

# LESSON 9

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## *How much are consumers willing to pay? (demand)*

### TIME REQUIRED:

Two Class Periods

### CONCEPTS:

Demand  
Law of Demand  
Demand Curve  
Determinants of Demand  
Shift in Demand

### INSTRUCTIONAL OBJECTIVES:

#### Students will:

- Define demand and demonstrate knowledge of how the law of demand functions
- Explain why demand is necessary to the success of any enterprise including entrepreneurial ventures
- Identify and explain determinants of demand
- Construct and read a demand curve
- Recognize situations that result in a shift in demand and determine the direction and economic consequences of the shift

### RATIONALE::

Although the primary objective in running a business is to earn a profit, this is impossible if no one wants to buy the product being offered for sale. Entrepreneurs need to know how many products they will be able to sell at various prices in the market they serve. They also must be aware of factors that have the potential of changing demand for their products. Finally, they need to understand the impact that changes in price would have on the number of products they can sell. Without a basic knowledge of these market forces, entrepreneurs are less likely to succeed in earning a profit.

### MATERIALS:

- Activity 31 "The demand for 'Kookies'"

- Activity 32 "What is happening to the demand for canned tuna?"

- Activity 33 "Factors affecting demand"

- Activity 34 Comprehension quiz, lesson 9

### VOCABULARY:

Demand the schedule of how much consumers are willing and able to buy at all possible prices in a given period of time.

Law of Demand everything else being equal, more products will be demanded at a lower price than at a higher price.

Determinants of Demand factors (incomes, tastes, and preferences, the prices of substitute or complementary products, expectations for the future) that cause the demand for a product to change.

Demand Curve a graphical representation that shows the number of products that will be demanded at various prices; a graphical representation that shows the relationship between different prices for a product and how much of it people will be willing to buy at each price.

Shift in Demand an increase or decrease in demand that results from a change in a determinant of demand for a product.

## PROCEDURES:

1. Distribute a copy of Activity 31 to each student. Ask them to read Part A and to complete the table.
2. Tabulate your students' answers on the board as follows:

<u>Price</u>	<u>Total number of "Kookies" students in this class would buy</u>
\$.20 each	
.40 each	
.60 each	
.80 each	
1.00 each	

3. Discuss the meaning of the terms *demand* and the *law of demand* with them.
4. Plot a demand curve on the board based on the data collected from your students. Have each student do the same on Part B of the activity. Point out how the law of demand is demonstrated by their graphs (the number of "Kookies" that would be demanded at a low price is greater than that which would be demanded at a higher price).
5. Ask your students what would happen to the number of "Kookies" they would buy at each price as the result of each of the following events:
  - their weekly income went up \$20
  - their girlfriend or boyfriend developed a mad craving for "Kookies"
  - the drugstore down the street had a sale on candy bars at 10 cents each
  - they heard the price of "Kookies" was going up 25 cents next week
6. Explain that the factors they considered in procedure 5 above are called determinants of demand by economists. When these things change, the number of items people are willing to buy at each price also changes. The

determinants of demand demonstrated above are: income, tastes and preferences, the price of substitute goods, and expectations of the future.

7. Explain that each of the situations in procedure 5 above would cause the demand curve to move either to the left (showing a decrease in demand), or to the right (showing an increase in demand). Sketch a new demand curve on your original graph of demand for each situation and explain each shift in demand to your students. If needed, demonstrate the shifts by repeating procedures 2 and 4. New demand curve:

- an increase in income would cause the demand curve to shift to the right (income)
- an increase in your girlfriend's or boyfriend's desire for "Kookies" would cause your demand curve to shift to the right assuming you bought more for your friend (tastes and preferences)
- a sale on candy bars would cause the demand curve to shift to the left because many people would substitute candy for "Kookies" (the price of substitutes) the expectation of a future price increase would cause today's demand curve to shift to the right as customers stock up on "Kookies" before the price goes up (expectations of the future)

8. Distribute Activity 32. Have your students complete these either as individuals, as pairs, in small groups, or as homework. When they have finished this work, go over the results in class. Review your explanation of shifts in demand and discuss how the situations in the worksheet demonstrate examples of these shifts.

## EVALUATION:

Evaluate the lesson using either Activity 33 or Activity 34.

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## ACTIVITY 31

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### *The demand for "Kookies"*

#### PART A

Suppose a bakery close to your school has decided to produce and market large (6 inches in diameter) chocolate chip cookies which they have given the trade name "Kookies." The owners of the firm have not decided what price to charge. They want to know how many they could sell at various prices.

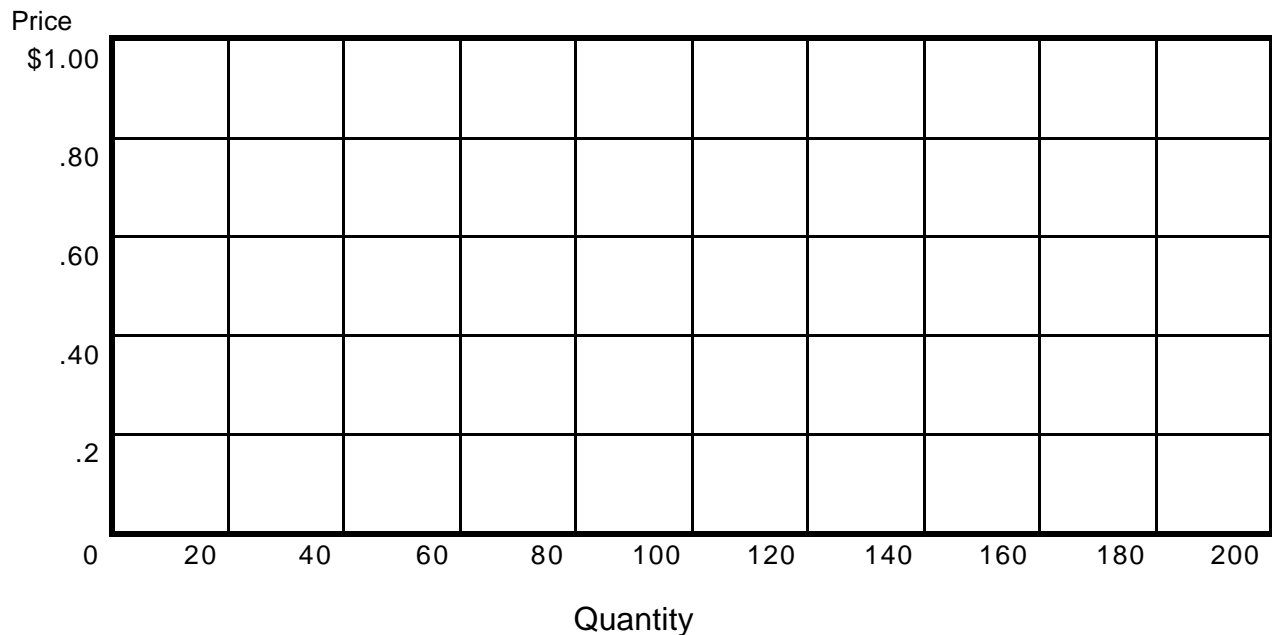
To help them find out the information they want to know, complete the table below.

<u>At this price</u>	<u>I would probably buy this many</u>	<u>"Kookies" per week.</u>
\$.20 each		160
.40 each	100	
.60 each	60	
.80 each	20	
1.00 each		0

#### PART B

Construct a graph to show the total number of "Kookies" students in your class are willing to buy at each price.

**Demand Curve for "Kookies" in Our Class**



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## ACTIVITY 32

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### *What is happening to the demand for canned tuna?*

#### PART I

Mary runs the only grocery store in a 12-block area of a large city. Many of her customers are elderly and don't have much income. Mary sells lots of canned tuna fish. It isn't too expensive, and it is a good source of protein. Mary charges 79 cents a can all the time, but she has noticed that her sales have changed from time to time.

*Explain why the demand for tuna fish changed in each of the following situations.*

1. When hamburger went up 20 cents a pound, Mary sold about 50 more cans of tuna fish each day. This probably happened because when the price of hamburger went up, some of Mary's customers probably substituted tuna fish.

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2. Mary sells about 100 more cans of tuna fish a day at the start of a month than at the end of a month. This probably happens because many retired people receive their income in a check at the beginning of the month, causing them to demand more at that time. By the end of the month, they may be short of money and decide to spend less.

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3. For a few weeks after there was an article in the newspaper about how healthful tuna fish is, Mary's sales increased 30 cans a day. This probably happened because the article may have caused some of Mary's customers to change their tastes or preferences for tuna if they thought it would help them stay healthy.

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4. There was a truck drivers' strike and food deliveries were interrupted. Mary sold 100 cans more a day. This probably happened because some of Mary's customers probably decided to stock up on tuna because they were afraid they would not be able to buy it in the future if the strike lasted a long time.

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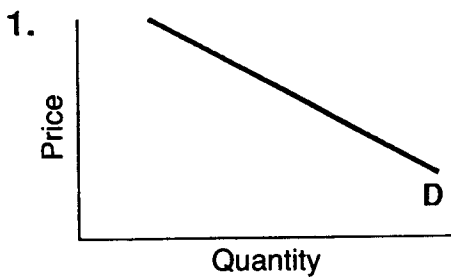
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**PART II**

The graphs below represent the demand curve for Mary's canned tuna fish on a regular day.

Draw a new line to show what would happen to the demand curve in each of the situations described on the previous page. Would it shift to the left or right?

In the blank space provided, write the determinant of demand for each situation.



Determinant

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Determinant

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Determinant

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Determinant

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## ACTIVITY 33

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### *Factors affecting demand*

Cut out advertisements from newspapers or magazines for two totally unrelated products.

Consider the advertisements and then answer each of the following questions.

Be sure to attach the advertisements to your assignment when you hand it in.

1. To which of the four determinants of demand (income, tastes and preferences, the price of substitutes, or expectations of future changes) is each advertisement trying to appeal? Explain how you know this.

Advertisement No. 1 appeals to \_\_\_\_\_

I know this because

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Advertisement No. 2 appeals to \_\_\_\_\_

I know this because

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2. What would you estimate the price of each product is now?

Product No. 1 \$ \_\_\_\_\_

Product No. 2 \$ \_\_\_\_\_

3. Restate the law of demand in your own words.

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4. If the price of each of these products went up 5%, which one do you believe would suffer the greater loss in sales?

Explain why.

I believe product No. \_\_\_\_\_ would have the greater percentage loss in sales because

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5. Describe how firms that sell the product you identified in question No. 4 might try to reduce their sales loss.

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## ACTIVITY 34

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### *Comprehension quiz, lesson 9*

#### PART I

Answer the following by placing the letter of the correct definition in the blank in front of each term.

Term	Definition
C 1. demand	A. products that may not be exactly the same but which may be put to the same use
F 2. determinant of demand	B. a graphic representation of the number of items that will be demanded at various prices
B 3. demand curve	C. the willingness and ability to buy something
A 4. substitutes	D. a belief in future changes that affects one's willingness to buy products now
D 5. expectations	E. people will buy more units of a good at a lower price than at a higher price
E 6. law of demand	F. anything, other than price, that affects customers' willingness to buy a product

#### PART II

Study the graph to the right and answer the following questions.

7. How many pairs of socks would be sold at a price of \$4?

**2 pairs**

8. If there were a cold spell, would the demand curve for socks move to the left or to the right?

**It would move to the right**

Explain how the law of demand is demonstrated by the graph.

**The curve shows the law of demand because more socks are demanded at lower prices than at higher prices.**

