



1506
UNIVERSITÀ
DEGLI STUDI
DI URBINO
CARLO BO

Basic concepts of microeconomics and industrial organization: Demand function

Giovanni Marin

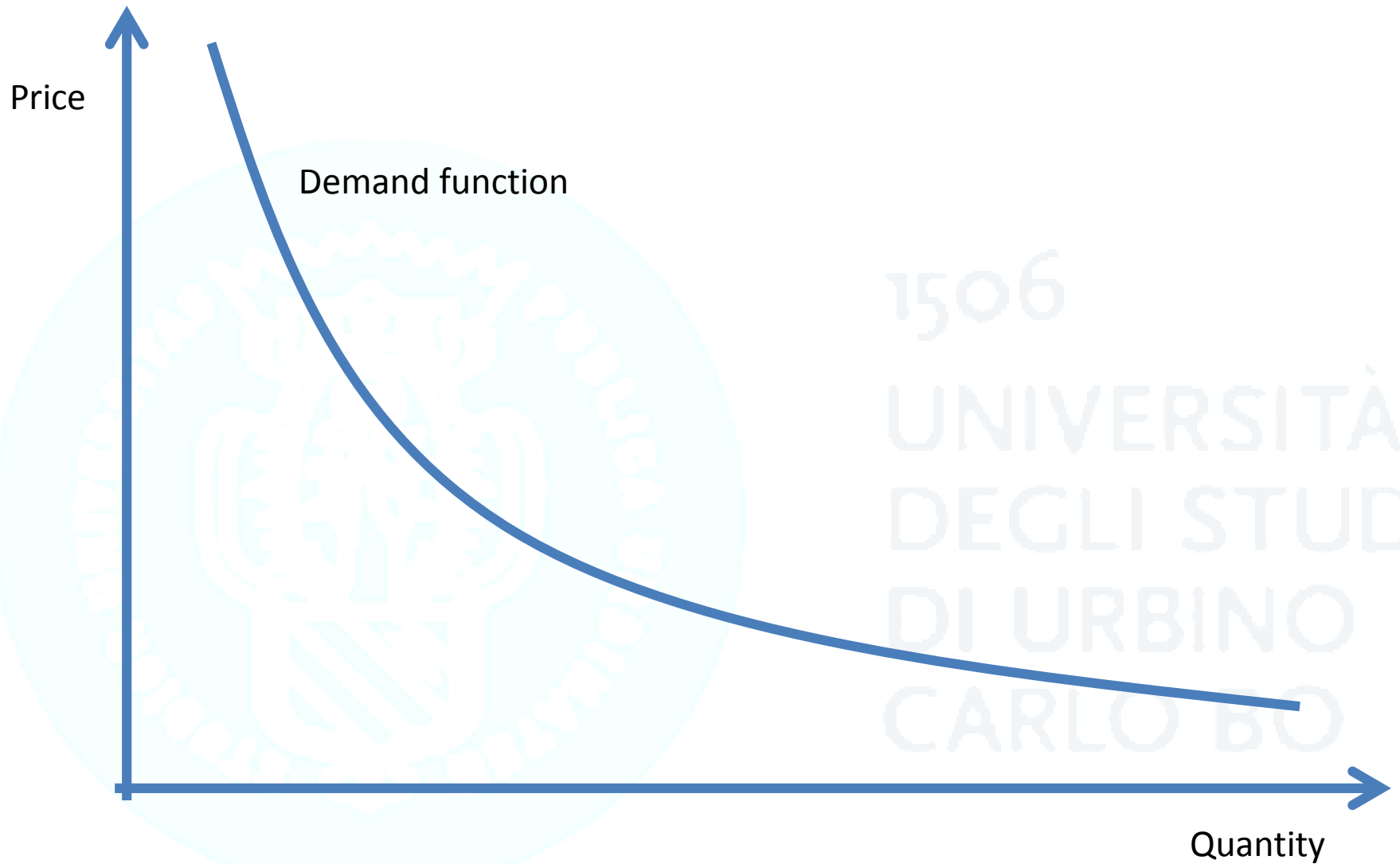
Department of Economics, Society, Politics
Università degli Studi di Urbino 'Carlo Bo'

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

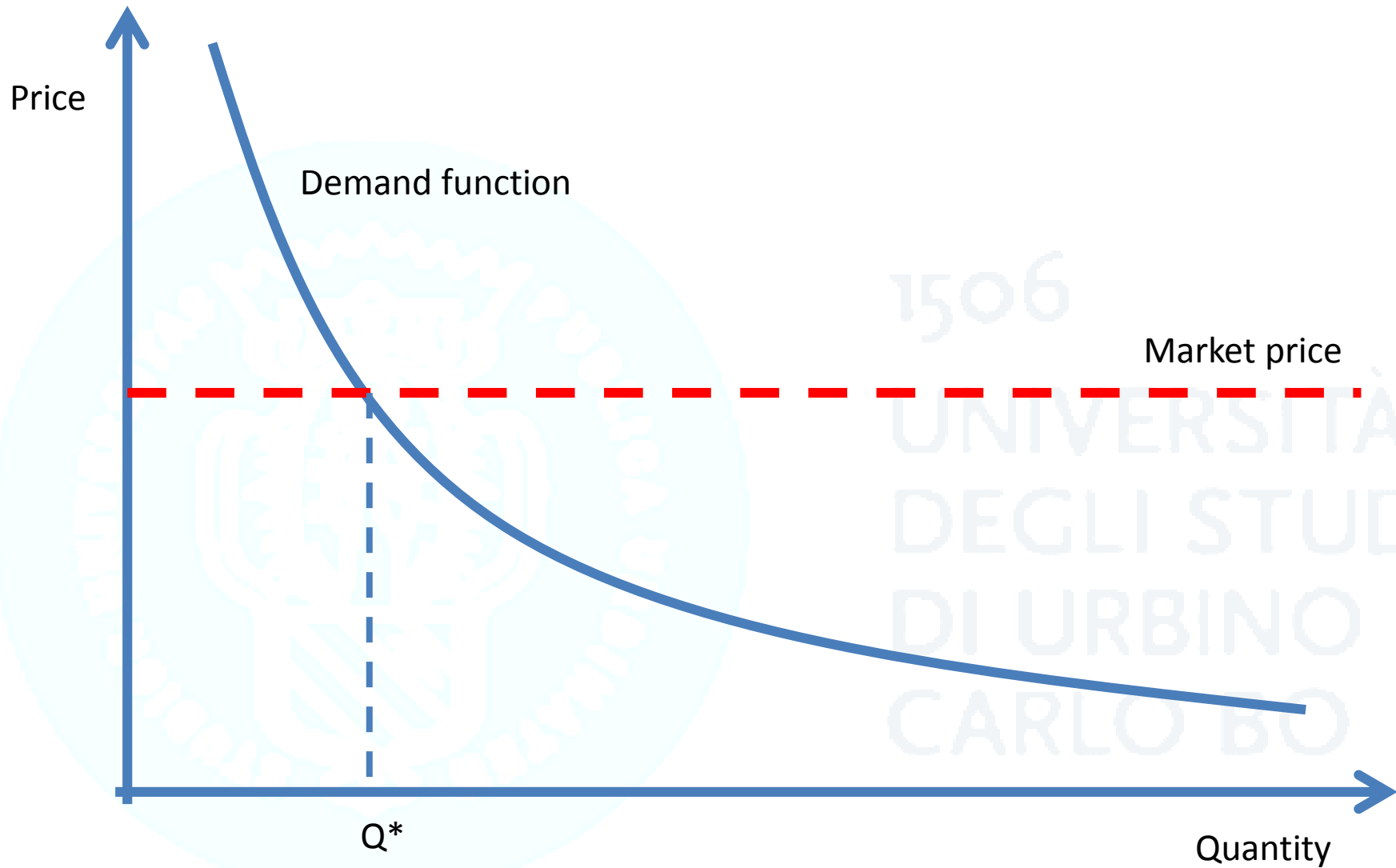
- Why do buyers purchase a greater quantity at lower prices and vice-versa?
 - **Substitution** effect
 - Change in the quantity demanded of a good because buyers switch to other goods when the relative prices changes
 - **Income** effect
 - Change in the quantity demanded of a good due to the change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

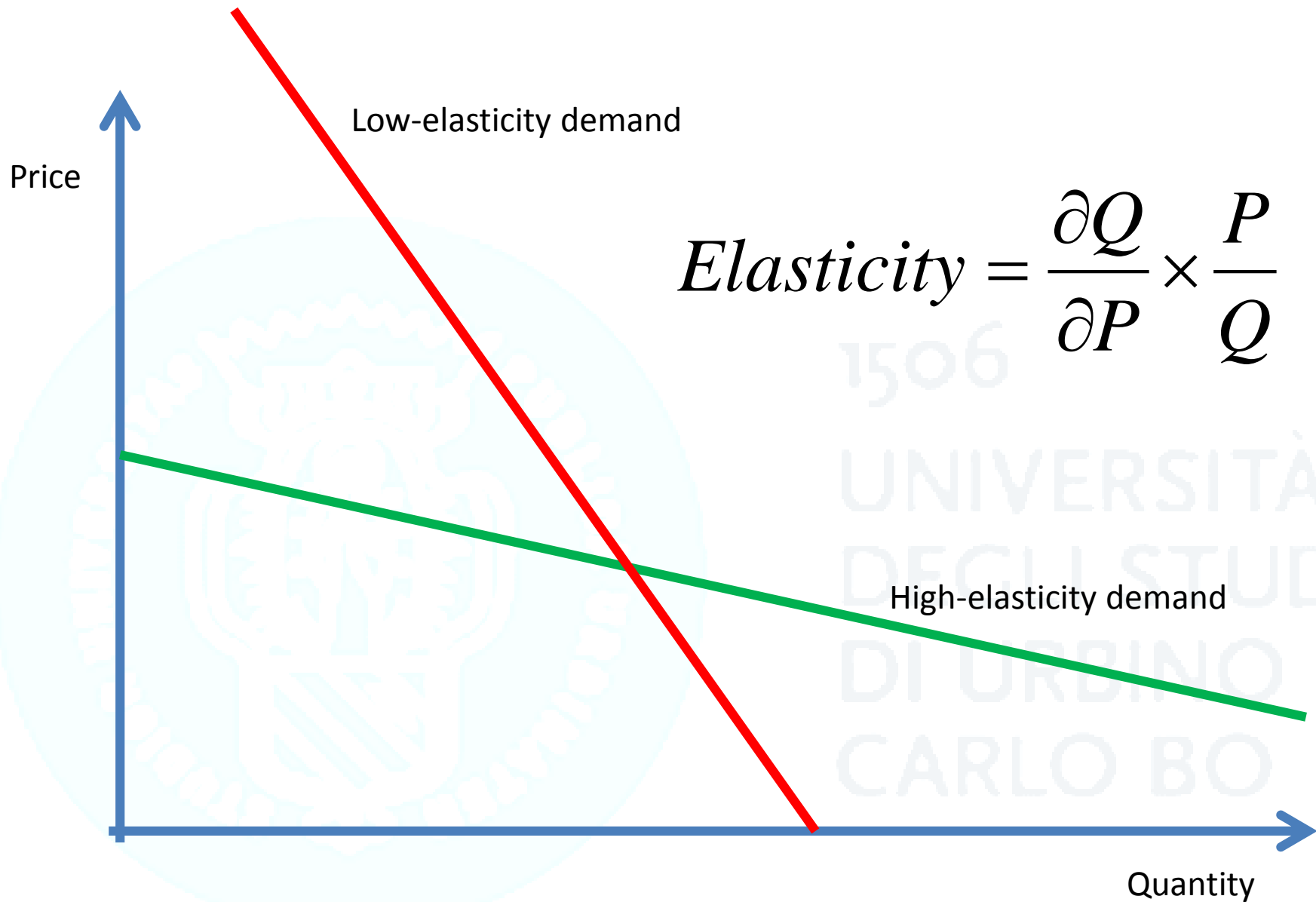


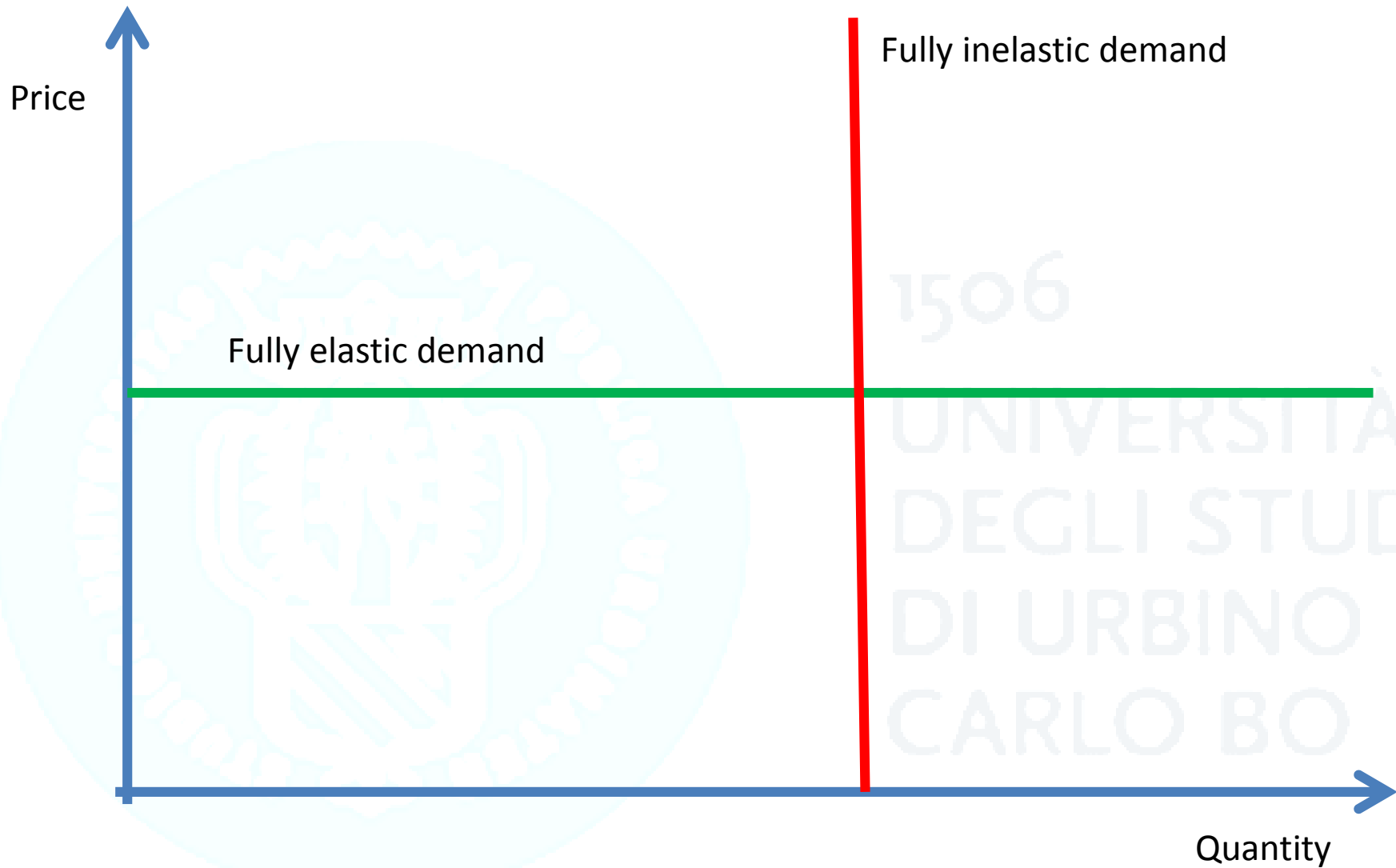
Demand function

- **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

