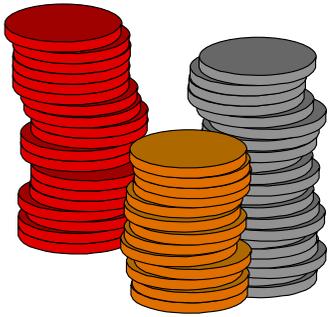


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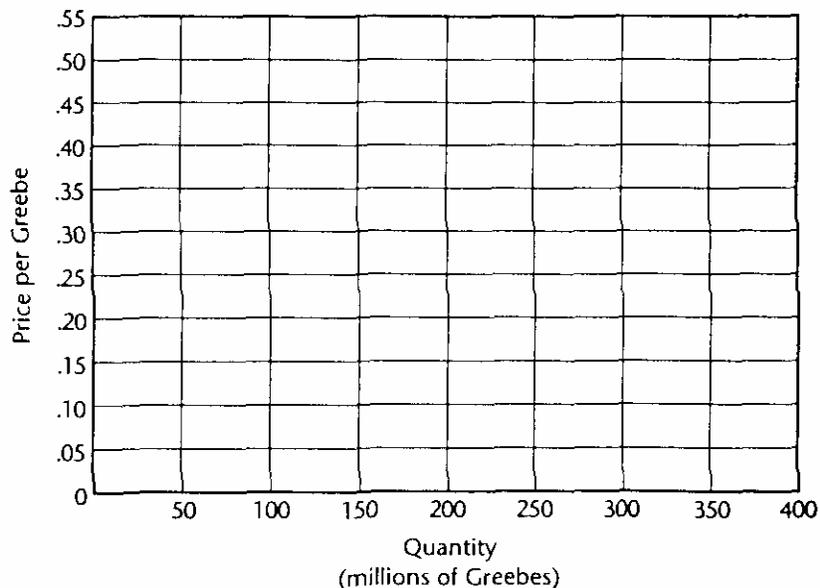
Getting familiar with demand!¹

Below is a table showing the market demand for Greebes, a hypothetical product introduced to spare you the confusion of real-world associations. Study the data in the table, and plot the demand for Greebes on the axes provided below. Label the demand curve D, and answer the questions that follow.

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

Plotting Demand for Greebes



Part A.

Fill in the answer blanks or cross out the incorrect words in parentheses.

The data for demand curve D indicate that at a price of \$.30 per Greebe, buyers would be willing to buy _____ million Greebes. Other things constant, if the price of Greebes increased to \$.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 \$.20, buyers would be willing to buy _____ million Greebes. Such a change would be called an increase in (*demand/quantity demanded*).

Now, to take another example, let's suppose that there is a dramatic increase in federal income tax rates that reduces 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 decrease in demand, and we would have a new set of data, such as that shown in the table *Decrease in the Demand for Greebes*. Study the data in the new table, and plot the new demand curve for Greebes on the axes, *Plotting Demand for Greebes*. Label the new demand curve D₁ and answer the questions that follow.

¹ This exercise is taken from the Study Guide to *Microeconomics* by Dr. Paul Heyne.

Decrease in the 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 (D_1) with the old demand curve (D), we can say that a decrease in the demand for Greebes results in a shift of the demand curve to the (*right/left*).

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.

Now, let's suppose that there is a dramatic increase in people's "taste" for Greebes. This change in the *ceteris paribus* conditions underlying the original demand for Greebes will result in an increase in demand, and we would have a new set of data such as that shown in the table *Increase in the Demand for Greebes*. Study the data in the new table, and plot this demand for Greebes on the axes. Label the new demand curve D_2 and answer the questions that follow.

Increase in the 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 (D_2) with the old demand curve (D), we can say that an increase in the demand for Greebes results in a shift of the demand curve to the (*right/left*).

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.

Part B.

Now, the dog work over, see if you have the point by circling the letter of the answer you think is the one best alternative in each of the following multiple-choice questions.

- Other things constant, which of the following would not cause a change in the demand (shift in the demand curve) for mopeds?
 - A decrease in consumer incomes.
 - A decrease in the price of mopeds.
 - An increase in the price of bicycles.
 - An increase in people's tastes for mopeds.
- "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:
 - The quotation is correct -- an increase in price always causes a decrease in "demand. "
 - The quotation is incorrect -- an increase in price always causes an increase in "demand," not a decrease in "demand."
 - The quotation is incorrect -- an increase in price causes a decrease in the "quantity demanded," not a decrease in "demand."
 - The quotation is incorrect -- an increase in price causes an increase in the "quantity demanded," not a decrease in "demand."
- "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 slipping and foreign auto sales have been moving briskly." Using only the information in this quotation and assuming everything else constant, which of the following best describes this statement?
 - A shift in the demand curves for both domestic and foreign automobiles.
 - A movement along the demand curves for both foreign and domestic automobiles.
 - 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, a movement along the demand curve for foreign autos.
4. A fellow student is heard to say the following: "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.