### **Unit 2: Demand**

#### **2 Marker Questions:**

1. **Define demand.**
2. **What is the law of demand?**

#### **4 Marker Questions:**

1. **Explain the concept of effective demand.**
2. **Outline two factors that cause a shift in the demand curve.**

#### **6 Marker Questions:**

1. **Discuss the role of income in affecting the demand for goods.**
2. **Explain how the price of related goods can influence the demand for a product.**

#### **8 Marker Questions:**

1. **Discuss the factors that can lead to a shift in the demand curve.**
2. **Evaluate the impact of advertising on the demand for a product.**

#### **10 Marker Questions:**

1. **To what extent does government intervention through subsidies influence the demand for goods?**
2. **Examine how consumer expectations can affect the demand for a product.**

#### **15 Marker Question:**

1. **To what extent does price elasticity of demand (PED) affect the revenue and pricing strategies of businesses?**

Now, let’s provide detailed answers for each of these questions.

### **2 Marker Questions:**

1. **Define demand.**
	* Demand refers to the quantity of a good or service that consumers are willing and able to buy at various prices over a given period of time.
2. **What is the law of demand?**
	* The law of demand states that, ceteris paribus (all other factors being equal), as the price of a good or service increases, the quantity demanded decreases, and as the price decreases, the quantity demanded increases.

### **4 Marker Questions:**

1. **Explain the concept of effective demand.**
	* Effective demand refers to the quantity of a good or service that consumers are not only willing to purchase but also able to afford at a given price. It reflects both willingness and ability to pay.
2. **Outline two factors that cause a shift in the demand curve.**
	* **Income:** An increase in income typically shifts the demand curve to the right for normal goods as consumers can afford more. For inferior goods, an increase in income may shift the demand curve to the left.
	* **Price of Related Goods:** A rise in the price of a substitute (e.g., butter for margarine) increases the demand for the original good. Similarly, an increase in the price of a complement (e.g., gasoline for cars) reduces the demand for the original good.

### **6 Marker Questions:**

1. **Discuss the role of income in affecting the demand for goods.**
	* Income plays a crucial role in determining the demand for goods. As consumers' income rises, they typically demand more of normal goods, shifting the demand curve to the right. For example, an increase in income leads to higher demand for luxury items like designer clothing or high-end electronics. Conversely, for inferior goods (e.g., instant noodles), demand may decrease as income rises, as consumers may switch to higher-quality alternatives.
	* The impact of income on demand can also be influenced by factors such as societal norms, income distribution, and economic conditions. For example, during an economic boom, luxury items see an increase in demand as more people can afford them. On the other hand, in a recession, consumers may reduce their spending on non-essential goods and services, leading to a decrease in demand for luxury goods and an increase in demand for budget-friendly alternatives.
2. **Explain how the price of related goods can influence the demand for a product.**
	* The price of related goods, which include substitutes and complements, has a significant impact on demand. For substitutes, if the price of one good increases, consumers are likely to switch to a cheaper alternative, increasing the demand for the substitute. For instance, if the price of tea rises, consumers may opt for coffee instead, causing an increase in demand for coffee.
	* For complements, the relationship is opposite. When the price of one product rises, the demand for its complement tends to decrease. For example, if the price of printers increases, the demand for computers may fall because these two products are typically used together. Understanding these relationships helps businesses predict consumer behavior and adjust their pricing strategies accordingly.

### **8 Marker Questions:**

1. **Discuss the factors that can lead to a shift in the demand curve.
Answer:** The demand curve represents the relationship between the price of a good and the quantity demanded. A shift in the demand curve occurs when factors other than price change, leading to an increase or decrease in demand for the product. The key factors that cause a shift include:
	1. **Income**: When consumers' income rises, they can afford to buy more goods, increasing demand for normal goods and shifting the demand curve to the right. However, for inferior goods, demand decreases as income rises, shifting the demand curve to the left.
	2. **Prices of Related Goods**: The demand for a good can be affected by the price changes of substitutes and complements. If the price of a substitute rises, the demand for the original good increases (rightward shift). If the price of a complement rises, the demand for the original good decreases (leftward shift).
	3. **Tastes and Preferences**: A change in consumer preferences can lead to a shift in demand. If a product becomes more fashionable or desirable, demand increases. For instance, the growing popularity of electric cars has shifted the demand curve for electric vehicles to the right.
	4. **Expectations of Future Prices**: If consumers expect prices to rise in the future, they may increase demand now, leading to a rightward shift. For example, anticipating higher fuel prices may lead consumers to buy more fuel today.
	5. **Population and Demographics**: A change in the size or structure of the population can affect demand. An aging population may increase the demand for healthcare services, while a growing population may increase demand for basic goods like food.
2. **Evaluate the impact of advertising on the demand for a product.
Answer:** Advertising is a powerful tool used by businesses to influence consumer behavior and increase demand for their products. The impact of advertising on demand can be seen in several ways:
	1. **Increasing Awareness**: Advertising helps raise awareness about a product, especially when it is new or unknown. By informing consumers about the product’s availability, features, and benefits, it encourages people to buy the product, shifting the demand curve to the right. For instance, Apple's product launch campaigns often generate high demand for new models even before the product reaches the shelves.
	2. **Creating Desire**: Advertising goes beyond providing information and works to create a desire for the product. Through emotional appeals, lifestyle associations, and endorsements, advertising can convince consumers that they need the product. For example, Coca-Cola’s campaigns often associate its product with happiness, family, and togetherness, increasing demand among consumers who seek these emotional connections.
	3. **Building Brand Loyalty**: Successful advertising fosters brand loyalty by associating positive attributes with a product. Over time, consumers develop preferences for a particular brand, leading to repeat purchases. For instance, Nike’s advertisements create an image of empowerment and success, resulting in strong brand loyalty and consistent demand for their sportswear.
	4. **Impact on Price Sensitivity**: Advertising can reduce price sensitivity by establishing strong emotional ties between the consumer and the brand. As a result, consumers may be less concerned about price increases, thus making demand more inelastic. This effect is seen in industries like luxury goods, where advertising creates a sense of prestige that justifies the high price.
	5. **Global Reach and Market Expansion**: Advertising can also expand demand globally by reaching a wider audience. Brands like McDonald’s and PepsiCo have used global advertising to increase demand in diverse markets, adapting their messages to resonate with local cultures while maintaining their brand identity.
3. In conclusion, advertising significantly impacts demand by increasing awareness, creating desire, building loyalty, reducing price sensitivity, and expanding market reach. It is a vital tool for businesses aiming to enhance their sales and market position.

### **10 Marker Questions:**

1. **To what extent does government intervention through subsidies influence the demand for goods?
Answer:** Government subsidies are a key tool used by governments to influence the demand for goods, particularly in sectors they deem essential or beneficial for the economy. Subsidies directly reduce the cost of production or the price of goods for consumers, thereby influencing the demand curve. The extent of the impact depends on the magnitude and type of subsidy and the market context.
**Positive Effects**:
	1. **Increased Demand for Subsidized Goods**: Subsidies lower the price of goods, making them more affordable for consumers. For example, subsidies on public transportation can increase the demand for buses and trains by making them cheaper for commuters.
	2. **Promotion of New Markets**: In emerging industries, subsidies can help stimulate demand by making products more attractive to consumers. For example, subsidies for electric cars make them more affordable, encouraging consumers to adopt them in place of traditional gasoline vehicles.
	3. **Targeted Demand Support**: Subsidies can be targeted to low-income populations or specific sectors, directly increasing demand for essential goods like food or healthcare. For example, subsidies for staple foods in developing countries ensure that low-income consumers can access basic nutrition.
2. **Negative Effects**:
	1. **Distorted Market Signals**: While subsidies can increase demand, they can also distort market equilibrium by encouraging overconsumption or overproduction. For example, agricultural subsidies may lead to overproduction of certain crops, causing waste or environmental harm.
	2. **Inefficiency and Dependence**: Over time, industries may become reliant on subsidies, reducing the incentive to innovate or improve efficiency. For example, energy subsidies in certain countries may reduce the incentive to adopt energy-efficient technologies or renewable energy sources.
	3. **Fiscal Burden**: The long-term cost of subsidies can strain government budgets. If not carefully managed, subsidies can lead to budget deficits or cuts in other public spending, such as education or healthcare.
3. In conclusion, subsidies play a significant role in influencing demand by reducing prices, supporting certain markets, and addressing social objectives. However, they also come with challenges such as market distortions, inefficiencies, and fiscal sustainability concerns. Governments must carefully assess the long-term impacts of subsidies on demand and the broader economy.

### **15 Marker Question:**

1. **To what extent does price elasticity of demand (PED) affect the revenue and pricing strategies of businesses?
Answer:** Price Elasticity of Demand (PED) measures the responsiveness of the quantity demanded of a good to a change in its price. It is a crucial concept for businesses in determining how changes in price will affect total revenue and guide their pricing strategies. PED affects businesses in different ways, depending on whether the demand for their product is elastic, inelastic, or unitary.
**Elastic Demand (PED > 1)**:
	* When demand is elastic, consumers are highly responsive to price changes. A small price increase leads to a large decrease in the quantity demanded, and vice versa. In such cases, businesses must be cautious about increasing prices, as it may result in a significant loss of revenue.
	* For example, in industries like entertainment or luxury goods, where alternatives are readily available, a price increase may lead to a sharp reduction in demand.
	* Businesses with elastic products often rely on promotional discounts or price reductions to increase total revenue. For instance, airlines frequently offer discounts during off-peak seasons to boost demand.
2. **Inelastic Demand (PED < 1)**:
	* When demand is inelastic, consumers are less responsive to price changes. A price increase leads to a smaller reduction in quantity demanded, allowing businesses to raise prices without significantly affecting their sales volume.
	* Goods with inelastic demand typically include necessities or products with few substitutes, such as insulin or basic utilities.
	* Businesses with inelastic products can increase prices without worrying too much about a decrease in sales, which allows them to maximize revenue during price hikes. However, they must be mindful of potential long-term effects, such as consumer dissatisfaction or regulatory scrutiny.
3. **Unitary Elasticity (PED = 1)**:
	* When demand is unitary elastic, a price change does not affect total revenue. The proportional change in quantity demanded is equal to the proportional change in price.
	* In such cases, businesses may not see a significant change in revenue with price adjustments, which means that pricing decisions must be based on other factors, such as market competition, costs, and consumer preferences.
4. **Revenue Implications**:
	* In terms of revenue, businesses seek to maximize total revenue, which is the product of price and quantity sold. By understanding PED, businesses can determine whether increasing or decreasing prices will result in higher or lower revenue.
5. **Strategic Pricing**:
	* Understanding PED allows businesses to adopt appropriate pricing strategies. For products with elastic demand, businesses may use competitive pricing strategies to attract customers, while for inelastic goods, they may pursue higher pricing to maximize profits.
	* For example, the pharmaceutical industry often deals with inelastic demand, and companies can increase prices without significant reductions in quantity demanded, thereby increasing revenue. However, ethical considerations and regulatory constraints may limit price hikes in some cases.
6. **Conclusion**: PED is a critical concept for businesses in determining pricing strategies and maximizing revenue. By understanding whether demand for their product is elastic, inelastic, or unitary, businesses can make informed pricing decisions that either increase or maintain revenue. However, PED should not be the sole consideration in pricing strategies, as factors such as competition, market saturation, and consumer preferences must also be accounted for to ensure sustainable profitability.