Chapter tow : The Theory of the price

1- Demand theory : The branch of the price theory that deals with the way in which the consumer makes his choices for consumption with a given income and set of prices.

a/ Demand concept : The amount of the commodity that the person is willing and able to purchase in a given period of time and different prices.

b- Demand curve :- A graphic representation showing the quantities of a commodity the consumers are willing and able to buy at a given period of time and alternative prices with the assumption that everything affecting demand (except the price) remains constant.

Price ($/slice)	Quantity Demanded (number of slices)
$2.50	3
$2.00	4
$1.50	5
$1.00	6
$0.50	7

A change in the price of a good causes a movement along the demand curve. If the price of pizza falls from $2.00 to $0.50, the market moves from point A down the demand curve to point B. The quantity demanded rises from 6 to 12 slices of pizza. The change in the price of pizza has no effect on the demand for pizza. Demand is repesented by the entire demand curve. A change in the price of pizza does not cause any change in the demand curve.

the demand curve embodies a negative price to quantity relationship. The curve typically slopes downward from left to right; though there are some goods and services that exhibit an upward sloping demand, these goods and services are characterized as abnormal.

A change in price, with no change in any of the other variables that affect demand, results in a movement along the demand curve. For example, if the price of coffee falls from $6 to $5 per pound, consumption rises from 25 million pounds to 30 million pounds per month. That is a movement from point A to point B along the demand curve in Figure 3.1 "A Demand Schedule and a Demand Curve". A movement along a demand curve that results from a change in price is called a change in quantity demanded. Note that a change in quantity demanded is not a change or shift in the demand curve; it is a movement along the demand curve.

Source: Boundless. “Demand Schedules and Demand Curves.” Boundless Economics. Boundless, 21 Jul. 2015. Retrieved 14 Mar. 2016 from https://www.boundless.com/economics/textbooks/boundless-economics-textbook/introducing-supply-and-demand-3/demand-46/demand-schedules-and-demand-curves-170-12268/

Lesson 7 3/1/2011

Law of Demand: The law that reflects the relationship between the price of a commodity and quantity demanded of it(The lower is the price ,the greater the quantity that will be demanded) other things constant.

.But why higher prices reduces the quantity demanded. The theory give two reasons:-

1- Substitution Effect :The change in consumption resulting from a change in the price of one good relative to the price of other goods.
2- Income Effect: The change in consumption resulting from an increase in the consumers real income.
3- rices of Related Goods and Services
4- Suppose the price of doughnuts were to fall. Many people who drink coffee enjoy dunking doughnuts in their coffee; the lower price of doughnuts might therefore increase the demand for coffee, shifting the demand curve for coffee to the right. A lower price for tea, however, would be likely to reduce coffee demand, shifting the demand curve for coffee to the left.
5-

In general, if a reduction in the price of one good increases the demand for another, the two goods are called complements. If a reduction in the price of one good reduces the demand for another, the two goods are called substitutes. These definitions hold in reverse as well: two goods are complements if an increase in the price of one reduces the demand for the other, and they are substitutes if an increase in the price of one increases the demand for the other. Doughnuts and coffee are complements; tea and coffee are substitutes.

6- Complementary goods are goods used in conjunction with one another. Tennis rackets and tennis balls, eggs and bacon, and stationery and postage stamps are complementary goods. Substitute goods are goods used instead of one another. iPODs, for example, are likely to be substitutes for CD players. Breakfast cereal is a substitute for eggs. A file attachment to an e-mail is a substitute for both a fax machine and postage stamps.
7-
8- Figure 3.4
9- The Factors affecting demand:-

1-Number of the consumers.
2- The price of the commodity.
3- The prices of other alternative or complement commodities.
4- The size of the consumer incomes.
5- Tastes of the consumers.

d/Demand function :- A mathematical relationship between the quantity of a good the consumer wishes to buy and the variables that affect this choice.
It is written as follows;-

$D= f(P,P_1,Y,T)$
Where:
P; The price of the good.
P_1: The prices of other alternative good.
Y:The size of the consumers income.
T:The tastes of the consumers.

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C/ The concept of Elasticity :-
Elasticity is the degree of response of demand to the change in the price .It is the percentage change in the quantity demanded of a commodity to the percentage change in the price of the commodity ,or :

$$\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in the price}}$$

Or;

$$\frac{\text{\% change in Qd}}{\text{\% change in P}}$$

Or:

$$E = \frac{\Delta q / q}{\Delta p / p} \quad \text{or} \quad \frac{\Delta q}{\Delta p} \cdot \frac{p}{q}$$

e/ Degrees of demand elasticity : They are five degrees:-

a/Perfectly or completely inelastic demand :where the quantity demanded does not change as the price change. The degree is zero and demand curve will be vertical on the horizontal axis .(see graph 1).

b/Relatively inelastic demand ; where the quantity demanded change by a smaller percentage than the price does . The degree is greater than zero but less than one .(see graph 2)

c/ Unitary elasticity: where the quantity demanded change by exactly the same percentage as dose the price .The degree is one only .(see graph 3).

d/Relatively or fairly elastic demand ;where quantity demanded change by greater percentage than does the price. The degree is greater than one but less than infinitely.(see graph 4).

e/Perfectly or infinitely elastic demand :where demand curve becomes straight line on ,and parallel to the horizontal axis .Here consumers are prepared to buy all they can obtain at same price but non at all when even slightly the price changes .The degree is infinity.(see graph 5)

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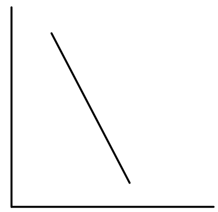

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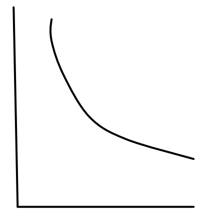

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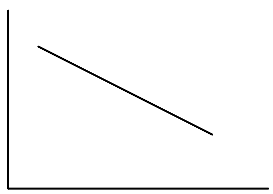

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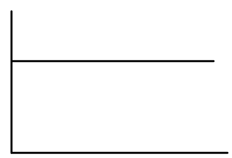

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