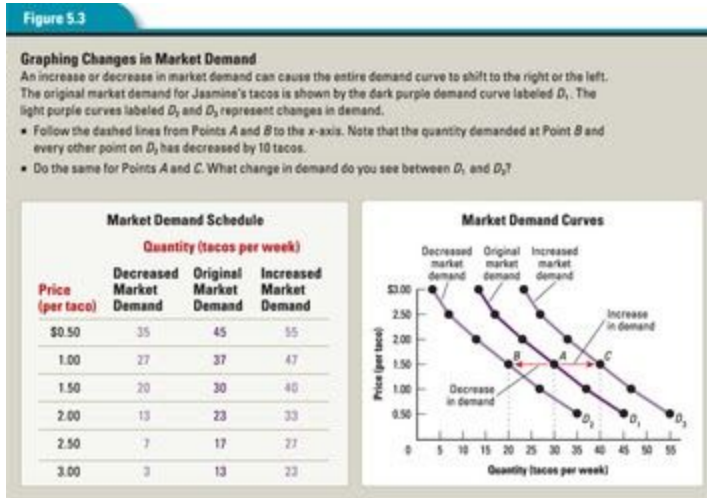


What Can Cause Demand to Change?

As the law of demand recognizes, price is key when people are deciding what and how much to buy. But other factors can influence demand as well. Suppose, for example, that a street fair were held on the block where Jasmine's taqueria is located. She might be mobbed with customers. The demand for her tacos would certainly increase. Or suppose a blizzard brought the city to a halt. Jasmine would have very few customers for a day or two, and the demand for tacos at all prices would decrease. How would these changes in demand be reflected on a graph?



Graphing Changes in Demand: Shifting Demand Curves

Movement along a demand curve shows how the quantity demanded changes as the price of a good or service changes. But sometimes a factor other than price—such as a spike or a drop in the number of customers—causes an entire demand curve to shift to a new position on the graph. Economists call this shift a **change in demand**. A change in demand occurs when quantities demanded increase or decrease at all prices.

The market demand schedule in Figure 5.3 shows the changed demand for tacos. The original market demand schedule for Jasmine's tacos appears in the middle column. The column to the left shows the decrease in market demand for the week of the blizzard. The column to the right shows the increase for the week of the street fair.

Each demand curve on the accompanying graph corresponds to one of the three demand schedules. The demand curve in the middle shows the original market demand for tacos. The curve to the right shows an increase in quantity demanded at every price, and the curve to the left shows a decrease in quantity demanded at every price.

Both the decrease and the increase in market demand have caused the entire demand curve to move. When this happens—when a factor other than price alters demand—economists say the demand curve has shifted. An increase in demand shifts the demand curve to the right. A decrease in demand shifts the demand curve to the left.

Key Concept

Demand Shifters
 All but one of the factors listed here are demand shifters. These shifters can cause an increase or a decrease in demand at every point along a demand curve.

A change in . . .	Can lead to . . .
Consumer income The number of consumers Consumer tastes and preferences Consumer expectations The price of substitute goods The price of complementary goods	A shift in the demand curve
Price	Movement along the demand curve

Demand Shifters: Factors that Cause a Change in Demand

Economists have identified several **demand shifters** that can cause a change in demand for a good or service. We will consider each demand shifter as if it were independent of all the rest—*ceteris paribus*. However, in fact, as any economist will tell you, everything is interconnected.

Changes in income. Generally, an increase in income increases people's demand for goods and services, and vice versa. This makes sense. If you like movies, for example, you probably go to more movies when you are working and earning money than when you are not.

When the economy is growing and jobs are being created, more people earn more income. The demand for many goods and services increases at all prices. That is, their demand curves shift to the right. The opposite also holds true. In an economic downturn, incomes—and demand—can decrease. The demand curves for many goods and services shift to the left.

Changes in the number of consumers. A change in the number of consumers can cause market demand to shift. You saw this effect in the taco stand scenario, when the street fair brought in more customers and the blizzard prevented customers from coming. In some markets, this effect is seasonal. In a summer resort town, for example, market demand for hotels and restaurants increases when summer brings an influx of consumers. When summer ends and the tourists leave town, demand decreases sharply.

Changes in consumer tastes and preferences. Consumers do not necessarily buy the same products year after year. Thirty years ago, only a small number of Americans ate sushi, and they did so mainly at Japanese restaurants. Today, sushi is so popular that it is sold in many supermarkets. This change in consumer tastes has caused an increase in demand for sushi. The demand curve for sushi has steadily shifted to the right.

Advertising can play a powerful role in shaping consumer preferences. Suppose, for example, that a producer of sunglasses were to launch an advertising campaign with celebrity endorsements. At all price levels, quantity demanded would likely increase. The demand curve would shift to the right.

Changes in consumer expectations. Prices don't actually have to rise or fall to cause consumers to change their behavior. Consumers may decide to buy or not to buy based on the *expectation* of a price change. Let's say you go into a store with the intention of buying a particular video game. You find the game, which is priced at \$39.99. A salesperson informs you that this game will go on sale next week for \$29.99. You put the video game back. The expectation that the price will soon go down has, for the moment, lessened your demand.

Changes in the price of substitute goods. A change in the price of one product in a pair of substitute goods can cause the demand curve for the other good to shift. Take burritos and tacos, for example. If the price of burritos were to increase, the law of demand tells us that people would buy fewer burritos, which would cause movement along the demand curve for burritos. At the same time, assuming that the price of tacos did not change, consumers would tend to buy more tacos. Market demand for tacos would increase, and the demand curve for tacos would shift to the right. Other pairs of substitute goods include fish and chicken, sweatshirts and jackets, and movie tickets and DVD rentals.

Changes in the price of complementary goods. A **complementary good** is a product that is consumed along with some other product. Tennis rackets and tennis balls are complementary goods, as are hamburgers and buns. Demand for one complementary good increases and decreases along with demand for the other. So, for example, if the price of printers were to decrease, the quantity of printers demanded would increase. As a result, demand for the ink cartridges that go with the printers would also increase. Assuming the price of the cartridges remains unchanged, the demand curve for cartridges would shift to the right.