**Topic 3 Law of Demand**

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

1. Define demand.
2. What does the law of demand state?
3. What is the difference between a change in demand versus a change in quantity demanded?
4. What information is contained in the Demand Schedule?

**SSEMI2 Explain how the law of demand, the law of supply, and prices work to determine production and distribution in a market economy.**

In a market economy, consumers decide what to produce, firms decide how to produce, and the price system decides who will get the items produced. Consumers of goods, services, and resources behave according to the law of demand. **Demand** is the quantity a consumer is willing and able to purchase at each price. The law of demand says that as the price of a good rises the quantity of the good consumers are willing and able to buy will decrease. **Supply** is the quantity a seller is willing and able to sell at each price. The law of supply says that as **price** rises the quantity a seller is willing and able to sell will increase. A market or equilibrium price is one where the quantity of a good that buyers are willing and able to buy matches the quantity of a good that producers are willing and able to sell. As the market/equilibrium price in the market changes, it sends signals to buyers and sellers about much they should be willing and able to buy and sell.

1. **Define the law of supply and the law of demand.**

The **law of demand** says that as the price of a good rises the quantity of the good consumers are willing and able to buy will decrease. The graph below illustrates this law.



Demand



Quantity



Price



P1



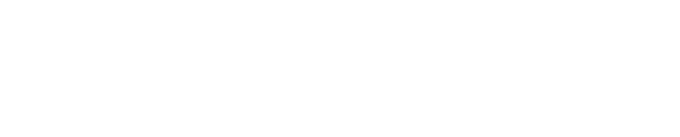
P2



Q1



Q2



As price rises from P1 to P2, the quantity of the

good consumers are willing and able to buy falls

from Q1 to Q2. This is the law of demand.

**market demand curve** refers to all the quantities of a good, service, or resource buyers are willing and able to buy at each price. The **quantity demanded** is the amount of a good, service, or resource buyers are willing and able to buy at one specific price. In the graph below, the quantity demanded at a price of $1 is 200 units of the good. The market demand includes the quantities demanded at $1, $2, $3, and all other prices found along the curve. The table in the example below is the **Demand Schedule** and provides the data you use to create a demand curve.

|  |  |
| --- | --- |
| **Price** | **Quantity Demanded** |
| $1 | 200 |
| $2 | 150 |
| $3 | 100 |



150



Demand



Quantity



Price



$1



$3



200



100



$2

**LVL II Application**

1. Explain the difference between a change in demand and a change in quantity demanded.
2. Betty Ferin, who sells roses in Confederation Square, wants to sell her entire stock by the end of the day. She begins by charging $5 a bouquet. As the day advances, she notices that her roses are moving very slowly. It seems as if she will sell only half her stock by the end of the day. What should Betty do to rectify the situation?
3. Petit Prince Bookstore sells crayons and coloring books. Guernica Art Supplies has just offered the bookstore a large quantity of crayons at a fraction of the regular price. How might the bookstore use its inexpensive crayons to boost its sales of coloring books?
4. Draw a market demand curve from the following demand table**.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Price ($) | D1 | D2 | D3 | Market Demand |
| 37 | 20 | 4 | 8 | 32 |
| 47 | 15 | 2 | 7 | 24 |
| 57 | 10 | 0 | 6 | 16 |
| 67 | 5 | 0 | 5 | 10 |

1. You are given the following individual demand tables for comic books.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Price ($) | John | | Liz | | | Alex | | Market Demand |
| 2 | 4 | | 36 | | | 24 | | 64 | |
| 4 | | 4 | | 32 | 20 | |  | |
| 6 | | 0 | | 28 | 16 | |  | |
| 8 | | 0 | | 24 | 12 | |  | |
| 10 | | 0 | | 20 | 8 | |  | |
| 12 | | 0 | | 16 | 4 | |  | |
| 14 | | 0 | | 12 | 0 | |  | |
| 16 | | 0 | | 8 | 0 | |  | |

1. Complete the market demand table
2. Graph the individual and market demand curves.
3. If the current market price is $4, what is total market demand? What happens to total market demand if the price rises to $8?