

Activity 9

Demand Curves, Movements along Demand Curves and Shifts in Demand Curves

Part A

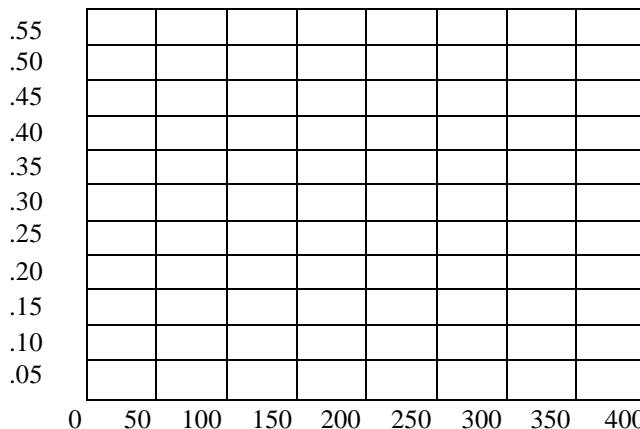
The table below shows the market demand for a hypothetical product: Greebes. Study the data, and plot the demand for Greebes on the Greebe Graph (Fig 1) below. Label the demand curve you draw “D”, and answer the questions that follow. Write the correct answer in the answer blanks or underline the correct words in parentheses.

Demand for Greebes

Price (\$ per Greebe)	Quantity Demanded (millions of Greebes)
\$.10	350
.15	300
.20	250
.25	200
.30	150
.35	100
.40	50

Demand for Greebes

Figure 1: Greebe Graph



The data for demand curve D indicate that at a price of \$0.30 per Greebe, buyers would be willing to buy _____ million Greebes. Other things constant, if the price of Greebes increased to \$0.40 per Greebe, buyers would be willing to buy _____ million Greebes. Such a change would be a decrease in (*demand / quantity demanded*). Other things constant, if the price of Greebes decreased to \$0.20, buyers would be willing to buy _____ million Greebes. Such a change would be called an increase in (*demand / quantity demanded*).

Now, let's suppose there is a dramatic **change in federal income-tax rates that affects the disposable income** of Greebe buyers. This change in the ceteris paribus (all else being equal) conditions underlying the original demand for Greebes will result in a new set of data, shown in the table below. Study these new data, and add the new demand curve for Greebes to the axes in Figure 1. **Label the new demand curve D₁** and answer the questions that follow.

New Demand for Greebes

Price (\$ per Greebe)	Quantity Demanded (millions of Greebes)
\$.05	300
.10	250
.15	200
.20	150
.25	100
.30	50

Comparing the new demand curve (D₁) with the original demand curve (D), we can say that the change in the demand for Greebes results in a shift of the demand curve to the (*left / right*).

Such a shift indicates that at each of the possible prices shown, buyers are now willing to buy a (*smaller / larger*) quantity; and at each of the possible quantities shown, buyers are willing to offer a (*higher / lower*) maximum price. The cause of this demand curve shift was a(n) (*increase / decrease*) in tax rates that (*increased / decreased*) the disposable income of Greebe buyers.

Now, let's suppose that there is a dramatic change in people's tastes and preferences for Greebes. This change in the ceteris paribus conditions underlying the original demand for Greebes will result in a new set of data, shown below. Study these new data, and add the new demand curve for Greebes to the axes in Figure 1. **Label the new demand curve D₂** and answer the questions that follow.

New Demand for Greebes

Price (\$ per Greebe)	Quantity Demanded (millions of Greebes)
\$.20	350
.25	300
.30	250
.35	200
.40	150
.45	100
.50	50

Comparing the new demand curve (D₂) with the original demand curve (D), we can say that the change in the demand for Greebes results in a shift of the demand curve to the (*left / right*).

Such a shift indicates that at each of the possible prices shown, buyers are now willing to buy a (*smaller / larger*) quantity; and at each of the possible quantities shown, buyers are willing to offer a (*lower / higher*) maximum price. The cause of this shift in the demand curve was a(n) (*increase / decrease*) in people's tastes and preferences for Greebes.

Part B

Now, to test your understanding, underline the answer you think is the one best alternative in each of the following multiple-choice questions.

1. Other things constant, which of the following would not cause a change in the demand (shift in the demand curve) for mopeds?
 - a. A decrease in consumer incomes
 - b. A decrease in the price of mopeds
 - c. An increase in the price of bicycles
 - d. An increase in people's tastes and preferences for mopeds

2. "Rising oil prices have caused a sharp decrease in the demand for oil." Speaking precisely, and using terms as they are defined by economists, choose the statement that best describes this quotation.
 - a. The quotation is correct: An increase in price always causes a decrease in demand.
 - b. The quotation is incorrect: An increase in price always causes an increase in demand, not a decrease in demand.
 - c. The quotation is incorrect: An increase in price causes a decrease in the quantity demanded, not a decrease in demand.
 - d. The quotation is incorrect: An increase in price causes an increase in the quantity demanded, not a decrease in demand.

3. "As the price of domestic automobiles has inched upward, customers have found foreign autos to be a better bargain. Consequently, domestic auto sales have been decreasing, and foreign auto sales have been increasing." Using only the information in this quotation and assuming everything else constant, which of the following best describes this statement?
 - a. A shift in the demand curves for both domestic and foreign automobiles
 - b. A movement along the demand curves for both foreign and domestic automobiles
 - c. A movement along the demand curve for domestic autos, and a shift in the demand curve for foreign autos
 - d. A shift in the demand curve for domestic autos, and a movement along the demand curve for foreign autos

4. You hear a fellow student say: "Economic markets are like a perpetual seesaw. If demand rises, the price rises; if price rises, then demand will fall. If demand falls, price will fall; if price falls, demand will rise and so on forever." Dispel your friend's obvious confusion in no more than one short paragraph below...