2.1 Demand

Name: ______________ Class: __________ Date: ____________ **Total: 9 marks**

Objective

Build the skills to answer exam questions on **demand**.

You must be able to:

- state the **law of demand** 需求定律 and the inverse price-quantity relationship
- explain the downward slope with the **substitution effect** 替代效应 and **income effect** 收入效应
- distinguish a movement **along** demand from a **shift**
- derive **market demand** by horizontally summing individual demand

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ The law of demand

As price rises, quantity demanded falls —the demand curve slopes **downward**.

■ Why it slopes down

- **Substitution effect** —the good becomes dearer relative to others, so buyers switch away.
- **Income effect** —a higher price lowers real purchasing power.

■ Movement vs shift; market demand

A change in the good's **own price** is a movement along the curve; a determinant change **shifts** it. **Market demand** is the horizontal sum of all individual demand curves.

2 Practice

2.1 State the law of demand. [1]

2.2 Name the two effects that explain the downward slope of demand. [2]

2.3 State how market demand is derived from individual demand curves. [1]

3 Exam-style questions

3.1 The demand curve slopes downward because of the substitution effect and the [1]

- **A** income effect
- **B** supply effect
- **C** tax effect
- **D** scale effect

3.2 A change in a good's own price causes a [1]

- **A** shift of the demand curve
- **B** movement along the demand curve
- **C** shift of the supply curve
- **D** no change at all

3.3 The price of a good falls.

(a) State the effect on the quantity demanded. [1]

(b) State whether this is a movement along or a shift of the curve. [1]

(c) Name one determinant that would instead shift demand. [1]

4 Go further

- work through the **2.1 Demand** lesson on the **Learn** page;
- read the **Supply and Demand** section of the AP Microeconomics handout on the **Know** page.

Solutions

2.1 as the price of a good rises, the quantity demanded falls (other things equal).

2.2 the substitution effect and the income effect.

2.3 by horizontally summing (adding the quantities of) all individual demand curves at each price.

3.1 **A**.

3.2 **B**.

3.3 (a) it rises. (b) a movement along the curve. (c) any one of: income, tastes, prices of related goods, expectations, number of buyers.