

Chapter 2 The nature of demand

Exercise 2.1

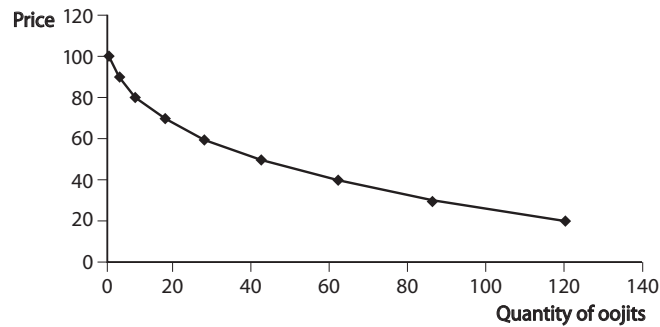


Figure A2.1
The demand for oojits

Exercise 2.2

- a A digital camera is likely to be a **normal good**, as we expect demand to increase as consumer incomes increase.
- b If the demand for magazines increases as consumer incomes increase, then this is likely to be an example of a **normal good**. On the other hand, if increasing incomes leads to a fall in demand for magazines because more people rely on the internet instead of reading magazines, then a magazine would become an example of an **inferior good**.
- c Potatoes are a classic example of an **inferior good**, because as consumer incomes increase, so people tend to switch to other types of food. This may be especially the case for low-income families, where potatoes may form a high portion of the diet, but an increase in incomes enables the purchase of a wider range of foodstuffs.
- d Again, it is difficult to say whether a bicycle is a **normal** or an **inferior** good, as this may depend upon context. There may be situations in which rising consumer incomes lead to a fall in the demand for bicycles, as consumers are able to afford motor bikes or cars. For example, this has been seen in China, where rapidly rising incomes have led to a substantial shift from bicycles to cars in recent years. On the other hand, in some developing countries, an increase in incomes may enable more people to purchase bicycles. Remember that the distinction between normal and inferior goods is wholly about how the demand will respond to a change in consumer incomes.
- e Fine wine is likely to be an example of a **normal good**, as demand will tend to increase as incomes rise...
- f ...whereas cheap wine may be an inferior good, if people with rising incomes switch from cheap wine to fine wine.

Exercise 2.3

In this exercise, there are three possible responses, represented by Figures A2.2, A2.3 and A2.4.

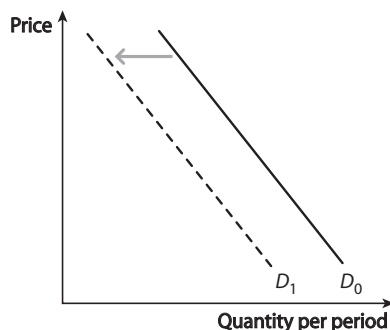


Figure A2.2
A leftward
shift of the
demand
curve

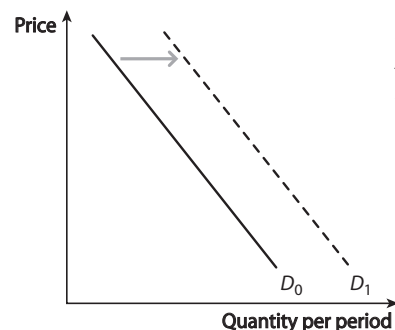


Figure A2.3
A rightward
shift of the
demand
curve



Figure A2.4
A movement along
the demand curve

- a If the campaign is successful, people will eat less chocolate, and the demand curve will shift to the left – less will be demanded at any given price. See Figure A2.2.
- b As the price of apples increases, some people may choose to buy oranges instead (in other words, we would expect apples and oranges to be **substitutes**), so the demand curve for oranges will shift to the right – more will be demanded at any given price. See Figure A2.3.
- c A decrease in the price of oranges will induce a movement **along** the demand curve; more oranges will be demanded, but the demand curve does not shift. See Figure A2.4.
- d DVDs and DVD players are considered to be **complements**, so a decrease in the price of DVD players is likely to increase the demand for DVDs – the demand curve shifts to the right. See Figure A2.3.
- e As a DVD recorder can be expected to be a substitute for a VCR, a decrease in the price of DVD players can be expected to lead to a fall in the demand for VCRs, and the demand curve will therefore shift to the left. See Figure A2.2.
- f In general, private transport is expected to be a **normal good**: as incomes rise, more people are likely to have their own cars rather than relying on the buses. Thus, a rise in consumer incomes will lead to a rise in the demand for private transport, and the demand curve will shift to the right. See Figure A2.3.
- g In contrast, public transport tends to be regarded as an **inferior good**: demand falls as income rises. Thus, an increase in consumer incomes will lead to a shift of the demand curve to the left. See Figure A2.2.

Additional exercise

Smoothies and Cola

Growing concerns about obesity in the British population led the government to launch a campaign to encourage healthier eating. Part of this was to encourage people to consume more fruit and vegetables, which was reinforced by the 'five-a-day' slogan, the idea being that five portions per day of fruit and vegetables were an essential part of a balanced diet.

Firms selling food products naturally tried to take advantage of the campaign by emphasising in their advertising that their products contributed to the five-a-day. Smoothies were one such product advertised in this way as helping people to meet their five-a-day quota. One result was that sales of cola and other soft drinks were affected, with people switching to smoothies as a healthier alternative. Whether this was actually true is another matter, and on Channel 4's *The F Word*, Janet Street-Porter argued that the sugar content of smoothies was much higher than some other fizzy soft drinks. But that is another story.

- a Consider the factors that influence demand – which of these explains the increase in demand for smoothies following the campaign?
- b What effect would the campaign have on the demand curves for smoothies and fizzy soft drinks, such as cola?
- c Would you see smoothies and fizzy soft drinks as being substitutes or complements? Explain your answer.

Smoothies and Cola

Discussion points

- a *In general, the demand for a good or service is said to depend on the price of the good or service, the price of other goods, consumer incomes, preferences and the size of the market. In this particular case, the campaign is likely to have affected people's preferences.*
- b *The demand curve shows the relationship between the quantity demanded of a good and its price. If preferences change in such a way that consumers prefer to drink smoothies as a contribution to their five-a-day, this suggests that they will be prepared to buy more smoothies at any price, so the demand curve shifts to the right. If this also means that they consume less fizzy drinks, then the demand curve for fizzy drinks will shift to the left, as people buy less at any given price.*
- c *The implication of the passage is that smoothies and fizzy drinks are substitutes. We would expect fizzy drink manufacturers to consider reducing their prices in order to entice some consumers back to their products.*