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The A, B, C Approach to Changes in Demand, Quantity Demanded, Supply, and Quantity Supplied

1. The "A, B, C" of a Change in Demand and a Change in Quantity Demanded
   It is important to know the difference between a change in demand and a change in quantity demanded. Here are three steps that work every time when some event makes consumers want to buy more or less of a good.

(A) Do people want to buy more or less of the good as a result of the event that has taken place? (This answer comes from common sense.)

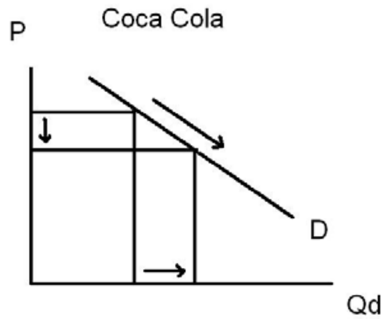
(B) Was it the price of the good that changed or one of its determinants of demand? If it was the price of this good that changed, we have a change in quantity demanded. If anything else changed, we have a change in demand.

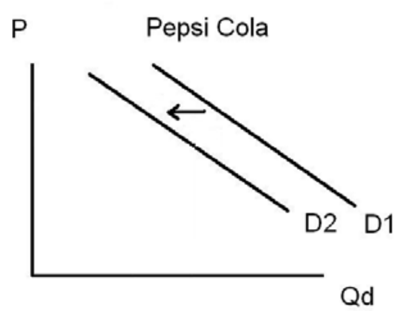
(C) How do we show the changes in (A) and (B) on the graph? If we have a change in quantity demanded, we move along the existing demand curve. If we have a change in demand, we shift the demand curve.

Example: Suppose the price of Coca Cola decreases. Assume all the determinants of demand of Coca Cola (including the price of Pepsi Cola) are unchanged.

For Coca Cola:
(A) Consumers will want to buy more Coca Cola now than before the price of Coke fell.
(B) Because the price of Coke changed, we have a change in the quantity demanded of Coke.
(C) To show an increase in the quantity demanded of Coca Cola, we move down along the existing demand curve for Coca Cola.

For Pepsi Cola:
(A) Consumers will want to buy less Pepsi Cola now than before the price of Coke fell.
(B) Because the price of Pepsi Cola did not change, we have a change in the demand for Pepsi.
(C) To show a decrease in the demand for Pepsi, we shift the demand curve for Pepsi horizontally to the left.





2.. <u>The "A, B, C" of a Change in Supply and a Change in Quantity Supplied</u>
It is important to know the difference between a change in supply and a change in quantity supplied. Here are three steps that work every time when some event makes producers want to make more or less of a good.

(A) Do producers want to make more or less of the good as a result of the event that has taken place? (This answer comes from common sense.)

(B) Was it the price of the good that changed or one of its determinants of supply? If it was the price of this good that changed, we have a change in quantity supplied. If anything else changed, we have a change in supply.

(C) How do we show the changes in (A) and (B) on the graph? If we have a change in quantity supplied, we move along the existing supply curve. If we have a change in supply, we shift the supply curve.

<u>Example</u>: Suppose the price of lumber rises while the price of new houses is unchanged. (Note: Lumber is a key resource used in the production of a new house.)

<u>For Lumber</u>:
(A) Lumber producers will make more lumber now than before the price of lumber rose.
(B) Because the price of lumber changed, we have a change in the quantity supplied of lumber.
(C) To show an increase in the quantity supplied of lumber, we move up along the existing supply curve of lumber.

<u>For New Houses</u>:
(A) House producers will want to make less houses now than before the price of lumber rose.
(B) Because the price of new houses did not change, we have a change in the supply of new houses.
(C) To show a decrease in the supply of new houses, we shift the supply curve for new houses to the left.