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**Lecture 09: Individual Demand**

1. Individual Demand Curves
	1. We can construct demand curves using indifference curves.
	2. If the price of one good changes, then the budget constraint should shift accordingly. For example, if the price of games fall, then the constraint shifts out (you can buy more games). Our consumption shifts from **A** to **B**. If it falls again, it shifts to **C**.

Games

Movies

**C**

**B**

**A**

**C**

**B**

**A**

Price of Games

Games

Demand Curve

* + 1. You might also notice the amount of movies also changes even though the price didn’t change. We’ll be discussing that next class.
	1. The indifference curve tells us how many games this person buys at each price. In other words, we can construct an *individual* *demand curve*—a schedule of prices and quantities for one person. Note that this demand curve is concave. That doesn’t mean it’s “wrong;” it’s all based on the shape of the indifference curves. ([*De gustibus non est disputandum*](http://dictionary.reference.com/browse/De%2Bgustibus%2Bnon%2Best%2Bdisputandum).[[1]](#footnote-1)) As long as it slopes down, we shouldn’t be concerned. Also note:
		1. As the price falls, utility increases. We can see that as we increase utility buy traveling northeast on the indifference map.
		2. At each point along demand, MRS equals the price ratio.
	2. The *price-consumption curve*—or a curve tracing utility-maximizing combinations as the price of one good changes—is indicated to the right.
	3. As the price of games change, the consumer might buy more or fewer movies. Note how this relates to substitutes and complements.

Games

Movies

**C**

**B**

**A**

**Price-Consumption Curve**

* 1. The price-consumption curve illustrates that sometimes two goods are substitutes (consumers spend time playing games rather than going to movies) and sometimes they are complements (consumers might play a game based on a movie or even watch a movie based on a game[[2]](#footnote-2)).

Games

Movies

**C**

**B**

**A**

**C**

**B**

**A**

Price of Games

Games

**Income-Consumption Curve**

1. Engel Curves
	1. So far, we’ve only dealt with changes in price. But what if we change income?
	2. This is done by shifting the budget constraint out or in.
	3. Recall introductory micro: increasing income shifts the demand curve.
	4. The *income-consumption curve*—or a curve tracing utility-maximizing combinations as income changes—is indicated to the right.
	5. An *Engel curve* is an applied income-consumption curve, relating the quantity of a good to income.
		1. When an Engel curve slopes up, the good is normal.
		2. When it slopes down, the good is inferior.
		3. Like substitutes and complements, goods can be inferior *and* normal. Example: rented apartments (p115 has empirics).
1. A Latin phrase used in economics meaning “There’s no accounting for tastes.” Quite simply, some people like some things and other people like other things. Trying to explain why is a topic we generally leave for psychologists. No, you don’t have to know the meaning of *de gustibus non est disputandum* for the exam but it’s interesting to know, anyway. [↑](#footnote-ref-1)
2. For examples of the disastrous outcomes of the latter see the following films: *Super Mario Bros.*, *Street Fighter*, *Mortal Kombat*, and *Hitman*. Rotten Tomatoes ratings were 13%, 13%, 35%, and 14%, respectively. For a complete list, see <http://en.wikipedia.org/wiki/List_of_films_based_on_video_games>. [↑](#footnote-ref-2)