Demand Cheat Sheet

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Scarcity Leads to Choice

Scarcity	The fundamental economic problem. There are not enough resources to satisfy the unlimited needs and wants of the population.
For Example	Time, skills, income, and people are all limited means so they cannot satisfy all of our needs and wants.
Choice	As a result of unlimited wants and scarce resources, consumers and producers have to make choices; their choices are influenced by their means, tastes, and values.
For Example	I have limited income so I can buy a pizza or a burger but not both. I have to make a choice based on what I like more or which is cheapest.

Choice leads to opportunity cost. This is the next best alternative missed out on when the best alternative what selected. Eg. I can go to the beach or go to work. I choose to go to the beach because it's sunny. My opportunity cost is the money I would have earnt at work.

Factors of Demand

Price Factors

-price increase

-price decrease

Non-Price Factors

-price of substitutes (eg. coke price falls, pepsi demand falls)

-price of complements (eg. sauce price falls, pasta demand rises)

-income

-tastes and preferences

Conflicts and Compromises

Values	Ideas/beliefs that people consider important in their lives, that influence their decisions.
Conflict	We do not have enough time, money, or skills to do everything that we value. Conflict may occur within our values when a hard decision needs to be made.
Compromise	An agreement that is reached when concessions are made, to resolve conflict. Make sure your compromise includes an aspect of both alternatives.

Types of Goods

Necessity Goods	Basic goods required for survival. As income increases demand will only increase less than proportionally.
Inferior Goods	Goods with a limited quantity or quality. As income increases demand for inferior goods fall.
Luxury Goods	A good with superior features eg. higher quality or quantity. As income increases demand for luxury goods increases more than proportionally as luxury goods tend to be more expensive..

Go on to discuss any further flow on effects and shifts in demand- refer to graph and income ratio.

Change in Income Model Answer

Disposable income is income earned, plus any transfer payments, minus tax. In this case, disposable income has *increased/decreased* due to...

Explain the shift: As income has *increased/decreased* [X's] demand for *product*, shown as a shift in demand to the *left/right* (D1 to D2). This means [X] is *more/less* willing and able to pay for *product* at each and every price level.

Go on to explain flow on effects.

Law of Demand

Demand	Individual demand is defined as the quantity of a good or service an individual is willing and able to buy at a range of prices.
↪☐	a want backed up by their ability.
Law of Demand	As the price of a good or service increases, the quantity demanded decreases. Vice versa ceteris paribus.
For Example	As the price falls/rises from *$A* (P1) to *$B* (P2) the quantity demanded of *product* has *increased/decreased* from *A* (Q1) to *B* (Q2). Vice versa ceteris paribus.

Income and Substitution Effects

Income Effect	We are more willing to buy more as the cheaper price makes the good more desirable.
	We are now more able to buy more with our current level of income (income effect).
Substitution Effect	The good is now relatively more expensive than other goods (substitution effect).

Flow on Effects

↪☐What other things change because of a price change?

For example, if coke is cheaper what will be the flow on effects? Unhealthier? Happier? More friends?

The Four Flows

-health

-socialising and leisure

-spending or saving

-compliments or other things you have with the good