Name _____ Date _____ Class _____

# GUIDED READING *Activity 4-1*

*For use with textbook pages 89–93*

## WHAT IS DEMAND?

### RECALLING THE FACTS

***Directions:*** *Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.*

**1.** What three factors determine the demand for a product?

_____

**2.** What is microeconomics?

_____

_____

**3.** What is the purpose of a demand schedule? _____

_____

**4.** How is a demand curve similar to a demand schedule? How is it different?

_____

_____

_____

_____

**5.** What does the Law of Demand state? _____

_____

**6.** What does the market demand curve show? _____

_____

**7.** What is marginal utility? _____

_____

**8.** How does the principle of diminishing marginal utility affect how much people are willing to pay?

_____

_____

_____

Name _____ Date _____ Class _____

# GUIDED READING *Activity 4-2*

*For use with textbook pages 95–99*

## FACTORS AFFECTING DEMAND

### OUTLINING

***Directions:*** *Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.*

**I.** Change in the Quantity Demanded

**A.** Introduction—What causes the movement along the demand curve that shows a change in the quantity of the product purchased? _____

**B.** The Income Effect

**1.** What happens when prices drop? _____

**2.** How can an increase in price affect demand? _____

**C.** The Substitution Effect—What do consumers tend to do when similar products are available and one is more costly than the other? _____

**II.** Change in Demand

**A.** Introduction—What is a change in demand? _____

**B.** Consumer Income—What happens if consumer income rises?

_____

**C.** Consumer Tastes—What factors can affect consumer tastes?

_____

**D.** Substitutes—What happens to the demand for a product if the price of its substitute goes up?

_____

**E.** Complements—How does an increase in a product's price affect demand for the product's complement?

_____

**F.** Change in Expectations

**1.** What happens to the demand for a product if consumers think that a future product will be better?

_____

**2.** What happens to the demand for a product if consumers think there will be a shortage in the future?

_____

**G.** Number of Consumers

**1.** What happens to the market demand curve if there is an increase in the number of consumers?

_____

**2.** What happens to market demand whenever anyone leaves the market?

_____

Name _____ Date _____ Class _____

# GUIDED READING *Activity 4-3*

*For use with textbook pages 101–107*

## ELASTICITY OF DEMAND

### FILLING IN THE BLANKS

***Directions:*** *Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.*

| | | |
|---|---|---|
| elastic | demand elasticity | inverse |
| proportional | inelastic | unit elastic |
| elasticity | | total expenditures |

**Introduction/Demand Elasticity**

Consumers are sensitive to changes in prices. A change in price can affect quantity demanded. This cause-and-effect relationship in economics is known as **1** _____. The extent to which a change in price causes a change in the quantity demanded is called **2** _____. Demand is **3** _____ when a given change in price causes a relatively larger change in quantity demanded. Sometimes a lower or higher price does not create much change in demand. When the change in demand is relatively small, the demand is considered **4** _____. When the demand is exactly between elastic and inelastic, the demand is called **5** _____. Unit elastic demand causes a **6** _____ change in quantity demanded.

**The Total Expenditures Test**

To estimate elasticity, one can look at the effect that a price change has on **7** _____, which is the amount that consumers spend on a product at a particular price. Total expenditures are found by multiplying the price of a product by the quantity demanded. When the price goes down, total expenditures go up. This is called an **8** _____ relationship. For inelastic demand, total expenditures decline when the price declines. For unit elastic demand, total expenditures remain unchanged when the price decreases. If the change in price and expenditures move in opposite directions, demand is **9** _____. If they move in the same direction, demand is **10** _____. If there is no change in expenditures, demand is **11** _____.

**Determinants of Demand Elasticity**

Several factors determine whether a good is elastic or inelastic. When a consumer needs the product and the purchase cannot be put off, demand tends to be **12** _____. If there are enough substitutes available, consumers can switch back and forth between products in order to get the best price. Demand is said to be **13** _____. The fewer the substitutes, however, the more inelastic the demand. If the purchase uses a large portion of income, people are more sensitive to price changes and demand tends to be **14** _____.