Case 2.1 What determines demand?

Summary

This case study reviews and gives examples of potential determinants of demand.

Suggested answers

1 How would you represent each of the following?

a The effect on demand for furniture of a furniture company changing its products from being already assembled to requiring buyers to assemble them.

Requiring consumers to assemble the furniture products increases the time cost to consuming these products. Hence, we would expect demand to decrease.

b The effect extra road congestion on demand for travel by train.

Travelling by road or train are substitutes. Extra congestion will decrease the attractiveness of road travel. Hence, we would expect demand for travel by train to increase.

c The effect on demand for texting of the increased popularity of TV shows with viewer voting such as The Voice.

Texting and TV shows that require viewer participation can be considered to be complementary products. Hence an increase in demand for TV shows with viewer participation would be expected to increase demand for texting.

d The effect on demand for DVDs of TV shows if the same TV shows become available from streaming services.

Having a TV show available on a streaming service is a substitute for having a DVD of that TV show. Introduction of a new substitute would be expected to decrease demand for a product. Hence, we would expect demand for DVDs of TV shows to decrease.

2 Can you think of other factors apart from those described in the examples above that might affect demand?

Some examples:

• Weather: seasonal conditions may affect demand for goods such as ice-cream or umbrellas.

• Price expectations: where consumers believe that prices for a product will be higher or lower in the future (‘tomorrow’) than they had expected, then this is likely to affect their demand for that product ‘today’. For example, when Australia introduced its Goods and Services Tax (GST) in July 2001, there was a decrease in the price of new cars. (This was because the GST actually resulted in a reduction of tax rates on new cars.) Knowing that they would be able to buy a car more cheaply after July 2001, consumers in Australia decreased their demand for new cars in the first six months of 2001.