

Law of Demand

In chapter 5 you studied *how* consumers spend their income, now you will study *why* consumers spend their income on certain goods and services.

Not only that, but you will see that consumers' demand for goods and services influences what goods and services *producers* will make and sell; after all, who will make goods that nobody is prepared to buy?



Why do more people want to buy goods that are on special? Does the consumer suddenly need more shirts just because they are on special?

The **law of demand** attempts to explain why people spend their income in the way they do.

Normally, the *higher* the price of a good or service the *less* people are willing or able to buy of that good or service.

Demand is the quantity of goods or services that consumers are both willing and able to buy at any given price.

Example: Kevin loves pies so much that he will spend all his money buying as many pies as possible. Kevin has \$9. If pies cost \$1.50 each, he will buy six pies. If the price of pies drops to \$1, he will now be able to buy nine pies. And if pies were only 50 cents each, he could buy eighteen pies. You can see that as price falls Kevin will be able to buy more pies; this is the *law of demand*.

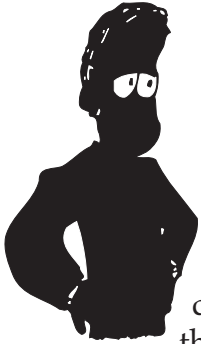
As price *decreases* then quantity demanded *increases*.

Example: Kevin's demand for pies can be shown more clearly on a table or list called a **Demand Schedule**.

| Kevin's Demand Schedule for Pies | |
|----------------------------------|-------------------|
| Price for Pies | Quantity Demanded |
| \$2.50 | 3 |
| \$2.00 | 4 |
| \$1.50 | 6 |
| \$1.00 | 9 |
| \$0.50 cents | 18 |

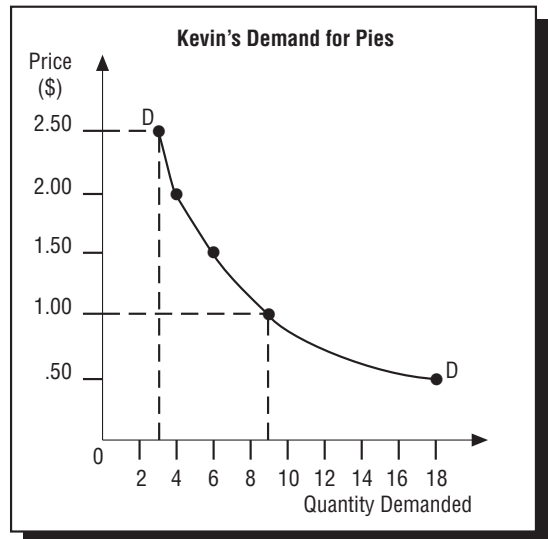


This information can be shown on a graph, called the **Demand Curve**.



Kevin's demand schedule and demand curve show that: at a price of \$2.50, Kevin will buy three pies; but at a price of \$1 Kevin will buy nine pies.

The graph slopes downward to the right. It has a *negative* slope. This is typical of a consumer's demand for goods and services. At lower prices the consumer is usually willing and able to buy more goods and services than at higher prices.



Total or Aggregate Demand

Until now we have looked at the demand of just one person – Kevin. But individuals do not act alone in society, *everybody* must be considered. When all individual demands are added together you have the total market demand or **aggregate demand**. The market demand for a good or service is worked out by adding all the individual demand *schedules* for that good or service. So too the

aggregate demand curve is drawn by adding all the individual demand *curves* together. For example, if the price of pies was \$2 each, Kevin would demand four pies, Karen two, Kirk one and Kylie four; giving an aggregate demand of 11 pies.

Example:

| Aggregate Demand Schedule for Pies | | | | | |
|------------------------------------|------------------|------------------|-----------------|------------------|------------------|
| Price of Pies (\$) | Kevin's Demand + | Karen's Demand + | Kirk's Demand + | Kylie's Demand + | Aggregate Demand |
| \$2.50 | 3 | 1 | 0 | 2 | 6 |
| \$2.00 | 4 | 2 | 1 | 4 | 11 |
| \$1.50 | 6 | 3 | 1 | 6 | 16 |
| \$1.00 | 9 | 4 | 2 | 8 | 23 |
| \$0.50 | 18 | 5 | 2 | 10 | 35 |

