Visual 1
Determinants of Demand

- Change in Consumer Income: When there is an increase in income, demand for most goods increases. If there is a decrease in income, demand for most goods decreases. The exceptions to this rule are called inferior goods, because people buy less of them as their income rises.
- Change in Consumer Tastes: If consumers like a product more based on advertising or experience in using the good, demand increases. If consumers like a good less over time, demand decreases.
- Change in the Price of a Substitute Good: If the price of a substitute good increases, this will increase demand for the original good. If the price of Coca Cola increases, for example, the demand for Pepsi Cola will increase. If the price of a substitute good decreases, this will result in a decrease in demand for the original good. If the price of Coca Cola decreases, the demand for Pepsi Cola will decrease.
- Change in the Price of a Complementary Good: If the price of a complementary good increases, this will decrease demand for the original good. If the price of camera film sharply rises, for example, the demand for cameras will decrease. If the price of a complementary good decreases, this will result in a increase in demand for the original good. If the price of CD players decreases, the demand for CD's will Increase.
- Change in Consumers' Price Expectations: Consumers' expectations about the future price of a good influence demand. If consumers expect the price to increase, they try to buy more now, before the price rises.
- Change in Number of Consumers in the Market: If there is an increase in the number of consumers, this will result in an increase in demand. If there is a decrease in the number of consumers, this will result in a decrease in demand.