

Demand Determinant

Speaker: Jenny Howk

A change in demand causes the demand curve to either move to the left or to the right. The determinants of demand tell us what causes the demand curve to move.

First, a change in Tastes and Preferences can cause a change in demand. With this determinant, if there is a favorable change toward a product, demand will increase. If there is an unfavorable change toward a product, demand will decrease. For example, with cell phones now, most of us probably prefer to have a cell phone over a land phone line. So there is a favorable change towards cell phones, causing an increase in demand, which means the demand curve moves to the right. For land phone lines, we do not prefer them as much, which causes a decrease in demand and the demand curve moves to the left.

The second determinant is income. For this determinant, we have to divide our products into two categories: Normal goods and Inferior goods. Inferior goods are things that we buy if we are on a tight budget or don't have much money to spend. On the other hand, normal goods are things that we buy if we have plenty of money to spend. So, for example, an inferior good might be store brand or generic products. The normal good in this case would be name brand products. Used or secondhand items might be inferior goods with new items being normal goods. Ramen noodles might be an inferior good with prime rib being a normal good. The rule for this determinant is if income increases, demand for normal goods will increase and demand for inferior goods will decrease. So if income goes up, we will buy more name brands and less store brands. If income decreases, demand for normal goods will decrease and demand for inferior goods will increase.

Price of related goods is the next determinant. With this determinant we have to divide out products into substitutes and complements. Substitutes are items that can be used in place of one another. So cars and trucks, Ford and Chevy, Crest and Colgate. Complements are products that are used together. So for one of the products to work, you have to have the other one. Examples are music and Ipods, cars and gas, video games and game consoles. The rule for substitutes is, if the price of one product goes up, the demand for the substitute will increase. So if the price of Adidas goes up, we may buy more Asics instead, causing the demand curve for Asics to move to the right. For complements, if the price of one product goes up, the demand for the complement will decrease. So if the price of the latest video game console is too high, the demand for its video games will be low. It also works in the opposite way. If the price of one product falls, the demand for the complement will increase. So if smart phones are a penny, the demand for cell phone plans with data will increase.

Number of buyers is the fourth determinant. This one is simple. More buyers in a market will cause an increase in demand. Buyers moving away from a market will cause a decrease in demand. For example, for 2014, Obamacare Health Insurance allowed and encouraged individuals to purchase health insurance. Buyers that had not previously purchased health insurance entered the market. An increase in buyers caused an increase in demand for health insurance.

Expectations of Consumers is the last determinant. With this determinant, remember that you are working with expectations, or what buyers think will happen, not what has actually happened. So for example, if the price of gas is expected to go up by \$1.00 per gallon tomorrow, what will we all do today? We will all line up to buy gas before the price goes up. So an expected future increase in price will cause an increase in demand now. On the other hand, if price of gas is expected to go down by \$1.00 per gallon tomorrow, no one will buy gas today. We will all wait until tomorrow. So if price is expected to go down tomorrow, demand will decrease today.

To help you remember these determinants of demand, you can use PPINT:

P=Price of other goods

P=Price expected for goods

I=Income

N=Number of buyers

T=Tastes and Preferences