

Understanding Demand**A. Key Terms**

Briefly define or identify each of the following.

1. law of demand _____
2. substitution effect _____
3. income effect _____
4. market demand schedule _____

B. Main Ideas

Write the letter of the correct answer in the blank provided.

- ___ 5. Why does an economist create a market demand curve?
 - a. to learn what demands the market will make under unusual conditions
 - b. to have an idea of how a market would change if conditions in an area changed
 - c. to predict how people will change their buying habits when prices change
 - d. to show how various conditions can change the demand for a good
- ___ 6. What is the effect of the interaction of buyers and sellers on a market?
 - a. agreement on the price and the quantity traded
 - b. association of both supply and demand with income
 - c. theoretical relationship between price and use
 - d. desire for goods that cannot actually be afforded
- ___ 7. What does it mean when an economist says that a consumer has demand for a good or service?
 - a. The consumer is able to afford the good or service, but may be unwilling to buy it.
 - b. The consumer wants the good or service but may not actually have the money for it.
 - c. The consumer is able to buy the good or service but not at the price demanded.
 - d. The consumer is willing and able to buy the good or service at the specified price.
- ___ 8. How do economists measure the consumption of a good?
 - a. the amount of money spent to buy a good
 - b. the amount of a good that is bought
 - c. the amount of a good that is bought for a specific amount of money
 - d. the amount of good that is actually used rather than bought
- ___ 9. How does the substitution effect work when the price of an item drops?
 - a. The item becomes less and less popular as its price drops.
 - b. The substitutes for the item also suffer a drop in prices.
 - c. Consumers buy the item as a substitute for other things.
 - d. Consumers buy the item even if they do not particularly want it.
- ___ 10. If prices rise and income stays the same, what is the effect on demand?
 - a. More is bought of some goods and less of others.
 - b. Fewer goods are bought.
 - c. More goods are bought.
 - d. Demand stays the same.

Name _____

Date _____

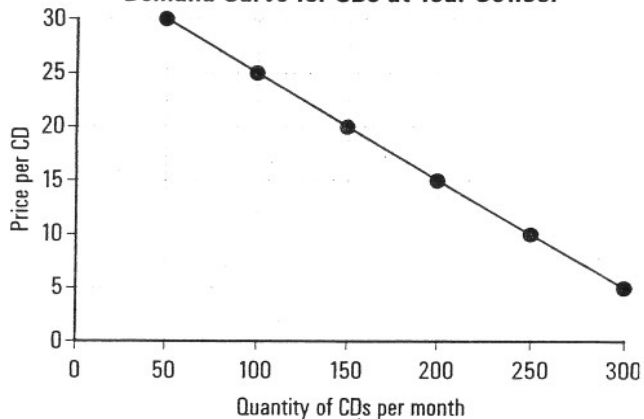
**ECONOMIC SKILLS LAB
PLOTTING DEMAND CURVES**

Examine the two demand schedules that follow and plot the demand curves. Then answer the questions that follow.

**Demand Schedule for CDs
at Your School**

Quantity Demanded (monthly)	Price (dollars)
300	\$5.00
250	10.00
200	15.00
150	20.00
100	25.00
50	30.00

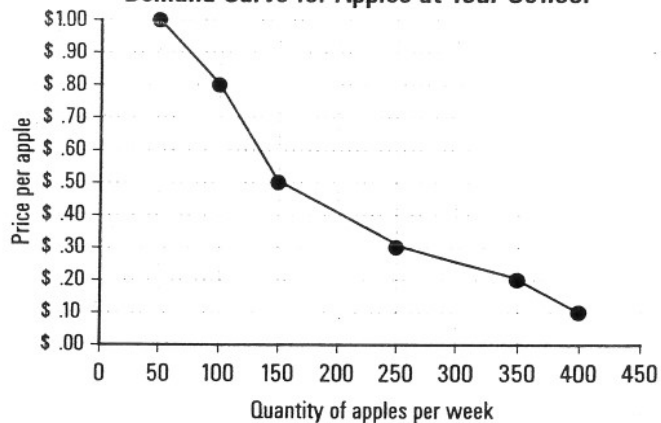
Demand Curve for CDs at Your School



**Demand Schedule for Apples
at Your School**

Quantity Demanded (weekly)	Price (cents)
400	10
350	20
250	30
150	50
100	80
50	100

Demand Curve for Apples at Your School



Questions for Understanding

- If the price of CDs is \$10, how many will people buy? _____
 - If the price of CDs is \$20, how many will people buy? _____
- If the quantity of CDs sold is 200, what is the price? _____
 - If the quantity of CDs sold is 100, what is the price? _____
- How many apples will students buy at 30 cents each? _____
 - How many apples will students buy at 80 cents each? _____
- What effect does the price seem to have on the quantity of CDs and apples sold?

- Calculate total revenue (price x quantity)
 - if the price of apples is 30 cents. _____
 - if 100 apples are sold. _____
 - if the price of CDs is \$15.00. _____

3. DEMAND

Name _____ Date _____

ECONOMIC SKILLS LAB IT ALL ADDS UP TO DEMAND-APPLYING A CONCEPT

The following table summarizes the number of CDs four people want to buy each month at different possible prices.

Monthly Demand for CDs					
Price per CD	Tim	Samantha	Jamal	Felicia	Total
\$5	5	10	8	4	
\$10	4	9	6	4	
\$15	3	9	4	2	
\$20	2	6	2	2	
\$25	1	5	0	0	
\$30	0	1	0	0	

1. Assume that Tim, Samantha, Jamal, and Felicia represent the total market. Use the table to calculate the market demand for CDs.

a. Show the market demand by filling in the blanks in the last column of the table.

b. Is the market demand a specific number of CDs? Why or why not?

2. Suppose the price of CDs rises from \$15 to \$25.

a. What happens to the total number of CDs the four consumers want to buy?

b. Is this a change in demand? Explain.

3. Use the table to plot the market demand for CDs on the following graph:

4. Suppose music producers decide to raise the price of cassette tapes to equal the price of CDs. Will this cause a change in the demand for CDs? Explain why.

