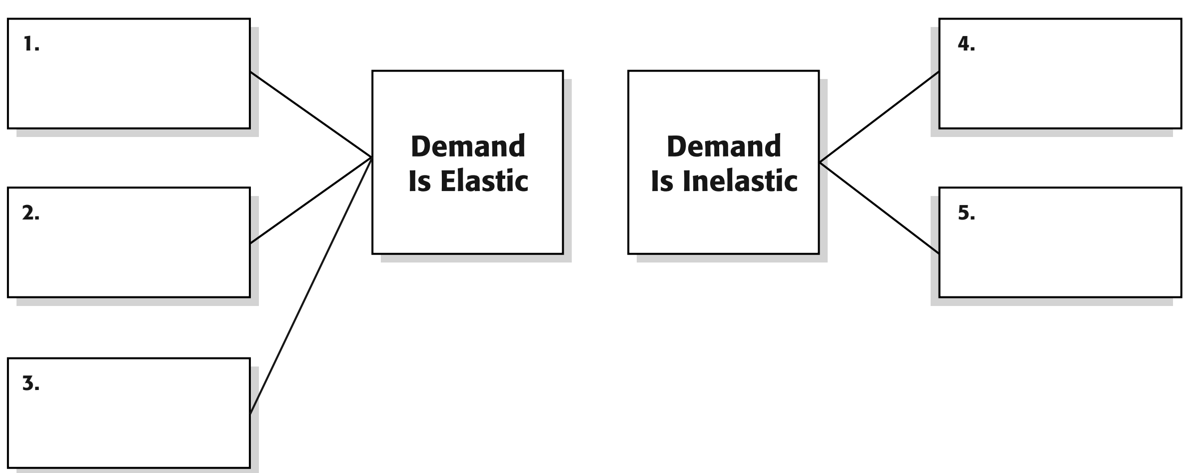
DRAWING FROM EXPERIENCE

What kinds of products do you buy because they are popular and are often advertised? Are you still willing to buy the product if it becomes less popular? Why or why not?

The last section described what demand is. This section discusses what causes a change in demand.

ORGANIZING YOUR THOUGHTS

Use the diagram to help you take notes. Demand for products can be elastic and inelastic. List the kinds of products for which demand is elastic and those for which demand is inelastic in the diagram.



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Chapter 20, Section 2 (continued)

READ TO LEARN

• Changes in Demand *(page 452)*

Demand can go up or down. At times people are willing to buy more of a product at a certain price. However, at other times they are less willing to do so. Market demand can change for several reasons. It can change when more consumers enter the market. More consumers increase the demand. Fewer consumers decrease the demand. For example, when many people move into an area, demand for goods and services goes up. When many people move out of an area, the demand goes down. The number of consumers can change for different reasons. The number of consumers may increase because of a higher birthrate or a movement of people into a region. The number of consumers, however, decreases with an increase in the death rate or the movement of people out of a region.

Market demand can change when the income of consumers changes. When the economy is strong, people make more money and are willing to buy more of a product at any particular price. However, when the economy is weak, people often have less money to spend. As a result, the demand goes down.

Demand can change because of a change in taste. When a product becomes popular, more people are willing to buy the product at a particular price. However, when a product becomes less popular, people are less willing to spend money on the product.

Expectations can cause a change in demand. Expectations refer to the way people think about the future. For example, if people are worried that the economy will weaken, they may become less willing to spend money on goods. The demand becomes lower. If people expect that there will be a shortage of some kind of product, the demand for the product is often higher.

Demand can change if the quality or price of related products changes. Competing products are called **substitutes.** This is because consumers can use one product in place of the other. When two products are substitutes, a change in the price of one causes the demand for the other product to move in the same direction. For example, if the price of margarine increases, then the demand for butter, which is a substitute

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for margarine, increases. This is because people can substitute butter for the higher-priced margarine.

Some products are **complements.** These are products that are used together. When the price for one complementary product moves in one direction, the demand for the other complementary products moves in the other direction. For example, DVD players and DVDs are complementary goods. When the price of DVD players goes down, the demand for DVDs goes up.

6. How does the demand for a product generally differ in a strong and a weak economy?

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• Elasticity of Demand *(page 455)*

The law of demand says that when the price goes up, quantity demanded goes down. If the price goes down, quantity demanded goes up. Although people generally know how demand will be affected, they do not by how much. All products and services are not affected the same way. Economists call this occurrence **demand elasticity.** This is the extent to which a change in price causes a change in the demand for a product.

For some goods, demand is elastic. This means that each change in price causes a relatively larger percentage change in quantity demanded. When there are substitutes for a good, demand tends to be elastic. This is because consumers can choose to buy the substitute. Goods that are expensive generally have elastic demand. This is because people are less willing to pay for goods that are expensive in the first place. Demand is elastic for goods that can be bought later. People usually delay buying these goods in the hope that the prices will go down.

For some goods, demand is inelastic. This means that price changes have little to do with demand. For example, an increase in the price of turkeys near Thanksgiving Day would have little to do with the demand for turkeys. Demand for goods with few substitutes, such as medicines, is also inelastic. For example, if the price of a certain heart medicine goes up, the quantity demanded would probably not fall much because people need it to stay healthy.

7. Why is demand elastic for a product that has substitutes?

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