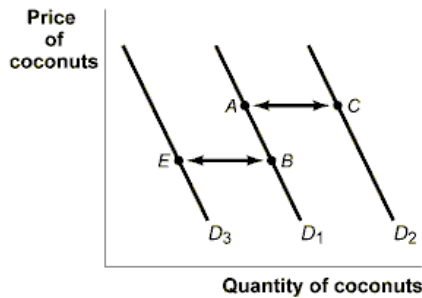


Introduction to Demand

Use the figure below to answer questions 1-5.



1. If a coconut is a normal good and the price of coconuts increases, then the movement that would take place in the model could be:
 - a. A to B.
 - b. B to E.
 - c. C to A.
 - d. E to B.
 - e. **B to A.**
2. If fish is a substitute good for coconuts and the price of fish increases, then the movement that would take place in the model could be:
 - a. **A to C.**
 - b. B to A.
 - c. C to A.
 - d. B to E.
 - e. A to B.
3. If coconuts are considered a normal good and the overall income level of consumers is falling, then the movement that would take place in the model could be:
 - a. A to C.
 - b. B to A.
 - c. **C to A.**
 - d. E to B.
 - e. A to B.
4. If there is an overall increase in taste and preference for coconuts, then the movement that would take place in the model could be:
 - a. **A to C.**
 - b. B to A.
 - c. C to A.
 - d. B to E.
 - e. A to B.
5. If coconuts are considered a normal good and there is an expectation on the part of consumers that the prices of coconuts will rise significantly in the near future, then the movement that would take place in the model could be:
 - a. C to A.
 - b. A to B.
 - c. B to E.
 - d. **E to B.**
 - e. B to A.
6. When the price of gas goes up and the demand for tires goes down, this means tires and gas are:
 - a. substitutes.
 - b. **complements.**
 - c. both expensive.
 - d. both inexpensive.
 - e. inferior goods.
7. Given that chicken and beef are substitute goods, if the price of chicken decreases substantially, there would be:
 - a. an increase in the demand for beef.
 - b. an increase in the supply of chicken.
 - c. an increase in the quantity demanded of beef.
 - d. no change in the demand for beef.
 - e. **a decrease in the demand for beef.**
8. The law of demand implies that:
 - a. consumers do not respond to price changes.
 - b. **consumers will buy more at lower prices.**
 - c. sellers will offer more to the market at higher prices.
 - d. sellers will offer less to the market at lower prices.
 - e. consumers will buy less at lower prices.
9. After graduation from college, you will receive a substantial increase in your income from a new job. If you decide that you will purchase more T-bone steak and less hamburger, then for you hamburger would be considered a(n):
 - a. normal good.
 - b. substitute good.
 - c. complementary good.
 - d. **inferior good.**
 - e. luxury good.
10. The demand for meals at a local Applebee's will fall if:
 - a. **the Olive Garden offers a 10% discount coupon in the local newspaper.**
 - b. the price of a meal at Applebee's rises.
 - c. local incomes increase and Applebee's is a normal good.
 - d. the price of gasoline falls in the local area.
 - e. local incomes decrease and Applebee's is an inferior good.
11. Suppose oranges and clementines are considered to be substitutes. Holding everything else constant, if the price of oranges increases, then the:
 - a. **demand for clementines will increase.**
 - b. demand for clementines will decrease.
 - c. demand for oranges will increase.
 - d. demand for oranges will decrease.
 - e. demand for both oranges and clementines will decrease.

12. Willy Wonka helps us to understand the “Law of Demand.” As prices fall the quantity demanded of goods falls. Wonka can also help us understand the impact of changes in the price of related goods and income have on the demand curve.

Use the meme’s below to identify what type of good Wonka is describing. Then use the meme generator at <http://memegenerator.net/> to create your own memes for the law of demand, normal goods, inferior goods, complements, and substitutes. Also create a meme for the impact of a change in tastes/preferences and expectations.



Meme	Type of good being described (circle the correct answer)	Explanation
	<ul style="list-style-type: none"> Normal good Inferior good Complement Substitute 	<p>If your income drops and you want fewer goods then it is a normal good. You will transition to less preferable (inferior) goods.</p>
	<ul style="list-style-type: none"> Normal good Inferior good Complement Substitute 	<p>If you want more of a good when your income drops then it is an inferior good. It is not as preferable as normal goods but you turn to them when your income drops (probably because they are less expensive than normal goods).</p>
	<ul style="list-style-type: none"> Normal good Inferior good Complement Substitute 	<p>The increase in the price of one good (brie) made us want to buy less of the other good (wine). That fits the definition of a complementary good.</p>
	<ul style="list-style-type: none"> Normal good Inferior good Complement Substitute 	<p>A drop in the price of one good leads you to want more of another if they are complements. They would be substitutes if the drop in price of salsa led you to purchase fewer chips.</p>

13. Choose two (2) consumer goods. Create a list of at least three (3) potential complements and substitutes

Good	Complements	Substitutes
	1. 2. 3.	1. 2. 3.
	1. 2. 3.	1. 2. 3.

14. Identify at least two (2) goods that you would consider “inferior.” Explain why they are considered “inferior” in an economic sense.

15. Is a meal at McDonald’s considered a normal or inferior good? Does your answer change depending on your income level? Explain your answer.

Meals at McDonald’s are generally considered inferior goods. Data shows that sales of fast food tend to increase during recessions, which means that as incomes drop demand increases. This may not always be true for everyone. People at lower ends of the income spectrum may not experience a drop in demand when incomes fall depending on their socio-economic situation.

16. What factors cause a shift in the demand curve? (HINT: Think in terms of M.E.R.I.T.)

- a. **MARKET SIZE**_____
- b. **EXPECTATIONS**_____
- c. **RELATED PRICES**_____
- d. **INCOME**_____
- e. **TASTES AND PREFERENCES**_____

17. Explain whether each of the following events represents either a *shift* of the demand curve or a *movement along* the demand curve.

a. A store owner finds that customers are willing to pay more for umbrellas on rainy days.

The quantity of umbrellas demanded is higher at any given price on a rainy day than on a dry day. This is a rightward SHIFT OF the demand curve, since at any given price the quantity demanded rises. This implies that any specific quantity can now be sold at a higher price.

b. When XYZ Telecom, a long-distance telephone service provider, offered reduced rates on weekends, its volume of weekend calling increased sharply.

The quantity of weekend calls demanded rises in response to a price reduction. This is a MOVEMENT ALONG the demand curve for weekend calls.

c. People buy more long-stem roses the week of Valentine's Day, even though the prices are higher than at other times during the year.

The demand for roses increases the week of Valentine's Day. This is a rightward SHIFT OF the demand curve.

d. The sharp rise in the price of gasoline leads many commuters to join carpools in order to reduce their gasoline purchases.

The quantity of gasoline demanded falls in response to a rise in price. This is a MOVEMENT ALONG the demand curve.

Factors that Shift Demand (MERIT)

Directions: Circle the impact that each of the changes listed below might have on the demand curve.

Changes in market size (number of consumers)				
	If...	Demand of A ...		
	The number of consumers rises ...	↑	↔	↓
	The number of consumers falls ...	↑	↔	↓
Changes in expectations				
	If...	Demand of A ...		
	The price of A is expected to rise in the future ...	↑	↔	↓
	The price of A is expected to fall in the future...	↑	↔	↓
If A is a normal goodand income is expected to rise in the future...	↑	↔	↓
	...and income is expected to fall in the future...	↑	↔	↓
If A is an inferior goodand income is expected to rise in the future...	↑	↔	↓
	...and income is expected to fall in the future...	↑	↔	↓
Changes in the prices of related goods or services				
	If...	Demand of A ...		
If A and B are substitutesand the price of B rises ...	↑	↔	↓
	...and the price of B falls ...	↑	↔	↓
If A and B are complementsand the price of B rises ...	↑	↔	↓
	...and the price of B falls ...	↑	↔	↓
Changes in income				
	If...	Demand of A ...		
If A is a normal goodand income rises ...	↑	↔	↓
	...and income falls ...	↑	↔	↓
If A is an inferior goodand income rises ...	↑	↔	↓
	...and income falls ...	↑	↔	↓
Changes in tastes				
	If...	Demand of A ...		
	Tastes change in favor of A...	↑	↔	↓
	Tastes change against A...	↑	↔	↓