

Exercise walk-through

2.1

Demand

AP Microeconomics

The law of demand

Other conditions unchanged

At \$10, buyers want 100 units; at \$12, they want 85. They move along one demand curve.

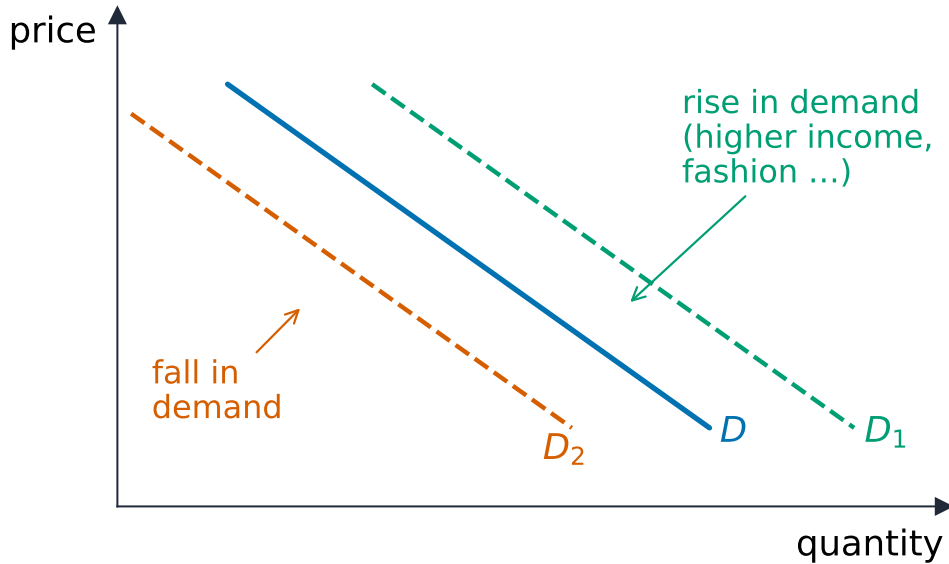
Substitution effect : alternatives become relatively cheaper.

Income effect : purchasing power falls.

Demand is the whole relationship; **quantity demanded** is the amount wanted at one price.



The demand curve slopes down; income



The demand curve slopes down; income, tastes, and related prices shift it

Movement vs shift

Movement along

only the good's **own price**
changed – slide to another point

TIPEN shifts demand: **Tastes**
(**substitutes** / **complements**

Shift

something **else** changed –
whole curve moves left/right

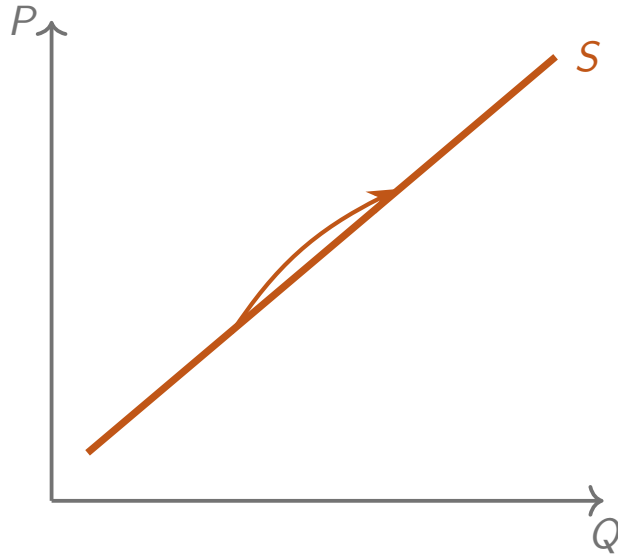
, Income, Prices of related goods
) , Expectations, Number of buyers.

What shifts each curve, and what a market needs first

property rights	well-defined rights support exchange – owners can use, exclude others from, and transfer what they own
demand shifters	TRIBE: T astes, R elated goods, I ncome, B uyers (number of consumers), E xpectations
supply shifters	input prices, technology, taxes and subsidies, number of sellers, expectations
horizontal summation	the market curve is the individual curves added across quantities at each price
the determinants	anything except the good's own price – which moves you <i>along</i> the curve
the exam skill	you must draw correctly labelled supply-and-demand graphs and shift the right curve in the right direction

Match the requested graph: label both axes, both curves and the equilibrium. Marks follow the task and official scheme, not the order in which you write.

The law of supply



Supply : price up $\Rightarrow$ quantity up (a **direct relationship**). The curve slopes up because each extra unit adds **marginal cost**.

TITEN shifts supply: **Technology**, Input prices, Taxes/**subsidies**, Expectations, Number of sellers.

Exercises 2.1-2.3

2.1 State the law of demand.

[1]

2.2 Name the two effects that explain the downward slope of demand.

[2]

2.3 State how market demand is derived from individual demand curves.

[1]

Exercises 2.1-2.3

2.1 State the law of demand.

[1]

2.1

- as the price of a good rises, the quantity demanded falls (other things equal)

2.2 Name the two effects that explain the downward slope of demand.

[2]

2.2

- the substitution effect and the income effect

2.3 State how market demand is derived from individual demand curves.

[1]

2.3

- by horizontally summing (adding the quantities of) all individual demand curves at each price

Exercises 3.1-3.2

3.1 The demand curve slopes downward because of the substitution effect and the [1]

☐

A income effect

B supply effect

C tax effect

D scale effect

3.2 A change in a good's own price causes a [1]

☐

A shift of the demand curve

B movement along the demand curve

C shift of the supply curve

D no change at all

Exercises 3.1-3.2

3.1 The demand curve slopes downward because of the substitution effect and the [1]

- ☐ **A** income effect
B supply effect
C tax effect
D scale effect

3.1 A

- income effect.

3.2 A change in a good's own price causes a [1]

- ☐ **A** shift of the demand curve
B movement along the demand curve
C shift of the supply curve
D no change at all

3.2 B

- movement along the demand curve.

Exercise 3.3 (a)

3.3 The price of a good falls.

(a) State the effect on the quantity demanded.

[1]

Exercise 3.3 (a)

3.3 The price of a good falls.

(a) State the effect on the quantity demanded.

[1]

(a)

- it rises

Exercise 3.3 (b)

3.3 The price of a good falls.

(b) State whether this is a movement along or a shift of the curve.

[1]

Exercise 3.3 (b)

3.3 The price of a good falls.

(b) State whether this is a movement along or a shift of the curve.

[1]

(b)

- a movement along the curve

Exercise 3.3 (c)

3.3 The price of a good falls.

(c) Name one determinant that would instead shift demand.

[1]

Exercise 3.3 (c)

3.3 The price of a good falls.

(c) Name one determinant that would instead shift demand.

[1]

(c)

- any one of: income, tastes, prices of related goods, expectations, number of buyers