

University of Guelph Numeracy Project

About Demand



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About Demand

What is Demand?

- Demand is a measure of the relationship between a good's price and the amount of that good being requested. This measure is viewed through the use of demand curves and demand schedules.

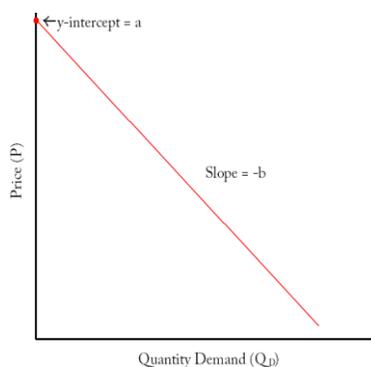
Demand

- Demand suggests that as prices fall, the amount of requests for the related good or service rise. This is illustrated through the use of a demand schedule, demand curves, or equations.
- The equation related to a straight line demand curve is as follows:

$$P = a - bQ_D$$

Where P is the price and Q_D is the quantity demanded. The a and b are positive constants.

- A graph related to a straight line demand curve is below.



Notes

- Nobody will purchase the good or service (i.e. $Q_D = 0$) if the related price is a. Graphically, a is the y-intercept on the demand curve.

- Falling prices translate to increased demand for a given good or service. So, given a non-zero Q_D (i.e. price $< a$), as Q_D for a particular good or service gets larger, the price falls.
- The constant b tells us how rapidly the price of a given good or service falls, relative to increased demand. Graphically, this constant represents the steepness of the demand curve.

Case 1

THE LAW OF DEMAND

- If all aspects remain constant, but the price of a good changes, movement along the demand curve occurs. Due to the downward slope of a demand curve, the demanded quantity of a good increases as prices fall. Likewise, the demanded quantity of a good decreases as prices rise.

Glossary

- Demand:** is a measure of the relationship between a good's price and the amount of that good being requested. This measure is viewed through the use of demand curves and demand schedules.
- Demand Curve:** with all other factors constant, a demand curve demonstrates the relationship between demanded quantity of a good or service and its related price.
- Law of Demand:** expresses that a fall in the price of a good or service corresponds to an increase in demanded quantity of that good or service, and vice-versa.

References

Bade, Robin, & Parkin, Michael. (2006). *Microeconomics: Canada in the Global Environment*. (6th ed.) Toronto: Pearson Addison Wesley.