

CHAPTER  
**4**  
SECTION 1

GUIDED READING AND REVIEW

Understanding Demand

2

A. As You Read

Directions: As you read Section 1, fill in the key term that belongs in each box. Then apply your knowledge to the Guiding Question:



How does the law of demand affect the quantity demanded?

<p>1. the higher the price of pizza, the fewer slices people will buy</p> <p><u>law of demand</u></p>	<p>2. eating tacos instead of pizza when the price of pizza goes up</p> <p><u>substitution effect</u></p>	<p>3. buying less of everything when the price of pizza increases</p> <p><u>income effect</u></p>
<p>4. a chart that shows one person's quantity demanded for pizza</p> <p><u>demand schedule</u></p>	<p>5. a chart that shows quantity demanded for pizza from everyone in the market</p> <p><u>market demand schedule</u></p>	

B. Reviewing Key Terms

Directions: Write the correct term from the section to complete each sentence.

- A demand schedule shows how much of a certain product a person will buy at each price.
- A market demand schedule shows how much of a certain product all consumers will buy at each price.
- A demand curve is a demand schedule in the form of a graph.
- The income effect causes buyers to feel richer when prices fall.

CHAPTER  
**4**  
SECTION 2

GUIDED READING AND REVIEW

Shifts in the Demand Curve

2

**A. As You Read**

**Directions:** As you read Section 2, answer the following questions. Then apply your knowledge to the Guiding Question:



**Why does the demand curve shift?**

1. What causes a demand curve to shift? A change in factors other than price
2. How does an increase in a person's income affect her demand for inferior goods? She will buy fewer inferior goods
3. If people expect the price of a product to rise, how does this affect demand for the product? Demand will increase for now
4. How does population growth affect demand? It causes demand to increase
5. What effect do advertisers hope to have on demand? They hope to create and/or increase demand
6. Why does the demand for skis rise and fall with the demand for ski boots? Because they are complementary goods and people buy them together

**B. Reviewing Key Terms**

**Directions:** Match each item with one of the descriptions below.

- |          |   |                           |
|----------|---|---------------------------|
| <u>A</u> | 7. all other things held constant                     | a. <i>ceteris paribus</i> |
| <u>C</u> | 8. people buy more of these when they make more money | b. complements            |
| <u>B</u> | 9. products that people buy and use together          | c. normal goods           |

### A. As You Read

**Directions:** As you read Section 3, fill in each blank to complete the sentence. Then apply your knowledge to the Guiding Question:



**What factors affect elasticity of demand?**

#### What Is Elasticity?

1. elasticity of demand measures *how much* the quantity demanded for a product changes when its price changes.
2. When a change in price does not cause much change in quantity demanded, a product has inelastic demand.

#### What Affects Elasticity?

3. The availability of substitute products makes the demand for a product more elastic.
4. The demand for necessities is inelastic.
5. The demand for luxuries is elastic.

#### Why Does Elasticity Matter?

6. The total amount of money that a company receives for selling its products is its total revenue.
7. If demand for a product is inelastic, a price increase will increase the seller's total revenue.

### B. Reviewing Key Terms

**Directions:** Define or explain the following terms.

8. elasticity of demand how consumers react to price changes
9. unitary elastic percentage change in the quantity people buy is equal to percentage change in the product's price.