

Name \_\_\_\_\_ Date \_\_\_\_\_

## WORKSHEET: DEMAND SHIFTERS

### OVERVIEW

The *Law of Demand* establishes that when price goes up people buy less, and when price goes down people buy more. Economists refer to this as the *price effect*. But as the November 2001 Big Business article, “Sick of Cereal,” illustrates sometimes people’s decisions to buy more or less of a service or a good such as cereal are made independent of a price change. When the amount purchased – the quantity demanded – changes, even as the price remains the same, we are observing the impact of a change in demand itself. Changes in demand result from changes in one or more of the *determinants of demand*. Understanding the effects of changes in demand on goods and services is a powerful tool for explaining and predicting changes in the economic world around us.

- The determinants of demand – sometimes called demand shifters – are described in the lefthand column below. On the right is a series of real-life situations. Decide whether each of the following scenarios resulted from a price effect or a change in demand. If demand changed, which demand shifter or determinant of demand is responsible? If price effect is responsible, circle the statement.

### DETERMINANTS OF DEMAND

\_\_\_\_\_ **1 Tastes and preferences:** Simply put, what people like or dislike changes for a variety of reasons. When many people’s tastes and preferences change, demand changes.

\_\_\_\_\_ **2 Availability of substitutes:** Other products may satisfy consumers’ wants. These include close substitutes like different brands of gasoline, or more disparate substitutes like playing Scrabble instead of going to a movie.

\_\_\_\_\_ **3 Income level:** As people’s incomes change so does the mix of purchases they make. As incomes rose in the U.S., people let Starbucks make their coffee for them. If incomes fall, they may start making instant at home again.

\_\_\_\_\_ **4 Population:** As more or fewer people participate in any given market, the demand changes.

### REAL-LIFE SCENARIOS

**A** The introduction of the cellular telephone has reduced pay phone usage.

**B** There are many more American flags visible in the cities of the U.S. in the past month.

**C** News headline: Politicians debate whether tax refunds will spur consumer-spending spree.

**D** Although major airlines lowered ticket prices as much as 50% in the wake of the Sept. 11 terrorist attacks, many flights are still undersold.

**E** The housing market in Las Vegas is booming, and home prices have been rising faster than almost any other city in the U.S. over the past five years.

*For a related activity on demand shifters and more background, see p. 5 of the November Teacher Guide.*

***Demand Shifters' Answers:***

**A Availability of substitutes:** The use of pay telephones has decreased because of the availability of a (close and low-priced) substitute for making telephone calls while away from the home or the office.

**B Tastes and preferences:** The increased number of flags reflects a change in people's tastes and preferences; they now want flags more than they did previous to Sept. 11.

**C Income level:** A tax refund would increase income and therefore increase demand. (The question has been "by how much?" since the issue is whether people will spend their refund or save it.)

**D Price effect:** The airlines hoped to take advantage of the price effect—which changes quantity

demanded, or the actual number of purchases. It may be too soon to tell, but the fare sale doesn't seem to be overcoming the demand shifter—people's changed tastes and preferences for flying in the wake of the terrorist hijackings.

**E Population:** Demand for housing has been increasing in Las Vegas because the population of Las Vegas has been growing at a very rapid rate.