**Topic 3 Determinants (Shifters) of Demand**

**LVL I: As you read answer the questions that follow**

1. List the non-price determinants (shifters) of demand and define each one.
2. Provide an example of a complementary good.
3. How does the substitution effect impact demand?
4. What impact do changes in consumer income have on demand?
5. **Identify the determinants (shifters) of demand (e.g., changes in related goods, income, consumer expectations, preferences/tastes, and number of consumers) and illustrate the effects on a supply and demand graph.**

The determinants of demand describe the types of changes in a market that will cause the entire demand curve to move to the right or to the left. In other words, all consumers of a good, service, or productive resource will be willing and able to purchase more or less of a product at all prices in the market. The shift will cause a change in the equilibrium price and equilibrium quantity in the market.

**Change in Price of Related Goods**

1. **Decrease in the Price of a Complementary Good -** If the price of a good, service, or resource that is consumed with the product in this market falls, then the demand for the product in this market will rise and shift to the right.
2. **Increase in the Price of a Complementary Good -** If the price of a good, service, or resource that is consumed with the product in this market rises, then the demand for the product in this market will fall and shift to the left.

**Change in Price of Related Goods**

1. **Increase in the Price of a Substitute Good -** If the price of a good, service, or resource that is consumed in place of the product in this market rises, then the demand for the product in this market will rise and shift to the right.
2. **Decrease in the Price of a Complementary Good -** If the price of a good, service, or resource that is consumed with the product in this market falls, then the demand for the product in this market will rise and shift to the right.
3. **Decrease in the Price of a Substitute Good -** If the price of a good, service, or resource that is consumed in place of the product in this market decreases, then the demand for the product in this market will fall and shift to the left.

**Change Consumer Income**

1. **Increase in Consumer Income –** If consumers in a market for a normal good have an increase in income, then the demand for the product in this market will rise and shift to the right.
2. **Decrease in Consumer Income -** If the income of consumers in the market for a normal good falls, then the demand for the product in this market will fall and shift to the left.

**Change Consumer Expectations**

1. **Consumers expect the price of a product to rise in the future -** If consumers expect the price of a product to rise in the future, they will demand more in the present before the price rises. This will cause demand to increase and shift to the right.
2. **Consumers expect the price of a product to fall in the future -** If consumers expect the price of a product to fall in the future, they will demand less in the present while the market price is higher. This will cause demand to decrease and shift to the left.

**Change Consumer Tastes/Preferences**

1. **Increase in Consumer Taste for a Product –** If consumers in a market for a good or service have an increase in their taste for that product, then the demand for the product in this market will rise and shift to the right.
2. **Decrease in Consumer Taste for a Product –** If consumers in a market for a good or service have a decrease taste for a product, then the demand for the product in this market will rise and shift to the right.

 **Change in Number of Consumers in the Market**

1. **Increase in Consumers in the Market –** If more consumers enter the market for a product, then the demand for the product in this market will rise and shift to the right.
2. **Decrease in Consumers in the Market –** If consumers leave the market for a product, then the demand for the product in this market will fall and shift to the left.

**LVL II APPLICATION**

For each scenario, draw the demand for the good in parentheses. Then, based on what is written in the scenario, shift the demand graph appropriately. Be sure to label the original demand curve as “D1” and the shifted demand curve as “D2” and draw arrows to show if the demand curve shifted to the right or left. Label the axes on the graph. Then, write what the determinant of demand is.

1. At every grocery store in the area, the price of hot dogs has been at an all-time high (Hot dog buns).

3. A news article on trans-fats potential harm to peoples health was in the Sunday newspaper (KFC).

5. The weatherman on the morning news predicts it will be a rainy next few weeks (Sunglasses).

2. The price of televisions will increase two months from now (Televisions).

4. Lance Armstrong is featured in an ad for Sport Chalets workout clothes (Sport Chalet workout clothes).

6. Margarine is on sale (Butter).

7. Families move out of Placentia into Yorba Linda (Homes in Placentia).

9. The office gossip is that Jane will be the next person to get a raise and a new promotion (Clothes).

11. Peanut butter is buy one, get one free this week (Jelly).

8. Bob was laid off from his job as a real estate agent (Top Ramen).

10. High-waisted shorts are now considered out of style (High-waisted shorts).

12. The price of ground beef has increased (Ground Turkey).