Exercise walk-through

Demand ▪ 2.1

eXercise

You must be able to

- state the **law of demand 需求定律** and the inverse price-quantity relationship
- explain the downward slope with the **substitution effect 替代效应** and **income effect 收入效应**
- distinguish a movement **along** demand from a **shift**
- derive **market demand** by horizontally summing individual demand

Method — The law of demand

As price rises, quantity demanded falls — the demand curve slopes **downward**.

Method — Why it slopes down

- **Substitution effect** — the good becomes dearer relative to others, so buyers switch away.
- **Income effect** — a higher price lowers real purchasing power.

Method — Movement vs shift; market demand

A change in the good's **own price** is a movement along the curve; a determinant change **shifts** it. **Market demand** is the horizontal sum of all individual demand curves.

Practice 2.1 ▪ 1 mark

State the law of demand.

Solution 2.1

Worked steps

as the price of a good rises, the quantity demanded falls (other things equal) B1.

Practice 2.2 ▪ 2 marks

Name the two effects that explain the downward slope of demand.

Solution 2.2

Method: The law of demand

Worked steps

the substitution effect and the income effect **B1** **B1**.

Practice 2.3 ▪ 1 mark

State how market demand is derived from individual demand curves.

Solution 2.3

Method: Movement vs shift; market demand

Worked steps

by horizontally summing (adding the quantities of) all individual demand curves at each price B1.

Exam-style 3.1 ▪ 1 mark

The demand curve slopes downward because of the substitution effect and the

A income effect

B supply effect

C tax effect

D scale effect

Solution 3.1

Method: The law of demand

A income effect ✓

B supply effect

C tax effect

D scale effect

Worked steps

A.

Exam-style 3.2 ▪ 1 mark

A change in a good's own price causes a

- **A** shift of the demand curve
- **B** movement along the demand curve
- **C** shift of the supply curve
- **D** no change at all

Solution 3.2

Method: Movement vs shift; market demand

A shift of the demand curve

B movement along the demand curve ✓

C shift of the supply curve

D no change at all

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

The price of a good falls.

(a) State the effect on the quantity demanded.

(b) State whether this is a movement along or a shift of the curve.

(c) Name one determinant that would instead shift demand.

Solution 3.3

Method: Movement vs shift; market demand

Worked steps

(a) it rises B1. (b) a movement along the curve B1. (c) any one of: income, tastes, prices of related goods, expectations, number of buyers B1.