ECONOMICS

CHAPTER 4 TEST STUDY GUIDE

Mr. Baysdell

BE ABLE TO INTERPRET A DEMAND CURVE. KNOW THE DIFFERENCE BETWEEN MOVEMENT ALONG A DEMAND CURVE AND SHIFTS OF THE DEMAND CURVE.

KNOW THE CETERIS PARIBUS CONDITIONS THAT AFFECT DEMAND
(These cause shifts in the entire curve, or "demand"
"Quantity demanded" refers to movement along a demand curve)

•1. Income--Changes in consumers incomes affect demand. A normal good or a superior good is a good that consumers demand more of when their incomes increase. An inferior good is a good that consumers demand less of when their income increases. EX: Stock Market Boomàwealth effectà spendingà increase in demand•
2. Consumer Expectations--Whether or not we expect a good to increase or decrease in price in the future greatly affects our demand for that good today.•
3. Population--Changes in the population size and the # of buyers also affects the demand for most products. Everyone wanted "Tickle Me Elmo" for their kid.•
4. Consumer Tastes and Advertising--Advertising plays an important role in trends and influences demand.•
5. Prices of related goods (complements)

- Know the definition of demand and that it determines the price and quantity produced of most goods. When a consumer is willing and able to buy or good or service, they create demand.
- The price of goods is determined by the interaction of supply and demand.
- Inferior goods are goods for which demand falls when income rises. Example: Spam. The opposite is normal, or superior goods (ex: Lexus LS-430)
- If the price of a good is expected to rise in the future, then current demand will rise as people race to purchase the good before it is no longer available
- Know **what elasticity of demand** is and how to calculate it. It determines how a change in price affects a company's total revenue. Total revenue is the amount of money a company gets for selling its goods.
- Know how price changes affect products that are elastic/inelastic. If you think a good is inelastic, a price increase should increase revenue, because consumption of the good should remain consistent.
- Know what *ceteris paribus* means—"all other things held constant." On a demand schedule, it only takes PRICES into account.
- The baby boom generation has had a profound impact on the American economy. As the baby boomers reached different ages, demand has

changed for different goods. In the 1950s, baby pacifiers were in high demand. In the 21st century, health care for elderly citizens will be in higher demand.

- Know the difference between a demand schedule and a market demand schedule. The demand schedule lists the quantity of goods that a person will buy at different prices; the market demand schedule lists the demand **of all consumers in the market** at the possible prices.
- If consumers expect the price of a good to rise, they will demand more of it now.
- A shift in the demand curve means that there is a change in demand at **every** price level. Prices could be higher or lower, and it could be due to a change in any ceteris paribus condition.
- Unitary elastic demand means that the % change in quantity demanded is exactly equal to the percentage change in price. Such a good is also called "perfectly elastic."

You should be familiar with the following terms:

Elasticity of Demand
Law of Demand
Inelastic
Elastic
Substitution Effect
Law of Demand
Complementary goods/ complement
Substitute
Total Revenue
Normal or superior good
Inferior good
Demand Curve
Market Demand Schedule
Demand
Ceteris paribus
Income effect/ wealth effect

Be able to calculate percentage change in quantity demanded

((Original demand – new demand) / (original demand)) *100% = Change in Quantity Demanded

Be able to calculate the percentage change in price.

((Original Price – New Price) / (Original Price)) * 100% = Percentage Change in Price

Know how to calculate the Elasticity of Demand. Be able to tell whether a product is elastic or inelastic

Elasticity of Demand= (Change in Quantity Demanded) / (Change in Price) = X

If x<1, demand is inelastic

If x>1, demand is elastic

If x=1, demand is perfectly elastic