A different way to learn demand and supply

A **change in demand** implies that at the same price consumers will demand more or less of a good or service.

For example, if all consumers, except those who work in the car industry, were given an extra $5000 per year in their pay checks then if car prices stayed the same then there would be (*more*/less ) cars demanded.

What if all consumers, except those who work in the car industry, were forced to take a $5000 per year pay cut. Then if car prices stayed the same then there would be (more/*less* ) cars demanded.

In this case, car prices stayed the same. The factor that changed was income.

A **change in the quantity demanded** aligns with the Law of Demand. Meaning that as the price of the good that we are analyzing changes then the quantity demanded of that good changes in the opposite direction. Notice, with a change in the quantity demanded the price changes. So if we are looking at the market for apples, the price of apples changes. When there is a “change in demand” like the example above, the price stayed the same. What changed was income.

For example, if the price of laptop computers decreased then more consumers would be willing to buy laptops. Therefore, in economics language, a decrease in the price of laptops causes an increase in the quantity demanded of laptops.

Why can’t we just say, a decrease in the price of laptops causes an increase in demand for laptops? Because when we change demand, we are holding prices constant and changing some other factor like income. The other factor has to change to stimulate the demand curve shift.

If the laptop price had stayed the same then the quantity demanded of laptops at that price would stay the same as well.

A **change in demand** is show graphically when the demand curve moves either right (increase) or left (decrease).

A **change in the quantity demanded** is shown graphically by moving along a stationary demand curve. A move up a demand curve (when prices rise) results in a decrease in the quantity demanded, while a move down a demand curve (when prices fall) results in an increase in the quantity demanded. Remember, quantity is measured on the X – horizontal axis.

You already know the answers….

What is shifting the demand curve or the supply curve? Is the shift to the right of the left? How do you know that the entire curve is shifting and the movement is not just along a stationary demand curve?

In each of the following scenarios state what happens to the price of a good and the quantity of the good.

1. If the cost of making a Honda car rises then the price of the Honda car (rises/falls/stays the same) and the quantity (*sold*/demanded) of the Honda car (rises/falls/stays the same).
2. If Subaru enters into the southern car market then the price of the Honda car (rises/falls/stays the same) and the quantity (*sold*/demanded) of the Honda car (rises/falls/stays the same).
3. If the Surgeon General releases a new report claiming that eating green beans once a week prevents colon cancer the price of green beans (rises/falls/stays the same) and the quantity (*sold*/demanded) of green beans (rises/falls/stays the same).
4. If on June 1st the government gives every taxpayer a $2000 tax rebate. What will happen in the market for hotel rooms in resort areas? The price of hotels rooms (rises/falls/stays the same) and the quantity (*sold*/demanded) of hotel rooms (rises/falls/stays the same).
5. If a gas station increases their price of gas then the price of gas increases while the quantity (sold/*demanded*) of the gas (rises/falls/stays the same).

What is shifting the demand curve or the supply curve? Is the shift to the right of the left? How do you know that the entire curve is shifting and the movement is not just along a stationary demand curve? Answer, in each of the scenarios something other than the price of the good in question changed.

In question 1, the cost (not price) of making the Honda changed. The cost change caused the price change but the price would have stayed the same if the cost did not change.

In question 2, a new supplier entered the market. The new supplier put pressure on Honda to lower their prices.

In question 3, a new report came out. This favorable report inspired consumers to buy more beans. The result of the report was an increase in the price of the beans.

In question 4, the government enacted a tax rebate. The tax rebate added $2000 worth of income to the all taxpayers. This new revenue inspired tax payers to go on vacation. The demand for hotels rooms pushed the price of hotels rooms higher.

**Single Shifts**

The result of a **demand increase** is --- prices increase and quantity sold increases. (question 4)

The result of a **demand decrease** is --- prices decrease and quantity sold decreases. (question 3)

The result of a **supply increase** is --- prices decrease and quantity sold increases. (question 2)

The result of a **supply decrease** is --- prices increase and quantity sold decreases. (question 1)

**Use your common sense**, then determine which shift occurred. For example, I know in question 1 that when the cost of making a Honda increased that the price of Honda’s would increase. Therefore, I know that either the demand curve shifted right (increased) or the supply curve shifted left (decreased). How do I know that? Because when there is a single shift prices will only increase in those two scenarios.

You can also use your common sense to determine quantity changes. In question 1 when the cost of Hondas increase, we would expect less people to buy Honda cars. Looking at the four single shifts, there is only one scenario when prices increase and quantity sold decrease. That occurs when **supply decreases.**

Go through the same process of thinking for questions 2, 3 and 4. You should be able to determine the single shift move by using your common sense analysis.

**What makes question 5 different?** Question 5 is about the gas market. What *changed* was the price of gas. Therefore, the price increase simply causes the quantity demanded of gas to decrease. No other factor changed except for the price of the good in the market we are analyzing; therefore, there was not a single shift. The result is prices increases and quantity demanded decreased. We do not know what will happen to the quantity sold, we just know what will happen to the quantity demanded.