

Other Factors Influencing Demand



Law of Diminishing Marginal Utility

The additional satisfaction a consumer gets from purchasing one or more of a unit of a product will lessen w/ each additional unit purchased or consumed.

Example: JP Edwards + Wings



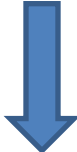
1st 10 wings = Delicious

2nd 10 wings = Good but not as satisfying

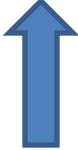

Next 10 wings = No satisfaction

Demand for wings ↓



Real Income Effect

- Individuals can not keep buying the same quantity of a product if its price keeps increasing but their income stays the same.
- Income  Price  Demand 
- Example: Budget \$25/week for Pizza
 - » Dominoes \$5.55/ pizza Demand 4 pizzas
 - » Dominoes \$8.00/pizza Demand 3 pizzas
 - » Dominoes \$2.00/pizza Demand 12 pizzas

Substitution Effect

- If 2 items satisfy the same need and the price of 1 increases, people will buy the other product
- Example: Coke \$5.00/case Pepsi \$8.00/case
 - Demand for Coke  Demand for Pepsi 

Tastes and Preferences

- What people like and prefer
- They will buy the product no matter what the price.
- Example:
 - Hollister Shirt \$25.00
 - Demand  or  because people will purchase Hollister no matter what the price
 - K-Mart Shirt \$10.00



Complementary Goods

- Products often purchased together.

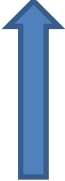
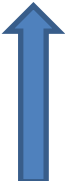
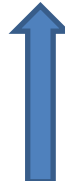




- Examples:

- Chips (D ) and Dip (D )

- Burgers (D ) and Fries (D )

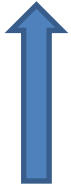

- Cookies (D ) and Milk (D )

Income

- Income  = Purchasing Power  Demand = 
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- Example: Make \$5,000 more/year
 - Trip to Jamaica
 - Vacation Demand 

Population


- As population increases, so does demand because of numbers

• Population  Demand 

- Example: Cheesesteaks

- Philly – Demand = 1,000,000/year
- Reedsville – Demand = 1,000/year
- Higher demand in Philly b/c more people live there

Consumer Expectations

- If people expect the price to increase in the future, they will purchase the item at the lower price BEFORE it increases.
- Example: Heating Oil
 - Demand  while price is \$2.25/gallon if price is expected to increase to \$3.50/gallon

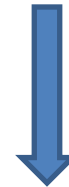
Elastic Demand

- Demand varies based on price b/c people are FLEXIBLE when buying or not buying the item.
- Example: Soda \$4.00/case
 - Buy 5 cases Demand




Soda \$9.00/case

May not buy any Demand



Inelastic Demand

- Price change has very little effect on the quantity people are willing to purchase
- Examples: Insulin Demand 

Toilet Paper Demand 