

Demand Functions III:

Which Way Does It Matter?

Which Way does it Matter?

- Direction of Relationship

– Driver Up → Demand Up } Direct/Positive
 – Driver Down → Demand Down

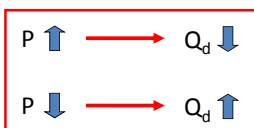
– Driver Up → Demand Down } Inverse/Negative
 – Driver Down → Demand Up

Price

- Which Way does it Matter?

- "Opposites"
- Negative or Inverse Relation (-)

- "Law of Demand"



Expectations about Future Prices

- Which Way does it Matter?
 - Direct Relation (+)
 - Demand Now vs. Expected Price Later
- Current Demand vs. Future Demand
 - Buy Now to Beat the Increase
 - Wait Until Later to Get the Sale Price



Price of Related Goods

- Which Way does it Matter?
 - Depends!
 - Goods Related Different Ways
- **Substitute:** Direct Relation (+)



- **Complement:** Inverse Relation (-)



Income

- Which Way does it Matter?
 - Depends!
 - Income Can Cut Two Ways
- **Normal Good:** Direct Relation (+)



- **Inferior Good:** Inverse Relation (-)



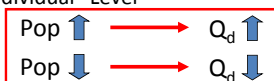
Tastes & Preferences

- Which Way does it Matter?
 - Direct Relation (+)
 - What is "In" or "Out"
 - "Fads"



Population

- Which Way does it Matter?
 - Direct Relation (+)
 - More Buyers Means More Demand
- Relevant for Aggregated Demand
 - Relevant at "Market" Level
 - Not the "Individual" Level



Wrap Up:

- Demand Functions:
- What Matters & Which Way It Goes:
 - Price (-)
 - Expectations about Future Prices (+)
 - Price of Related Goods (+) or (-)
 - Income (+) or (-)
 - Tastes & Preferences (+)
 - Population (+)
