**Unit 2 Demand and Supply**

The ­­­­\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ represents the freely chosen actions of buyers and sellers of goods and services.

● Demand and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ dictate what will be bought and sold and at what price.

● This is called the principle of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Demand

● Demand is the amount of a good or service that consumers are able and willing to buy at various possible prices during a specified time period

The Law of Demand

● As price goes up, quantity demanded goes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

● As price goes down, quantity demanded goes up.

● The relationship between price and quantity demanded is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Quantity Demanded

● The amount of a good or service that a consumer is willing and able to purchase at a specific price.

Substitution Effect

● If two goods satisfy the same need and the price of one rises, people will buy the other.

● For example, if the price of Coke rises, more people will buy Pepsi.

Real Income Effect

● Since income is limited, consumers cannot continue to buy the same quantities of goods if prices continue to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Demand Continued:

**marginal utility**- an additional amount of satisfaction

**law of diminishing marginal utility**- satisfaction of purchasing 1 more unit of product will lessen with each additional unit purchased

**price elasticity of demand**- how much demand will vary according to changes in price

**elastic demand-** a product’s price greatly affects the amount that people buy

Ex: coffee, movie tickets

**inelastic demand-** a product’s price change has little impact on the quantity demanded

Ex: milk, prescriptions, salt