

**University of Guelph
Numeracy Project**

About Demand: Examples



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About Demand: Examples

Background

Example

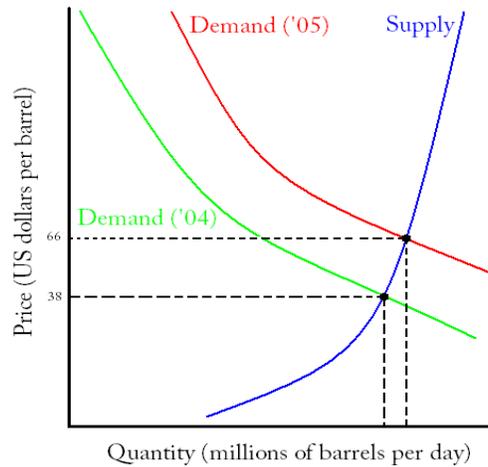
- ▶ The price of crude oil reached \$66 US a barrel in August of 2005.
- ▶ The reported reason for this price increase was an unexpected increase in the demand for oil during the winter months.

Economic Analysis

- ▶ The price of crude oil increased from an average of \$38 US a barrel in 2004 to \$66 a barrel in August of 2005.
- ▶ The most significant factor at work in the oil market in 2005 was an increasing awareness that the global demand for oil was going to increase at a faster rate than previously predicted.
- ▶ The main source of this increase in the demand of crude oil was the rapid expansion in the economies of China and India, which account for two-fifths of the world's population.

Cost Curves

- ▶ Consider the graph below.



What we see illustrated here is that with an increased demand between 2004 and 2005, the quantity of crude oil produced was minimally increased, while the price was significantly increased. So, with increased demand, the consumer's threshold for payment increased.

Conclusion

- ▶ To summarize, we have seen that levels of demand are variable, deeply intertwined with supply. This property can be seen across numerous areas in society, and can be observed during various time intervals (e.g. week-to-week, year-to-year, etc.).

Case 2

Example

- ▶ Suppose the city of San Francisco places a \$3 tax on a ticket to the zoo.
- ▶ The fact that buyers now have a significant tax to pay, lowers the amount they are willing to pay the zoo itself, decreasing the demand and shifting the demand curve to the left.
- ▶ The position of the resulting demand curve can be found through subtraction of the tax amount from the maximum price that buyers were previously willing to pay for each quantity level.