



1506  
UNIVERSITÀ  
DEGLI STUDI  
DI URBINO  
CARLO BO

# Basic concepts of microeconomics and industrial organization: Demand function

**Giovanni Marin**

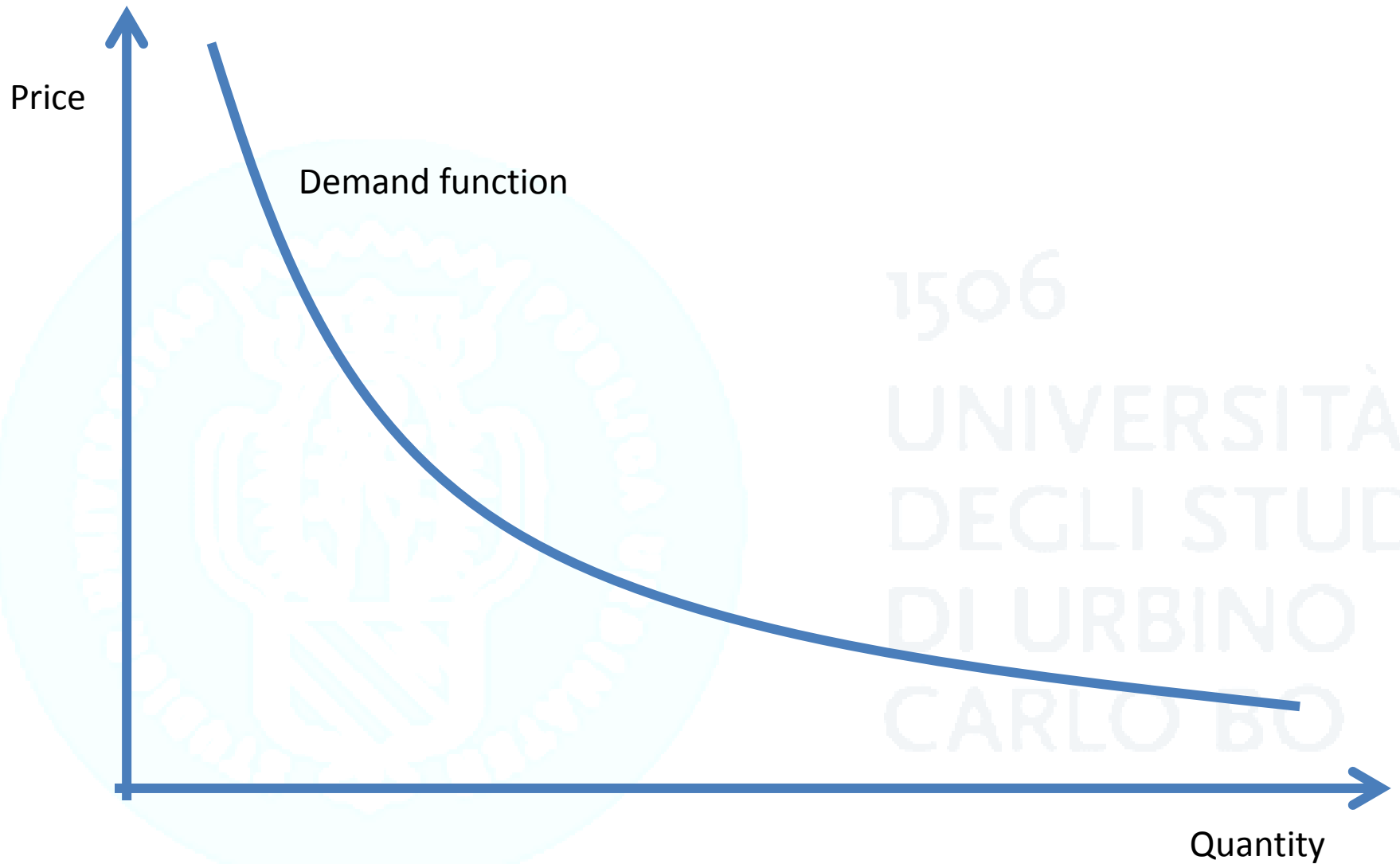
Department of Economics, Society, Politics  
Università degli Studi di Urbino 'Carlo Bo'

# Demand function

- The **market** consists of all buyers and sellers of a good or service
- The **demand curve** tells us the **quantity** of a good that buyers wish to buy at **each price**
- Properties of the demand function
  - As **price** of a good or service goes **down** the **quantity** consumers wish to buy will **increase**
  - Therefore, the demand curve is **downward-sloping**
- Alternative interpretation
  - As **price** of a good or service goes **down**, the **number** of **individuals** that purchase one unit of the good **increases**

# Demand function

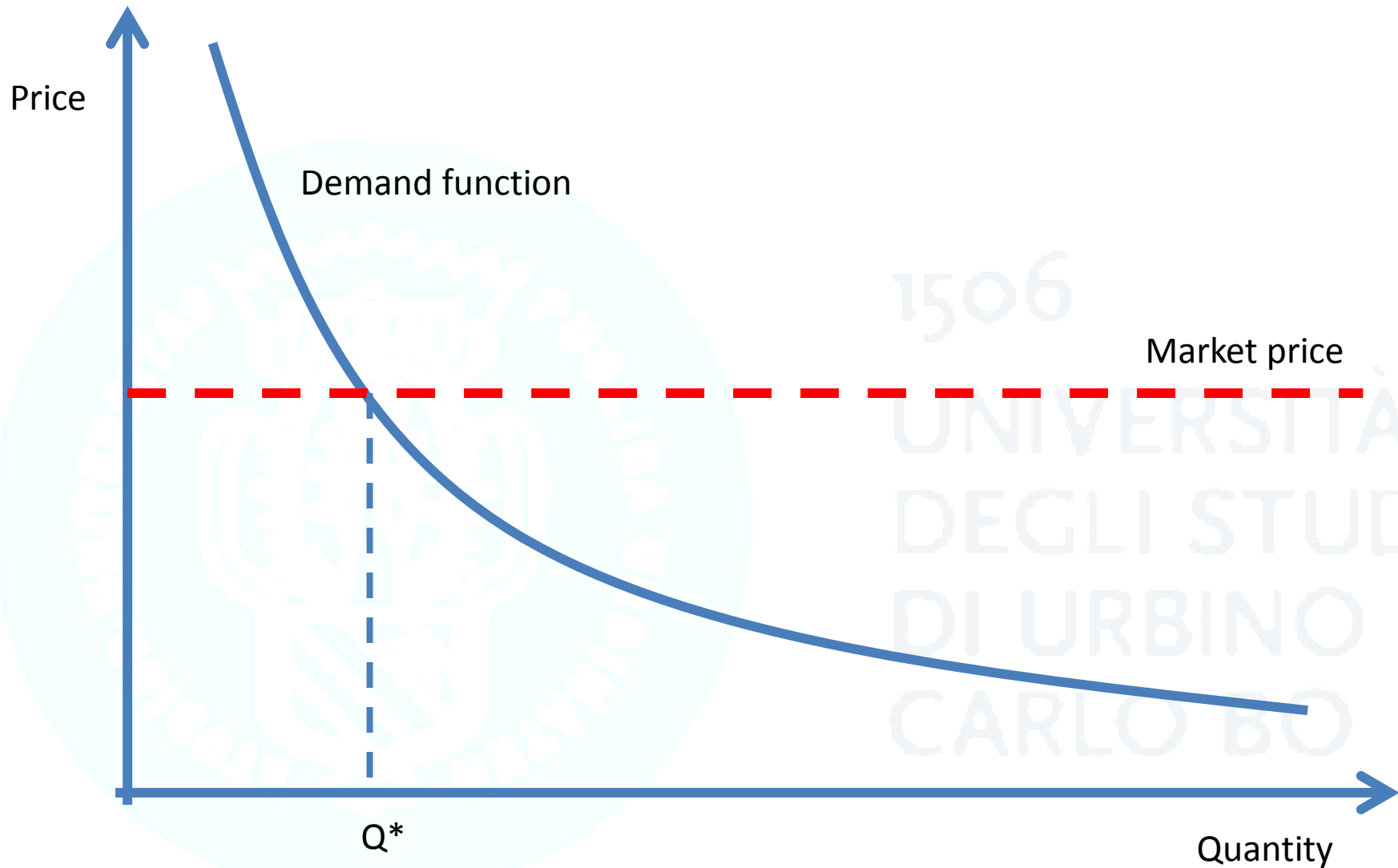
- Why do buyers purchase a greater quantity at lower prices and vice-versa?
  - **Substitution** effect
    - Change in the quantity demanded of a good because buyers switch to other goods when the relative prices changes
  - **Income** effect
    - Change in the quantity demanded of a good due to the change in buyer's purchasing power (i.e. wealth) due to the change in the price of the good

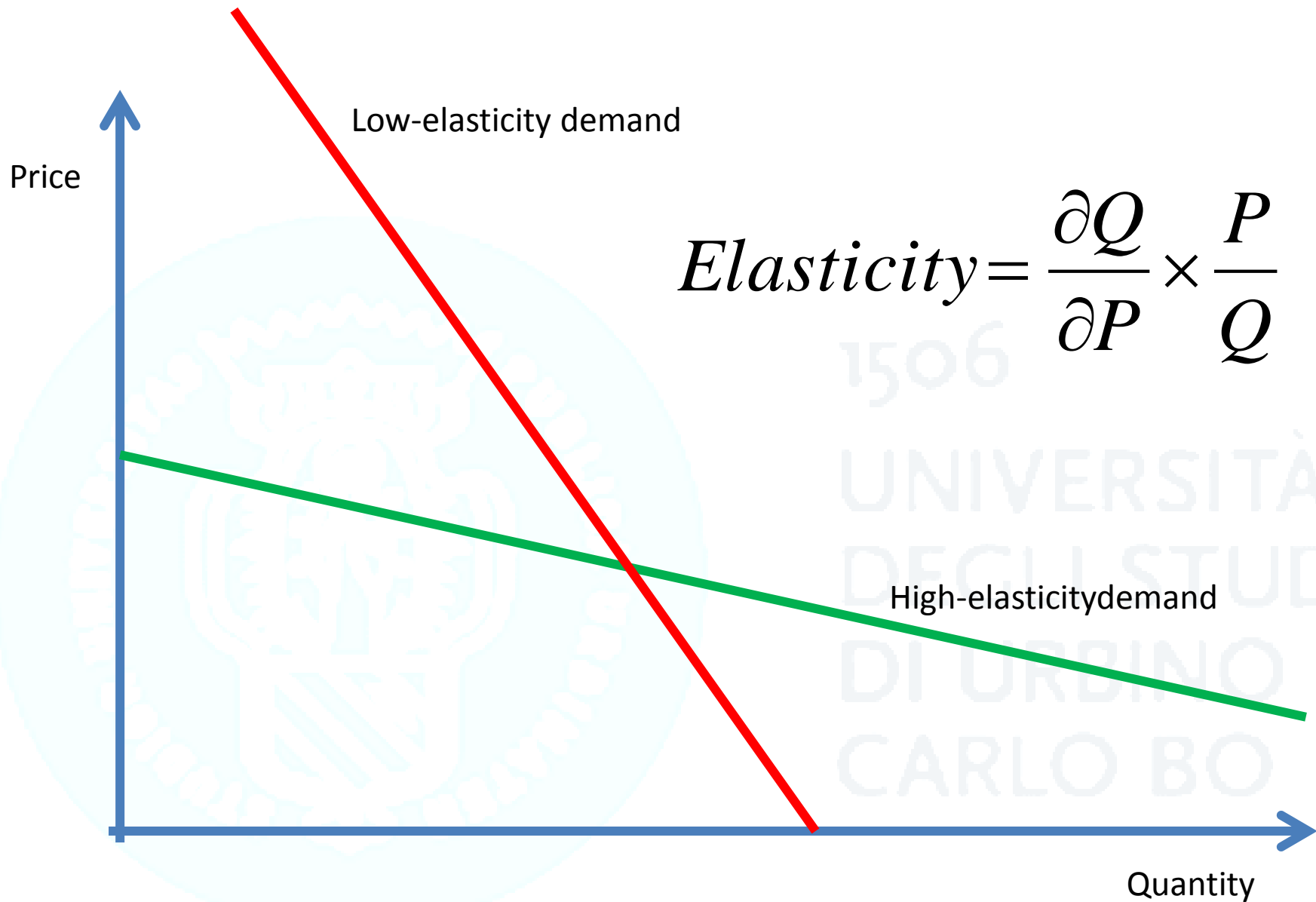


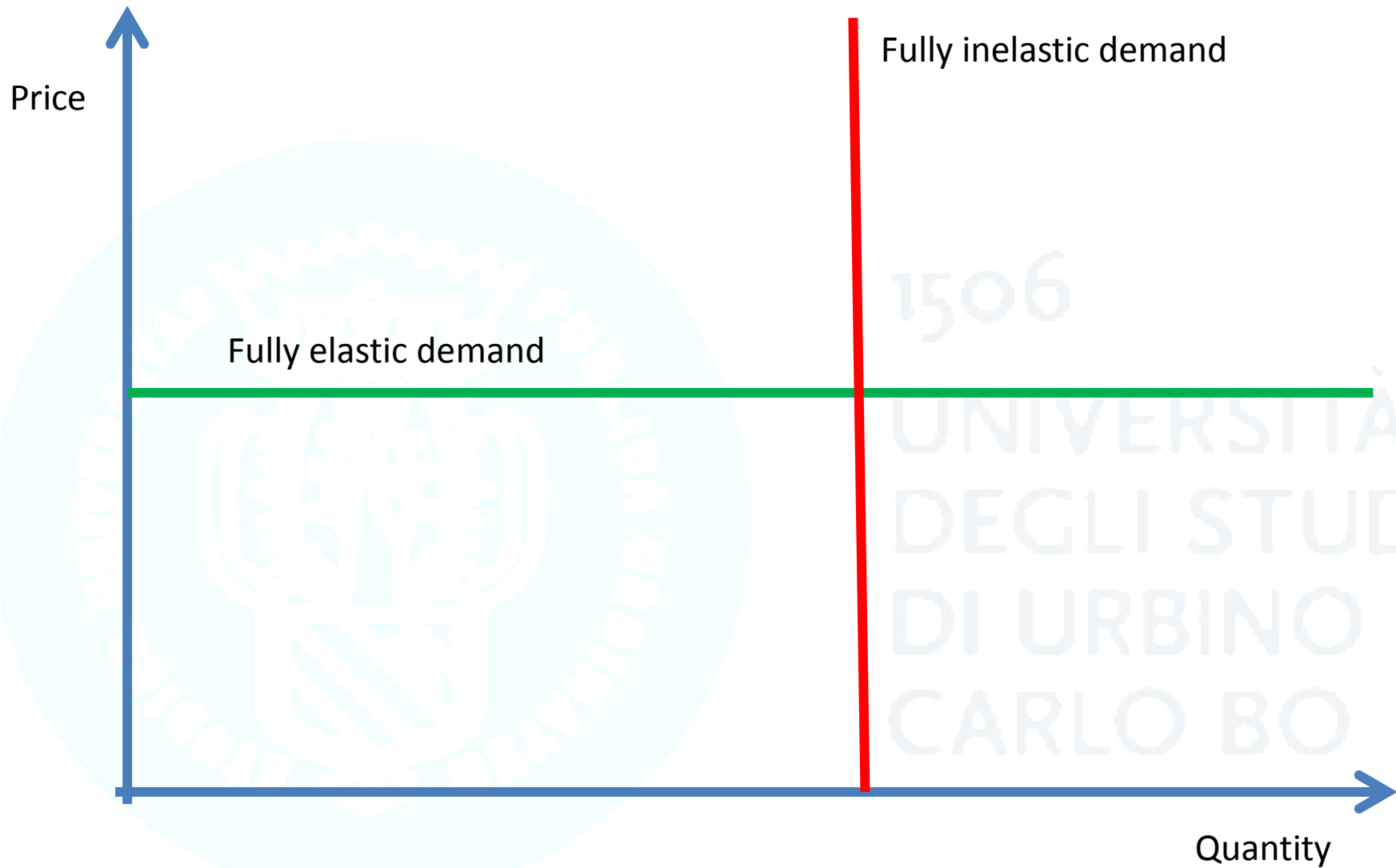
# Demand function

- **Reservation price**

- The reservation price is **monetary value** of the **benefit** the buyer receives from the good
- If the reservation price **exceeds** the **market price** the consumer will **purchase** the good









## Demand shifts to the right if:

- Income increases
- Price of substitute goods increases
- Price of complementary goods decreases

