Economics II

Consumer behavior and demand shaping

Part II.

Demand

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The training program for operational competitiveness
Project Name: innovation master degree program of study faculty military leadershipu
Project registration number: CZ. 1.07/2.2.00/28.0326

Introduction

1 DEMAND

1.1 Individual Demand

1.2 Effect of Changes in Consumer Income on Demand

1.3 Effect of Changes in Prices on Demanded Quantity

1.4 Effect of Changes in Other Prices on Demand

1.5 Relations between elasticities

1.6 Market demand

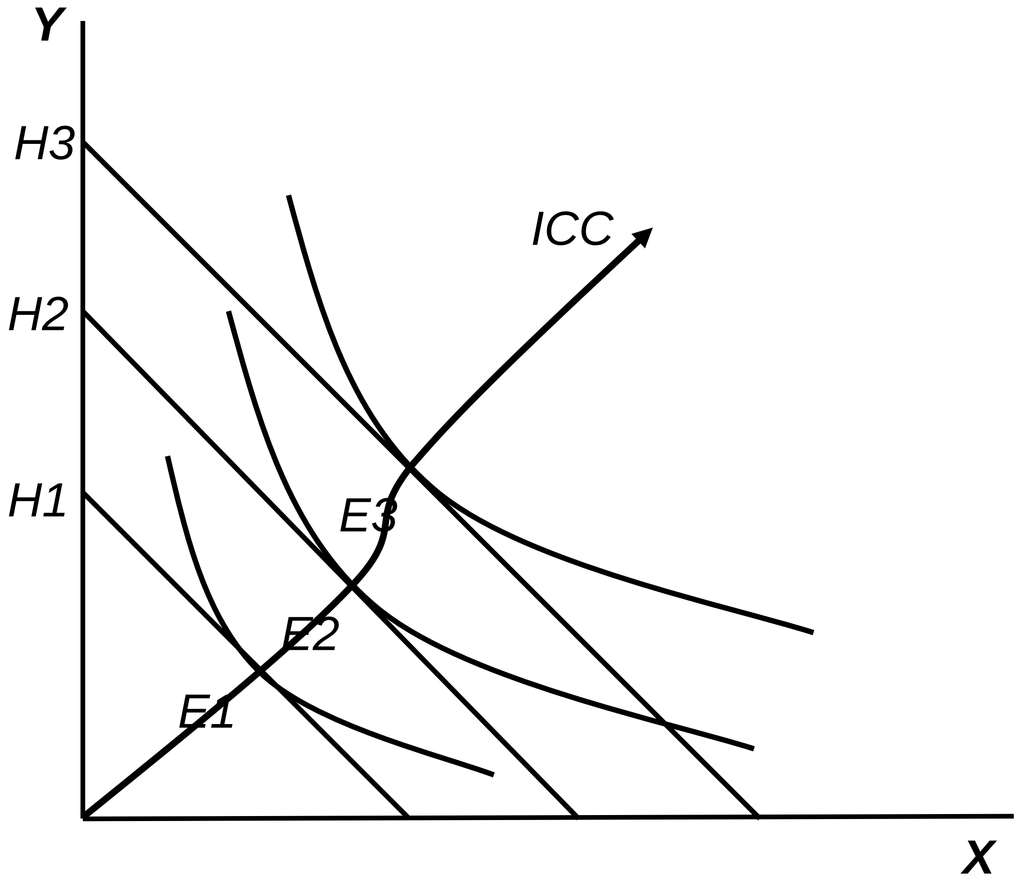
2 CONSUMER CHOICE UNDER THE RISK

Individual demand

- **Individual demand** (demand of one consumer):

  - Price of this farm,
  - Other goods prices,
  - Consumers income.

Income consumer curve
ICC

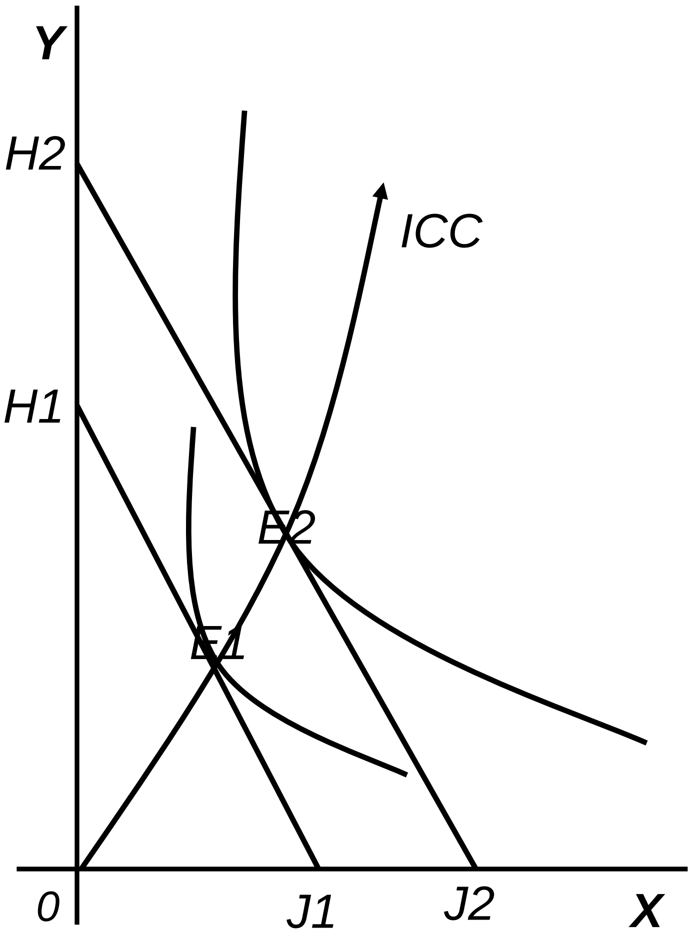


Income consumer curve
(ICC)

- ***Combinations of two goods, in which the consumer maximizes benefits of different income levels***
- For ***normal goods***
- For ***inferior farm***

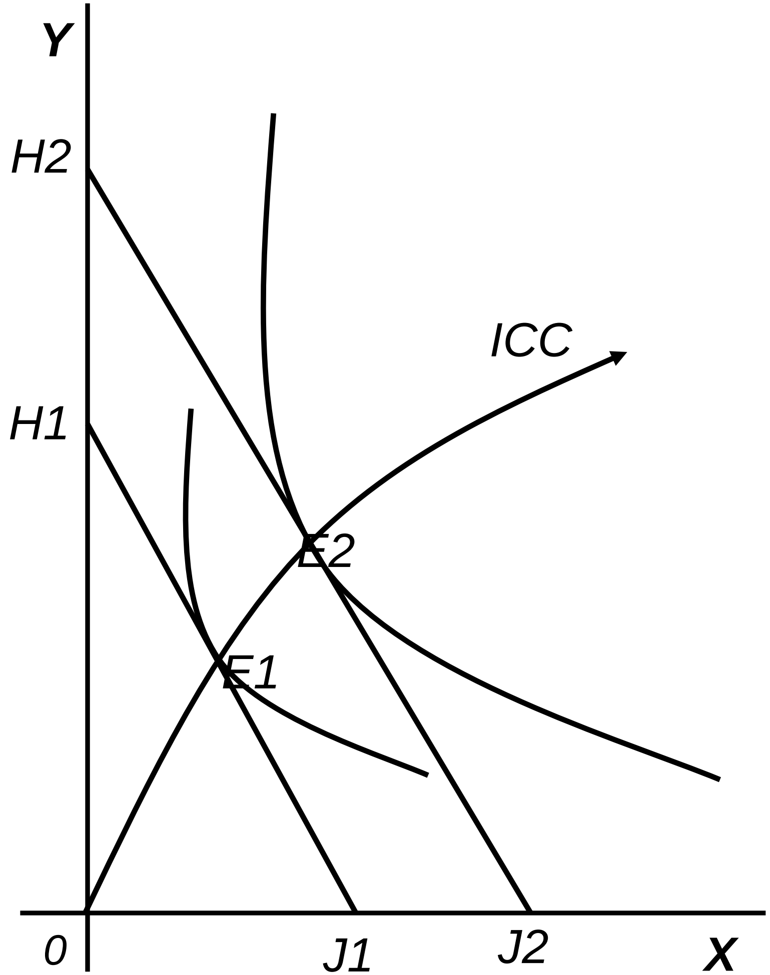
The ICC for the various goods

(a) x is necessary farm



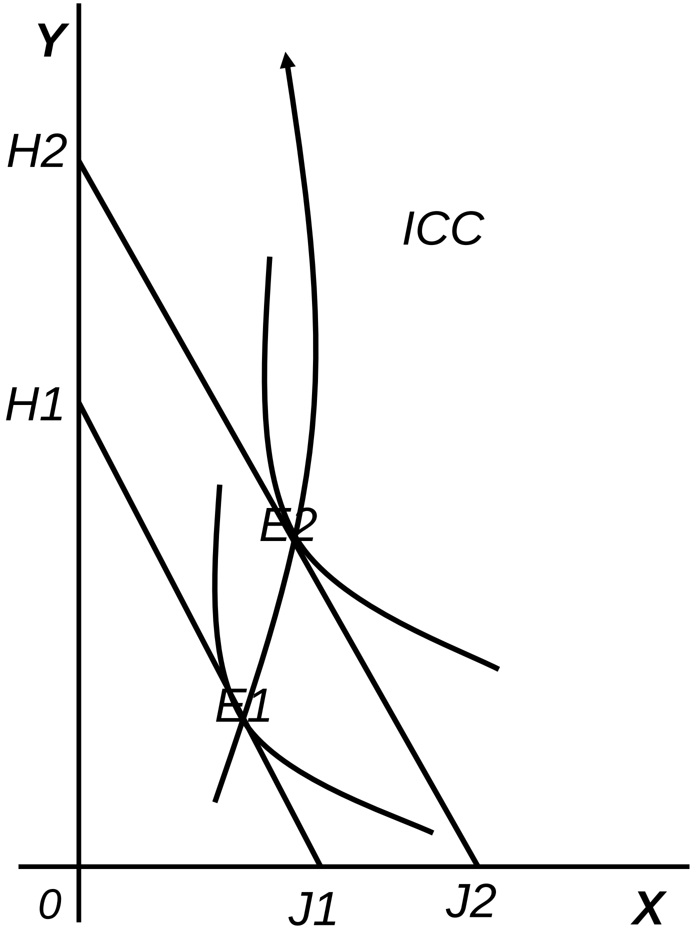
The ICC for the various goods

(b) x is a luxurious farm

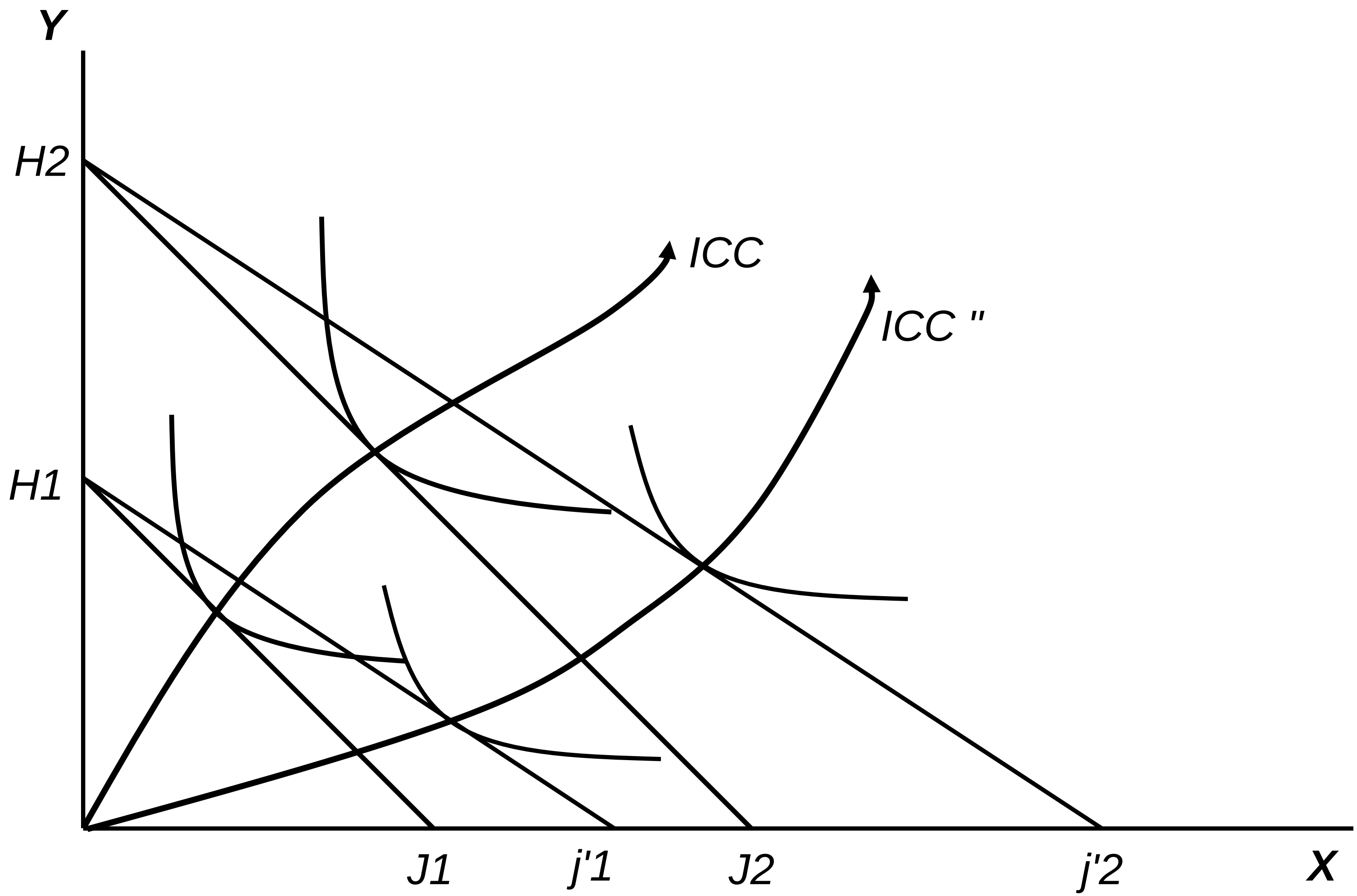


The ICC for the various goods

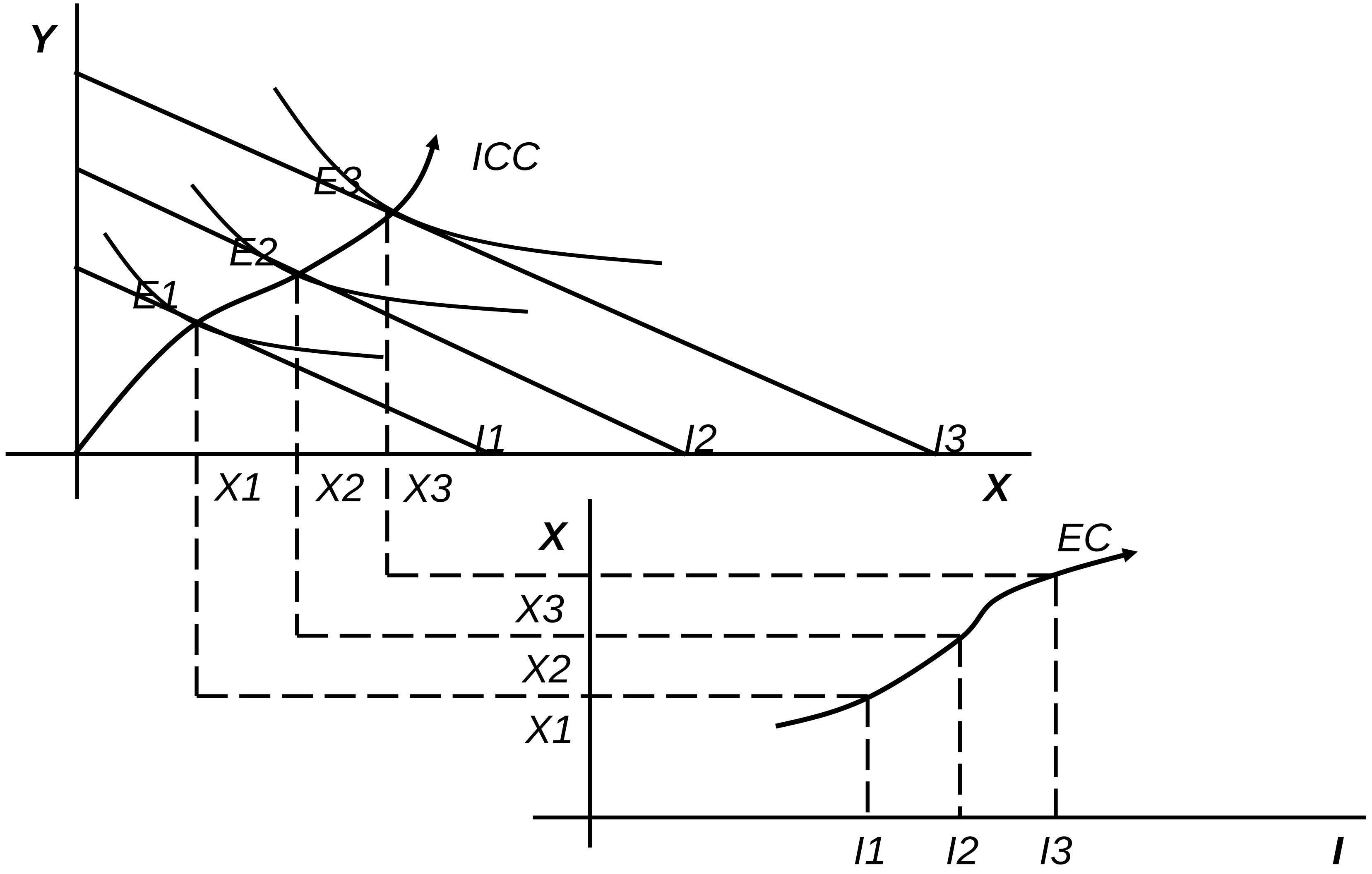
(c) x is inferior farm



Influence of declining prices X

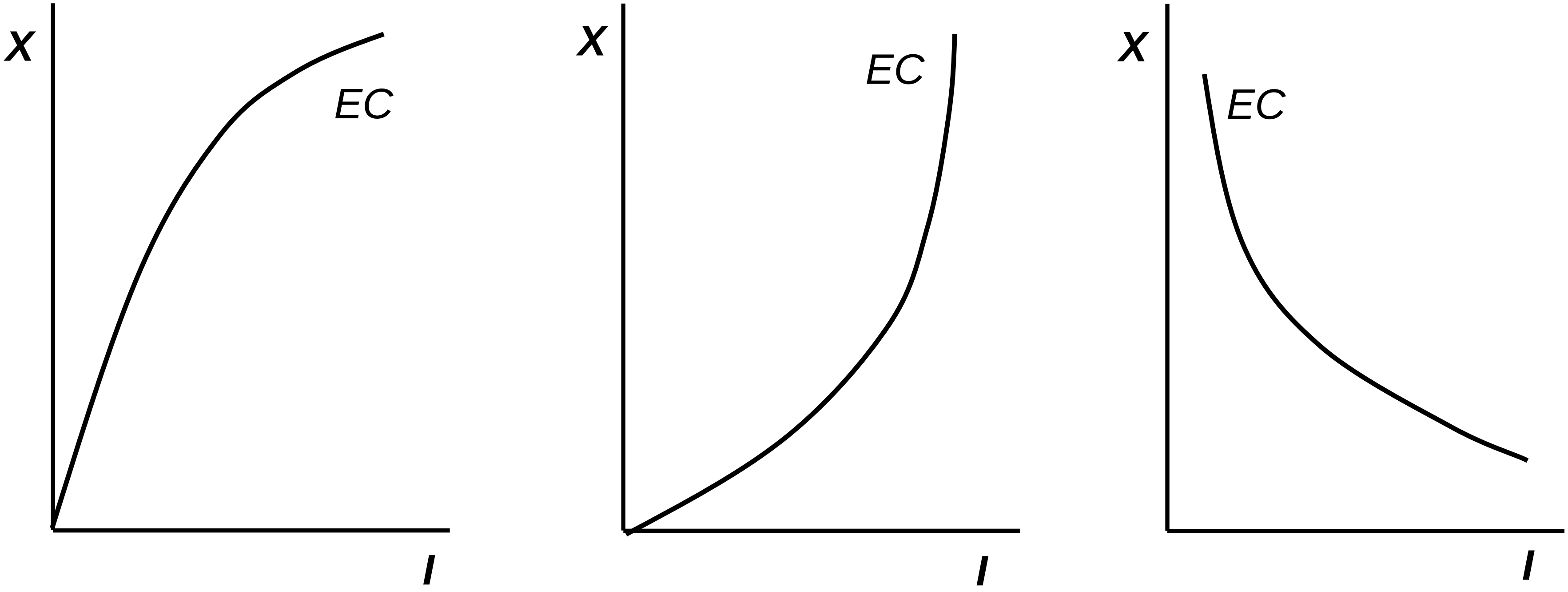


Engels´ curve



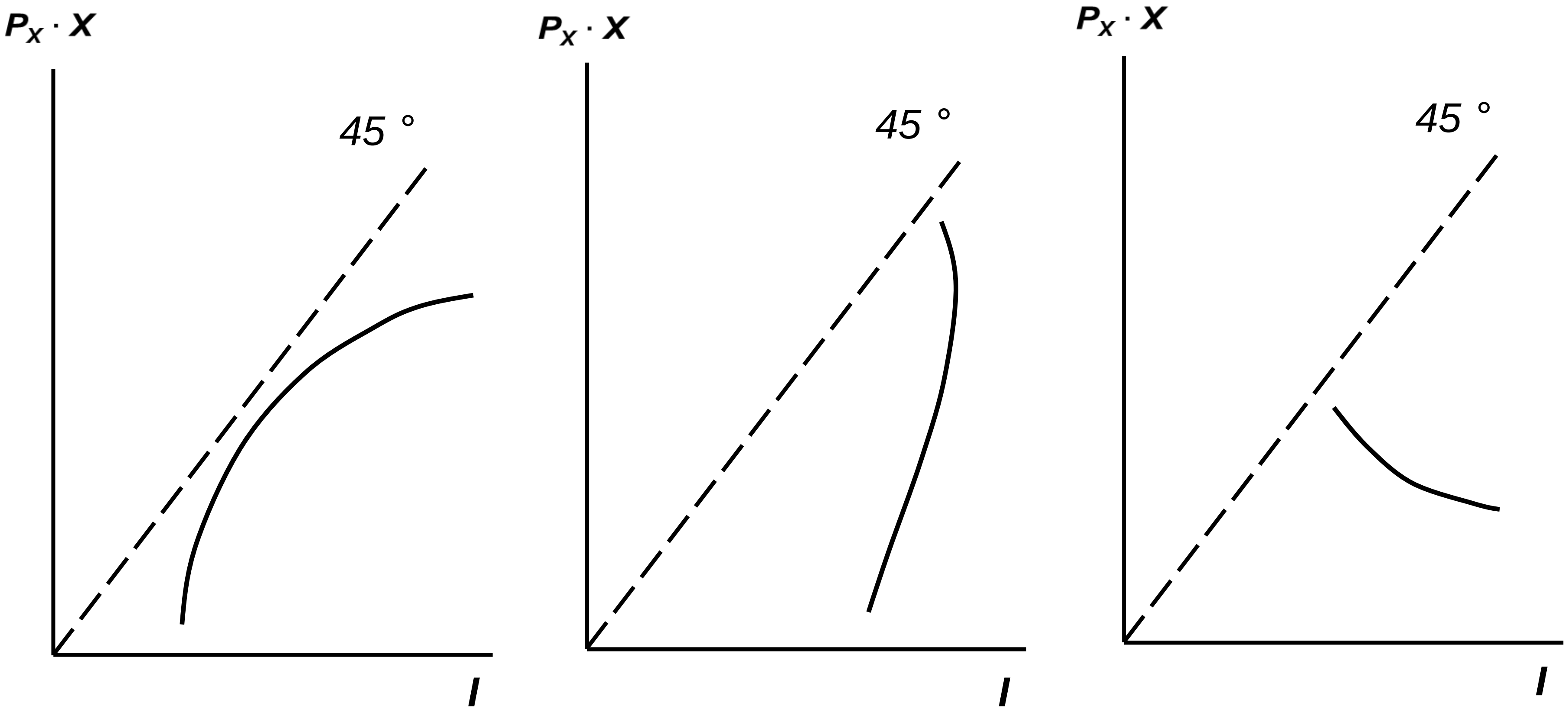
Engels´ curve for different goods

(a) Necessary farm *(b) Luxury farm* *(c) inferior farm*



Engels´spending curve

(a) Necesary farm *(b) Luxury farm* *(c) inferior farm*



Changes in the price impact on optimum and PCC

- **Price consumption curve** (PCC)

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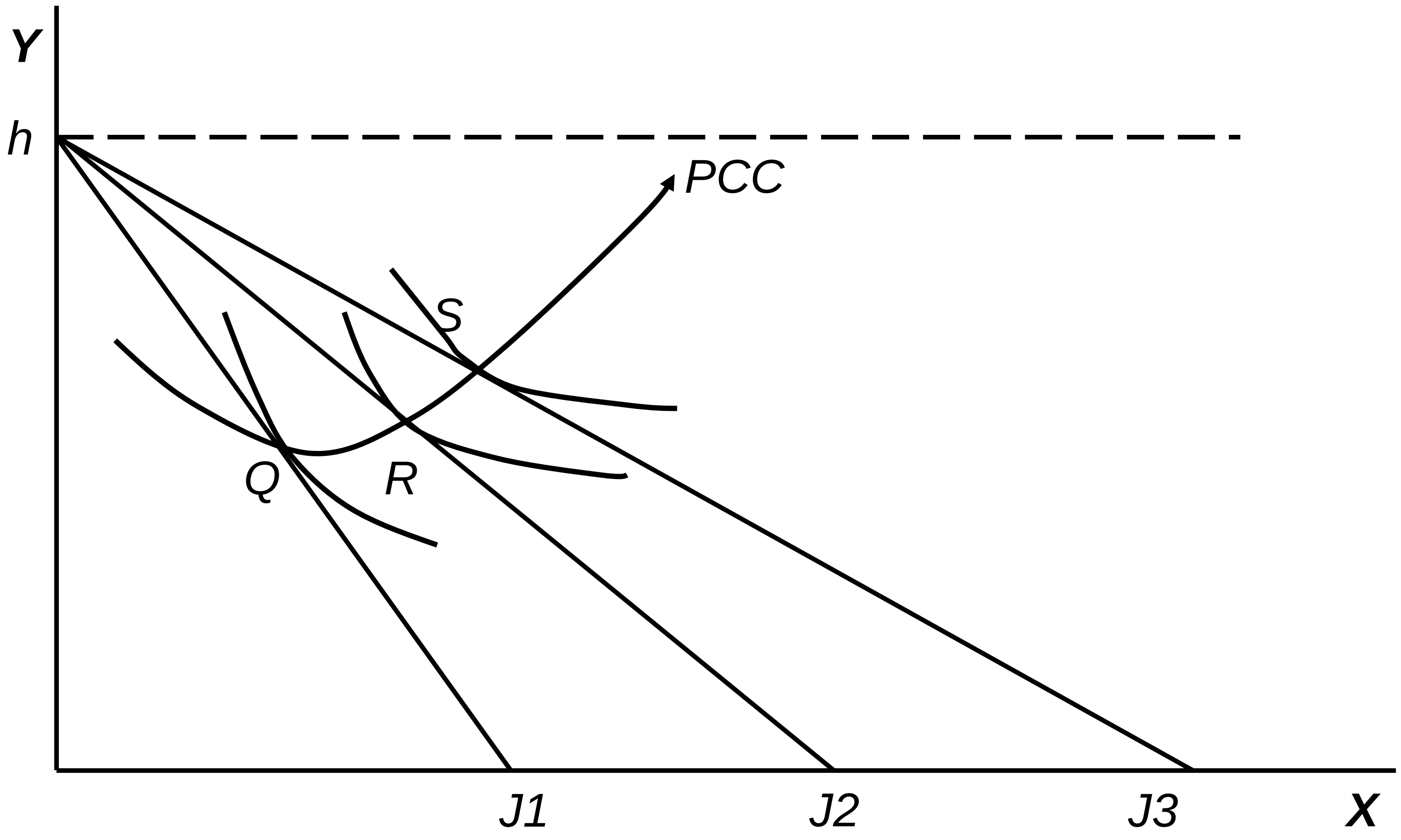
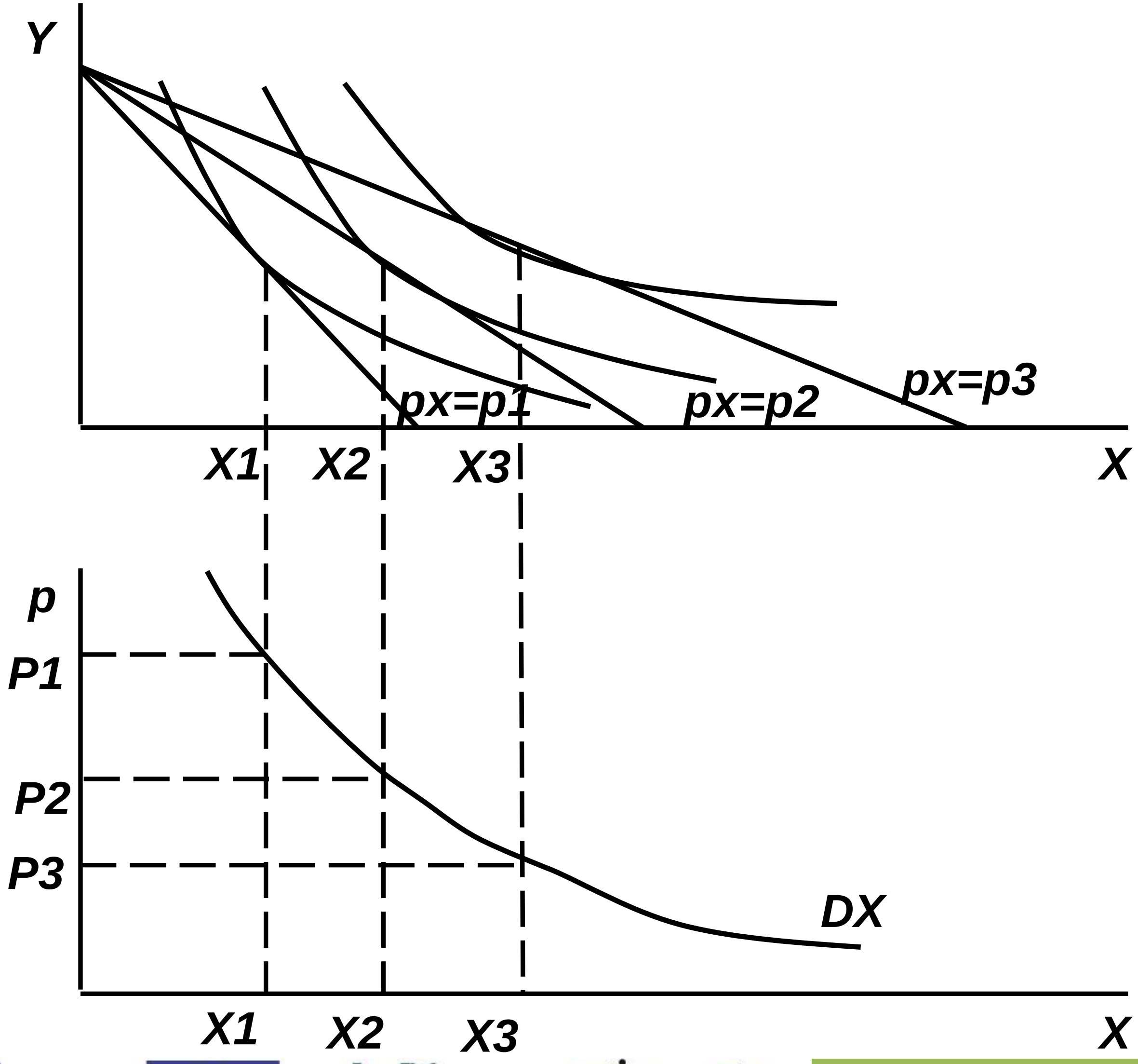
Changes in the price



Derivation of demand curve PCC

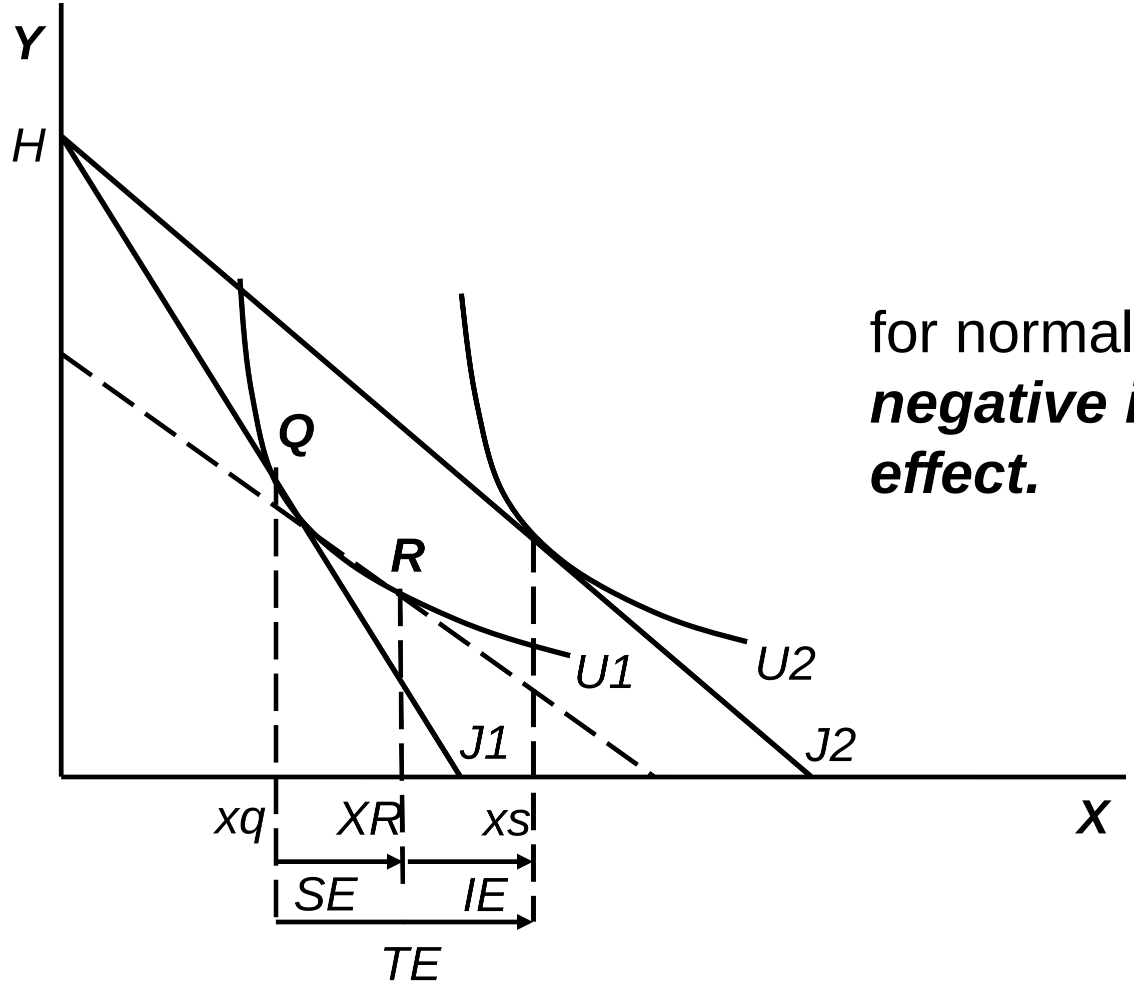


Substitution and income effect

- **Substitution effect**

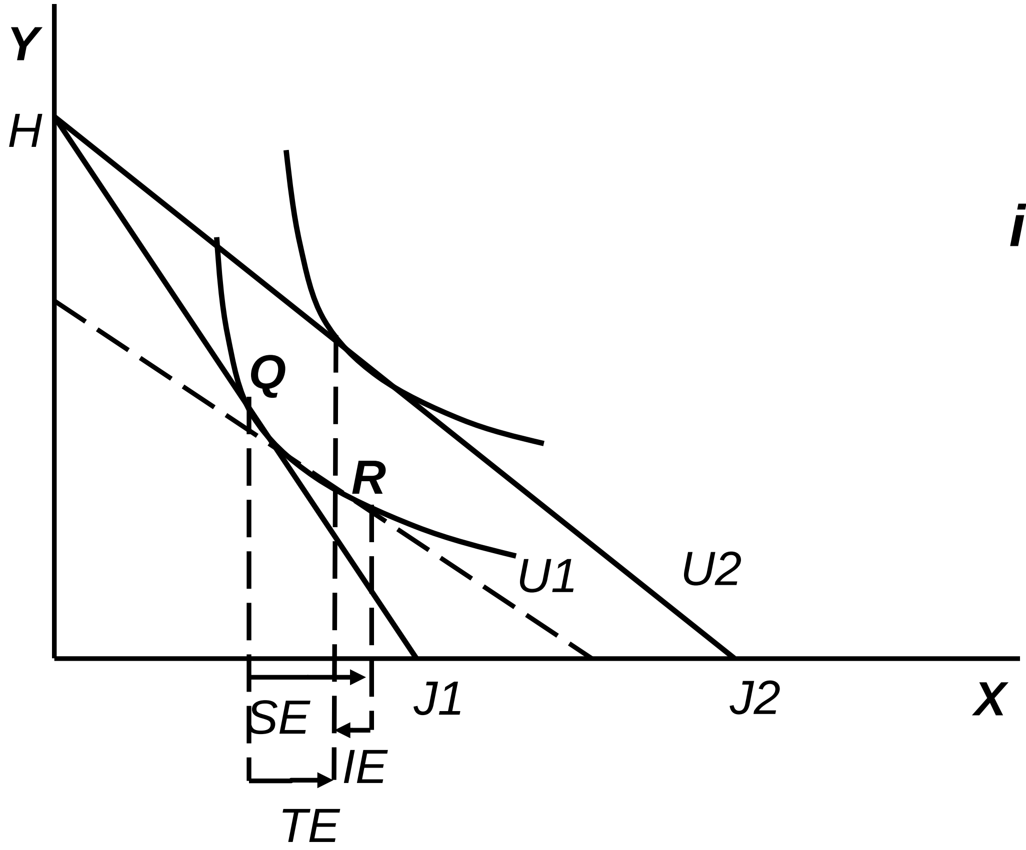
- **Income effect**

Substitution and income effect



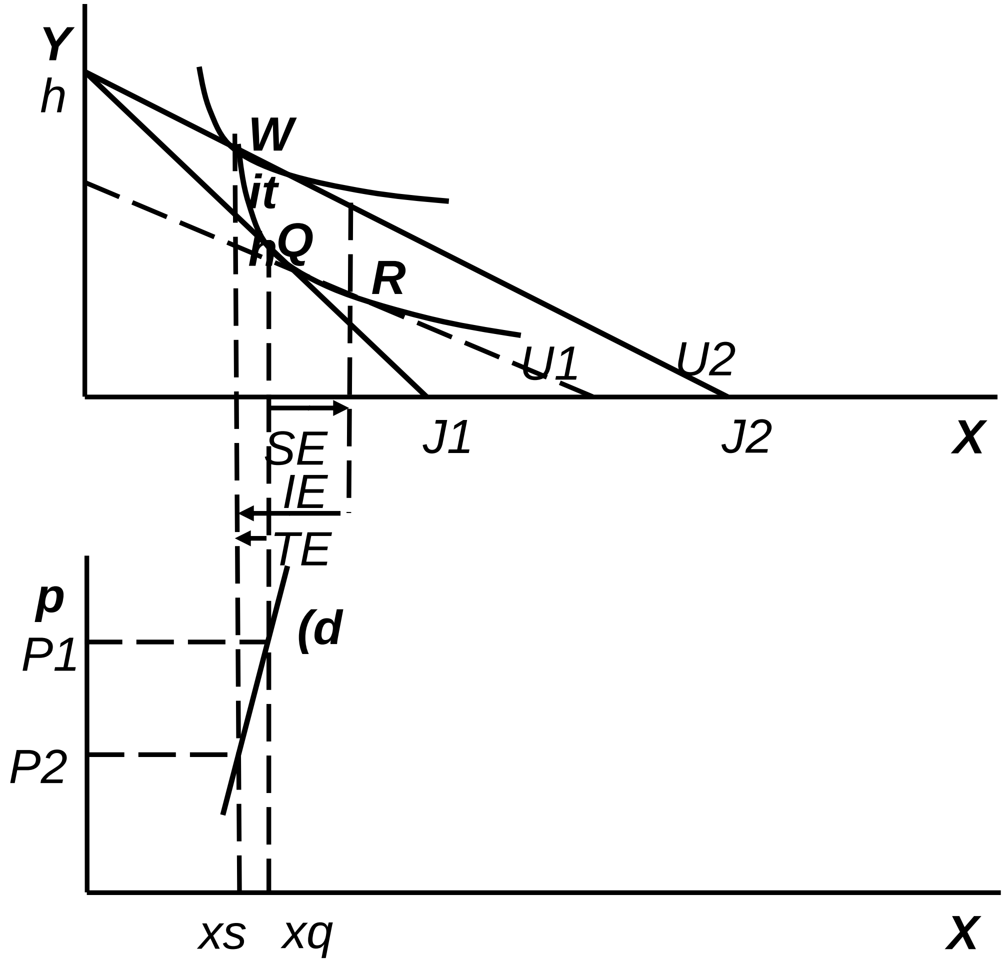
for normal ***goods is negative income effect.***

Substitution and income effect

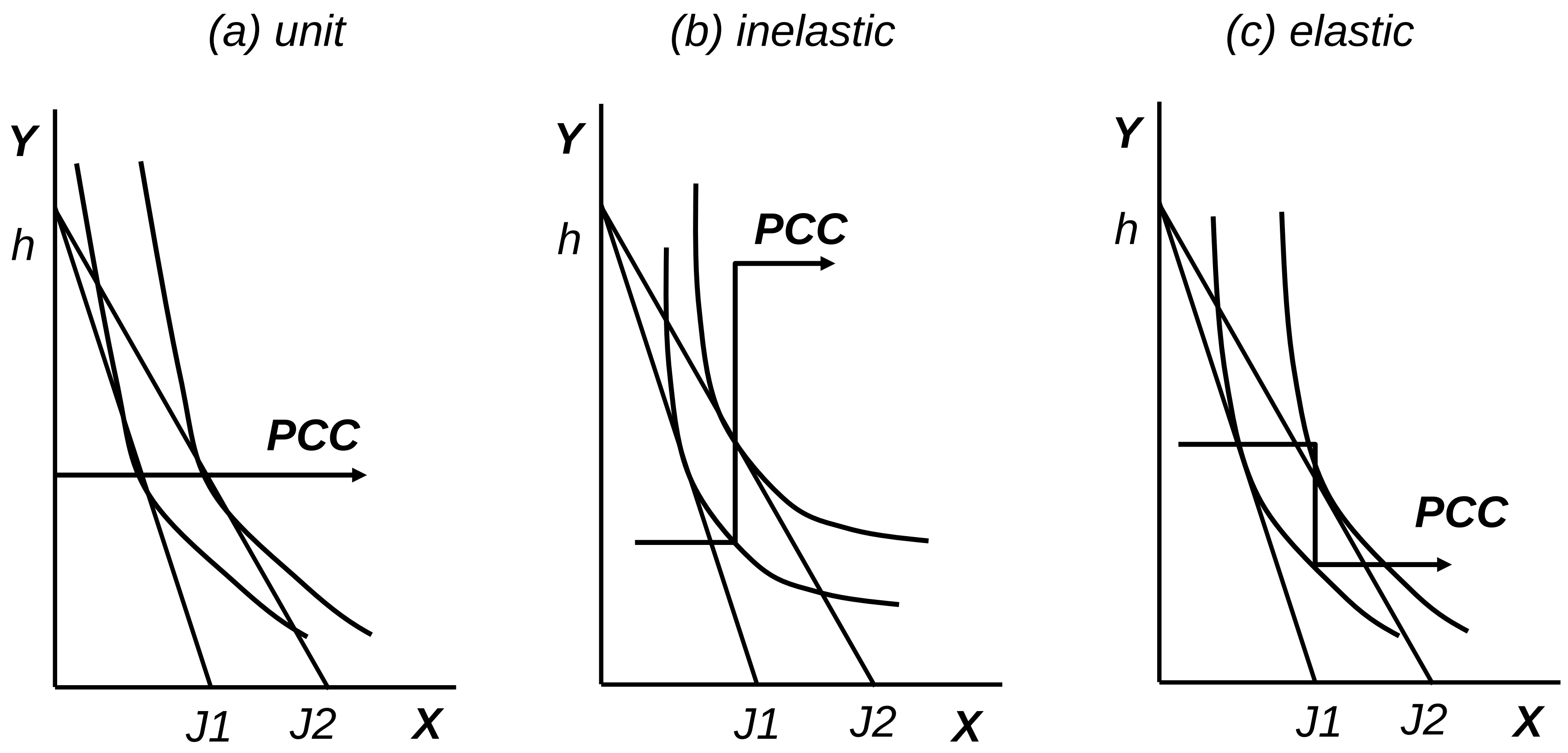


inferior goods

Substitution and income effect giffens´ paradox



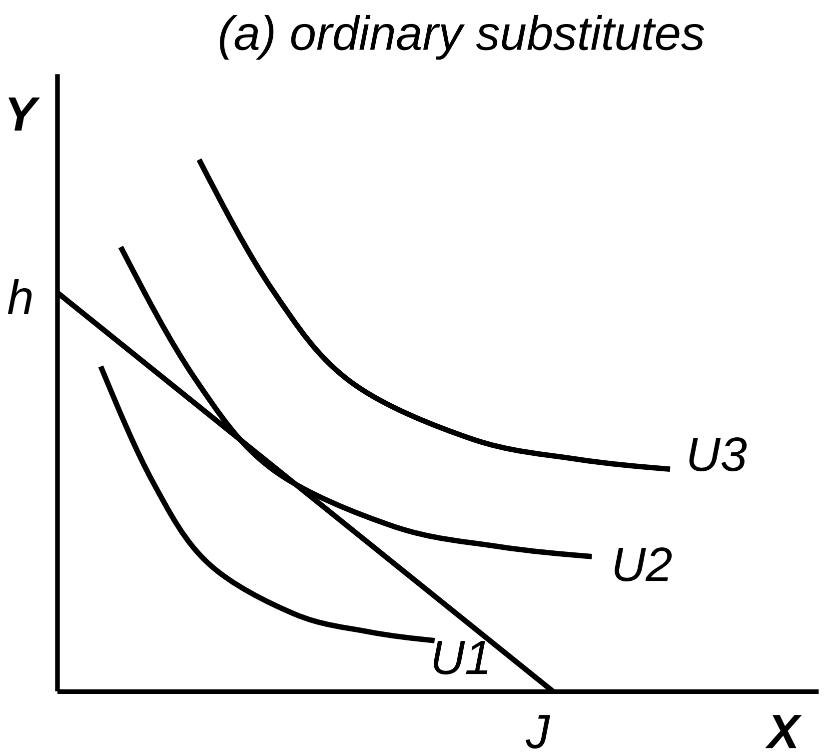
PPC and demandelasticity for farm X

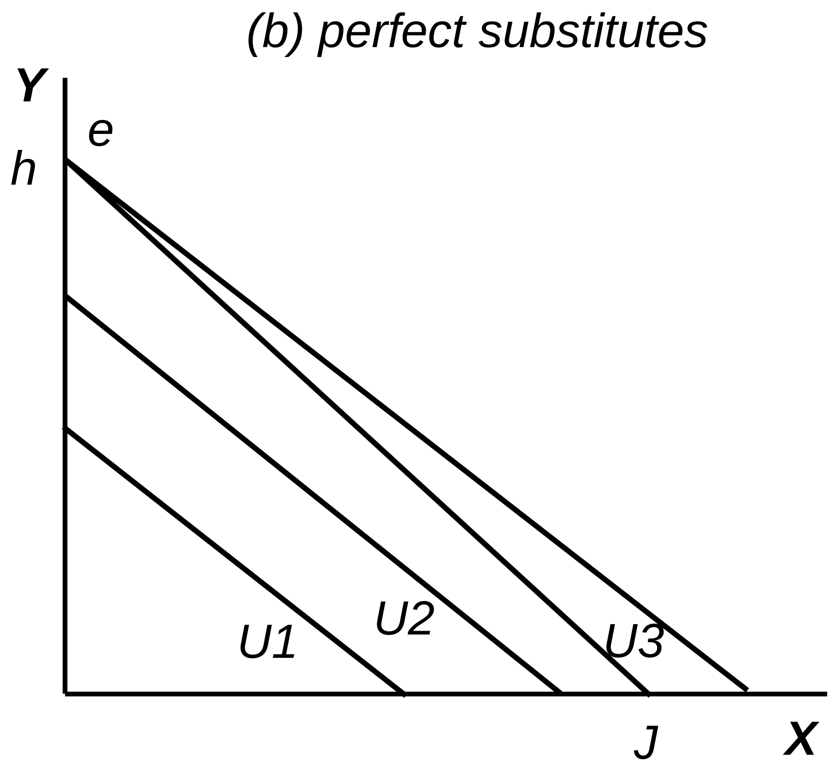


- **Cross-substitution effect**

- **Cross-pension effect**

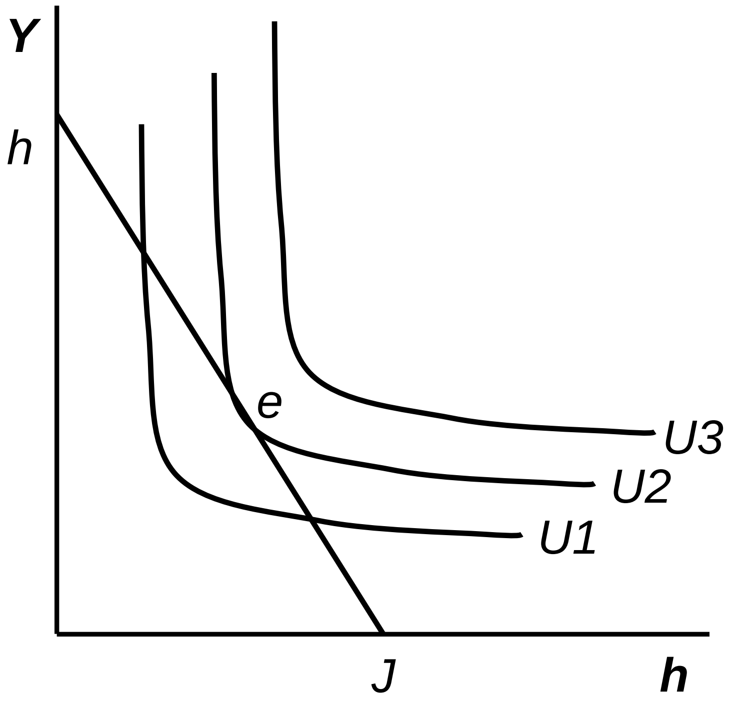
Goods X and Y are substitutes



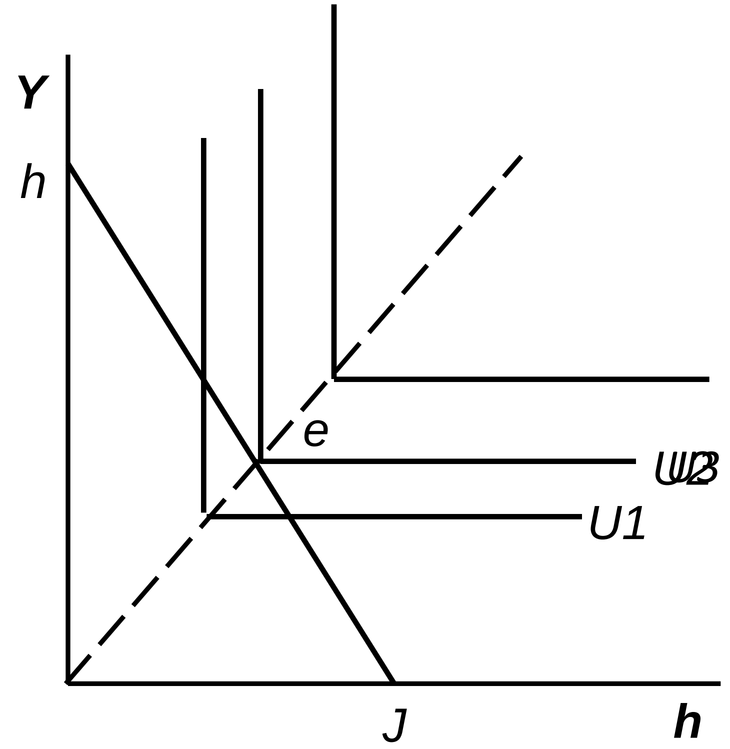


Goods X and Y are komplements

(a) normal komplements



(b) perfect komplements



Consumer decision-making in risk terms and conditions

- **The risk**
- ***Objective probabilities***
- ***Subjective probability***

Relationship to the risk

- A person has a **strong aversion** to the risk

    concave utility functions

- opposite approach to risk is a **risk searching**

    convex utility functions

- **Neutral risk** relationship

    linear utility functions

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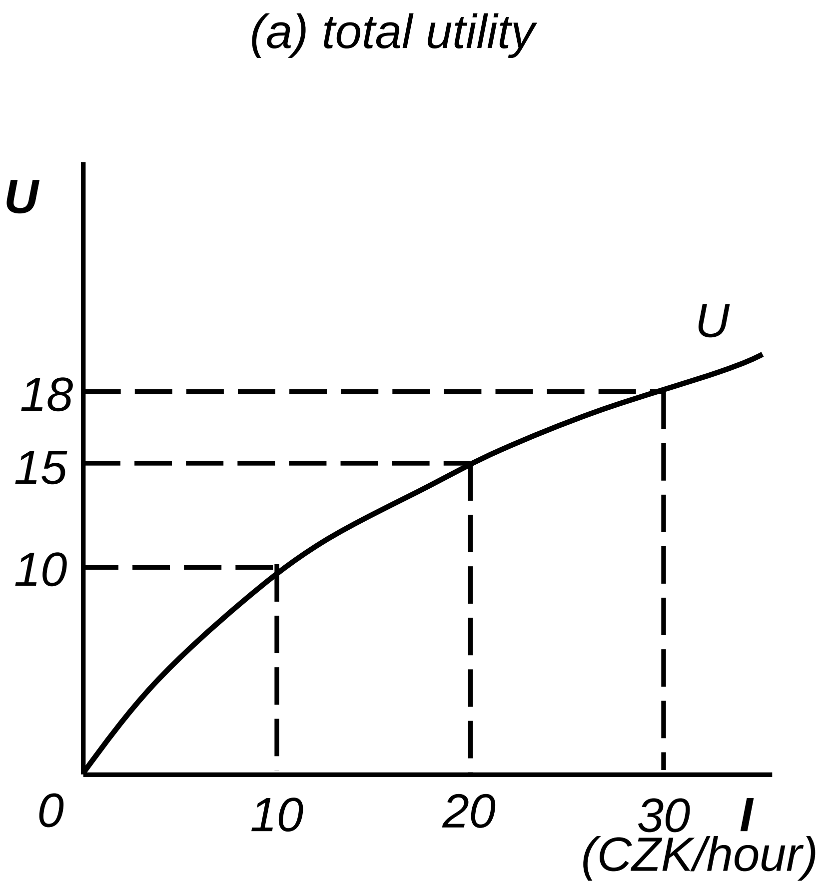
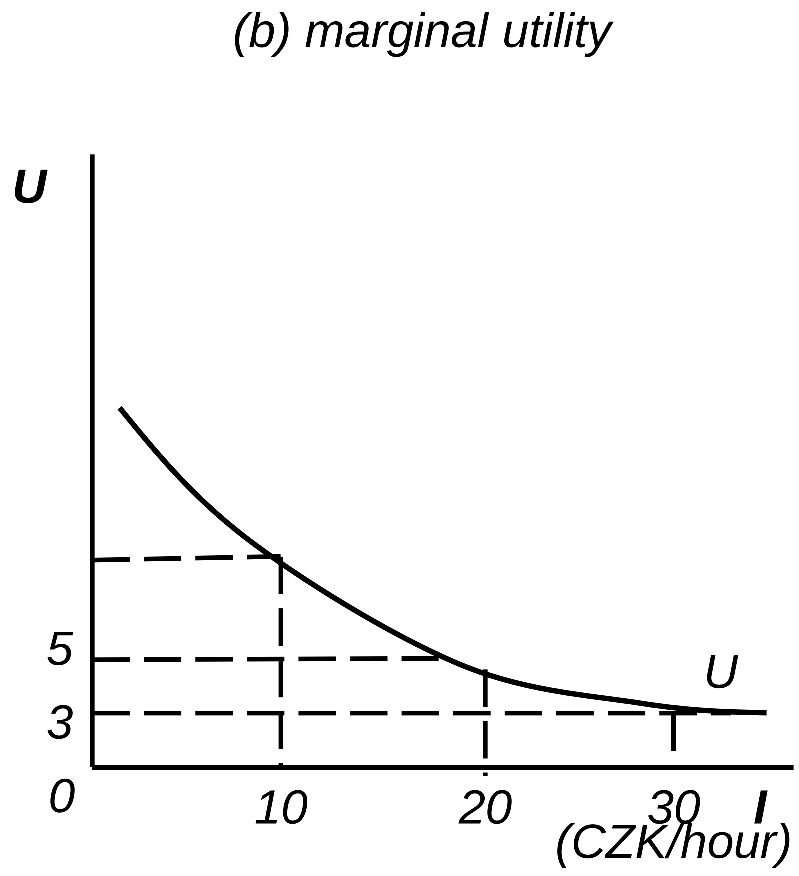
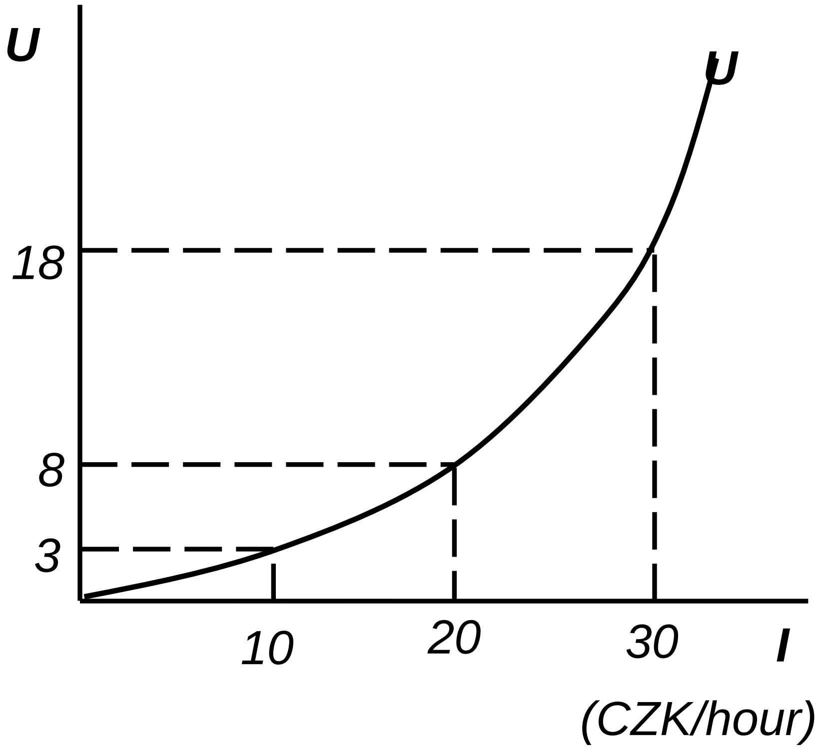
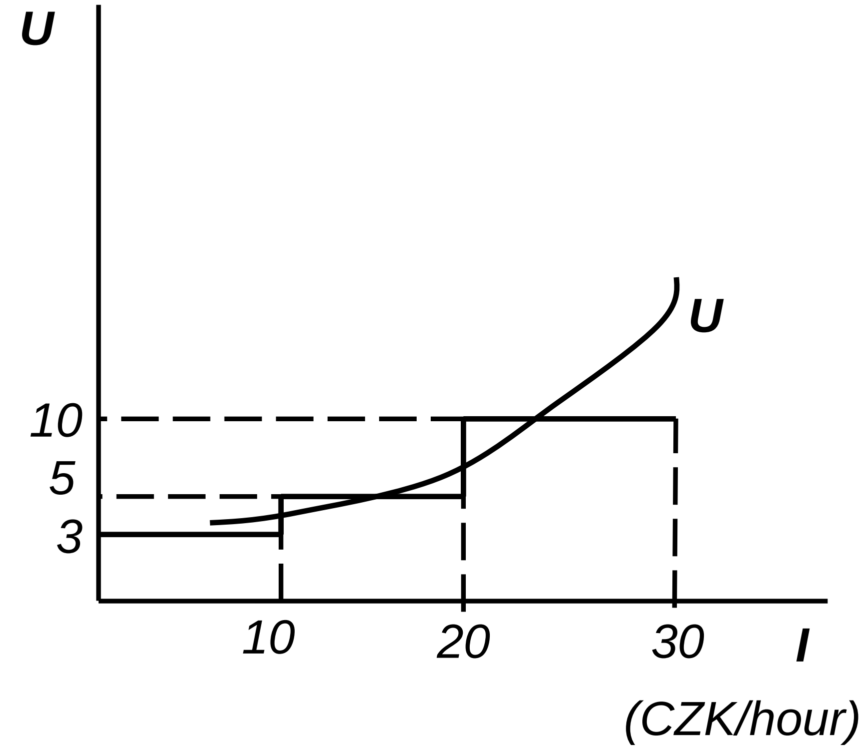
Aversion to risk



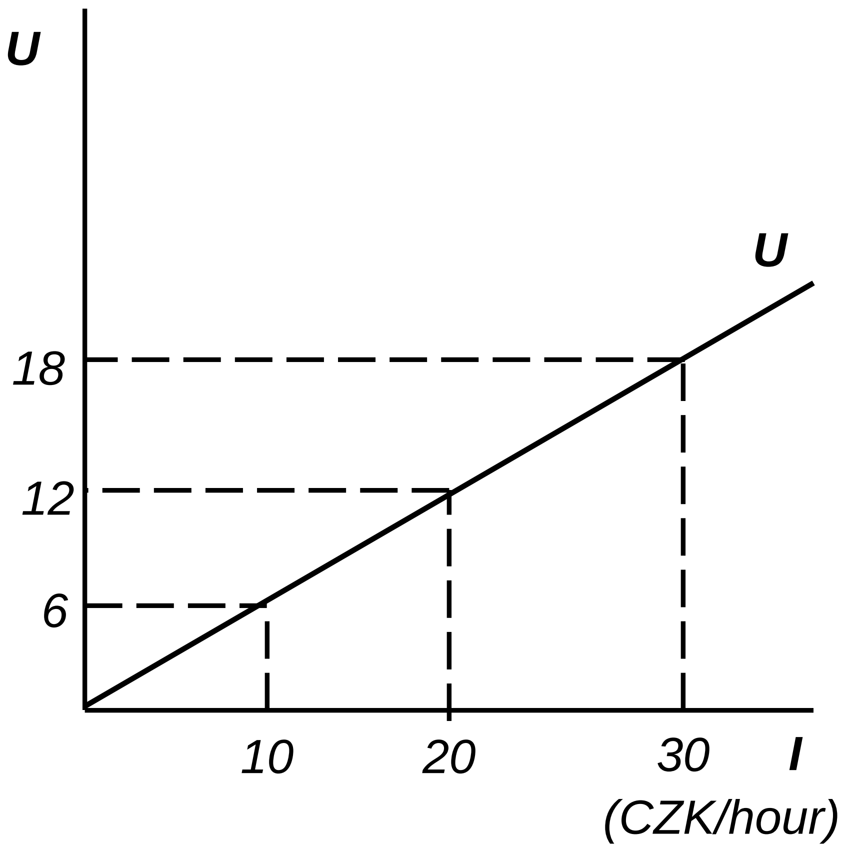


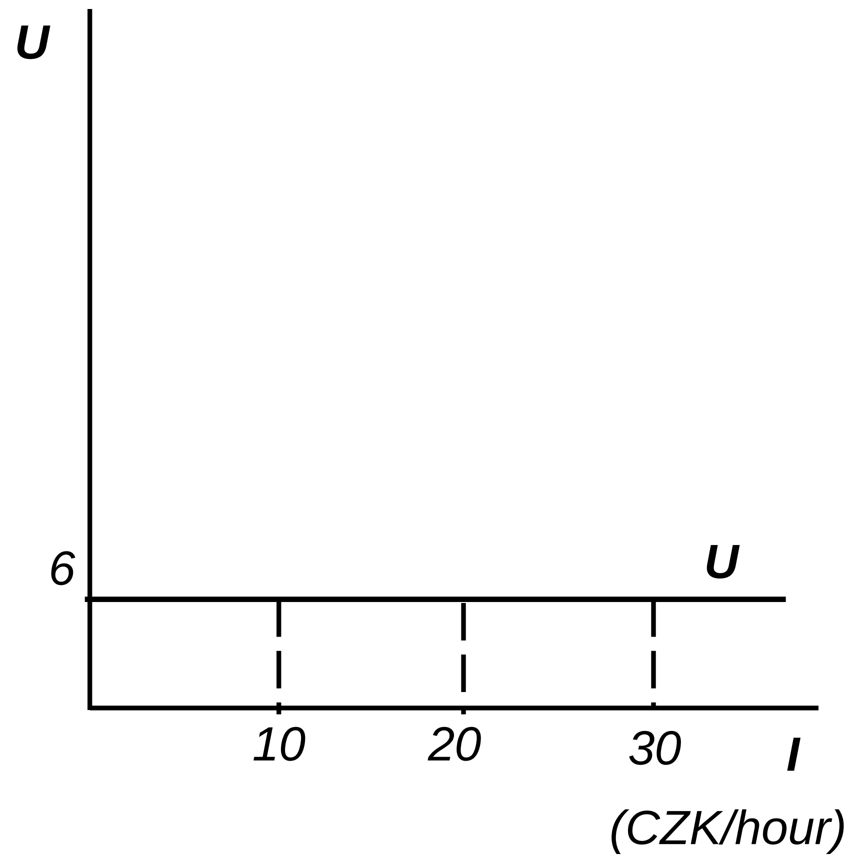
Risk searching



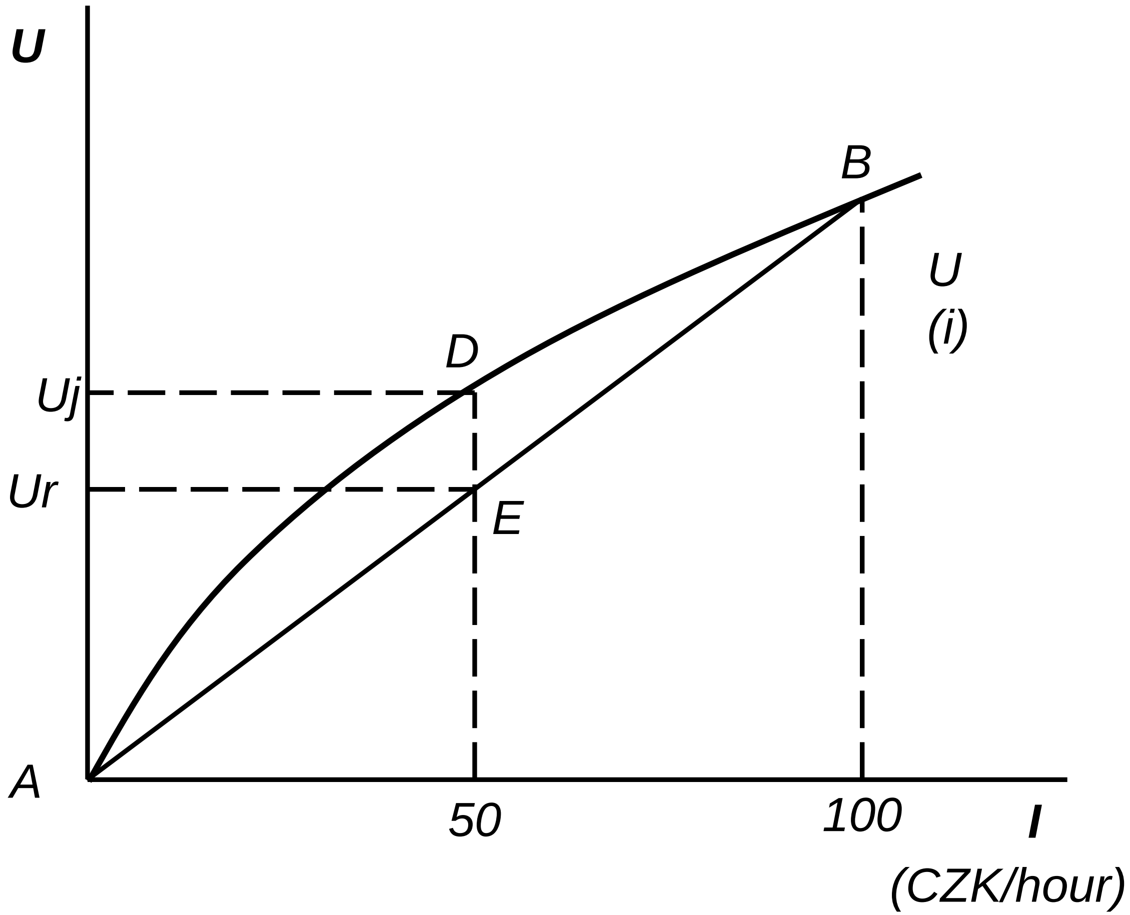


Indifferent to risk



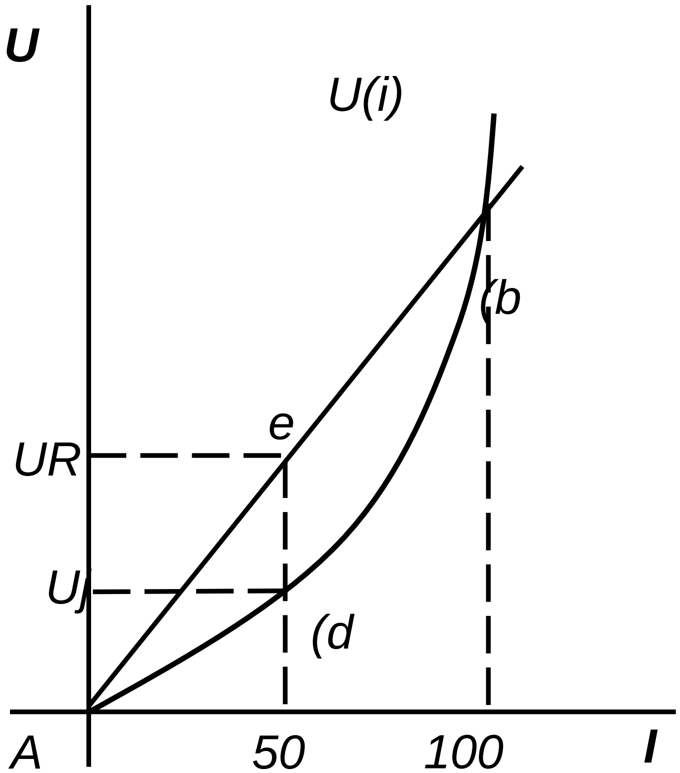


Aversion to risk and fair bet

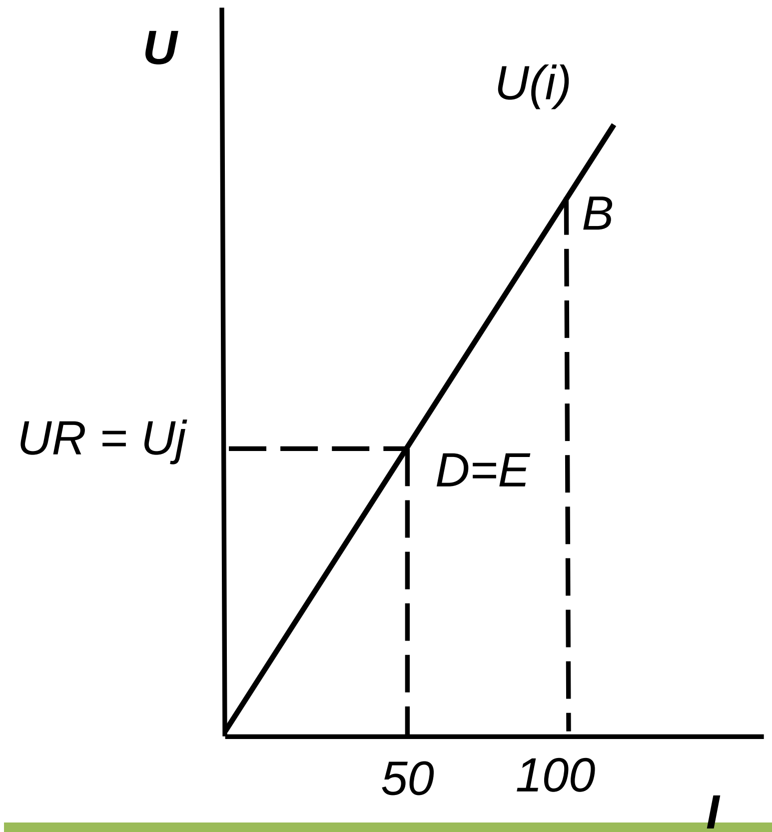


Fair bet, search and risk neutral relationship with risk

(a) search risks



(b) relationship to the risk neutral



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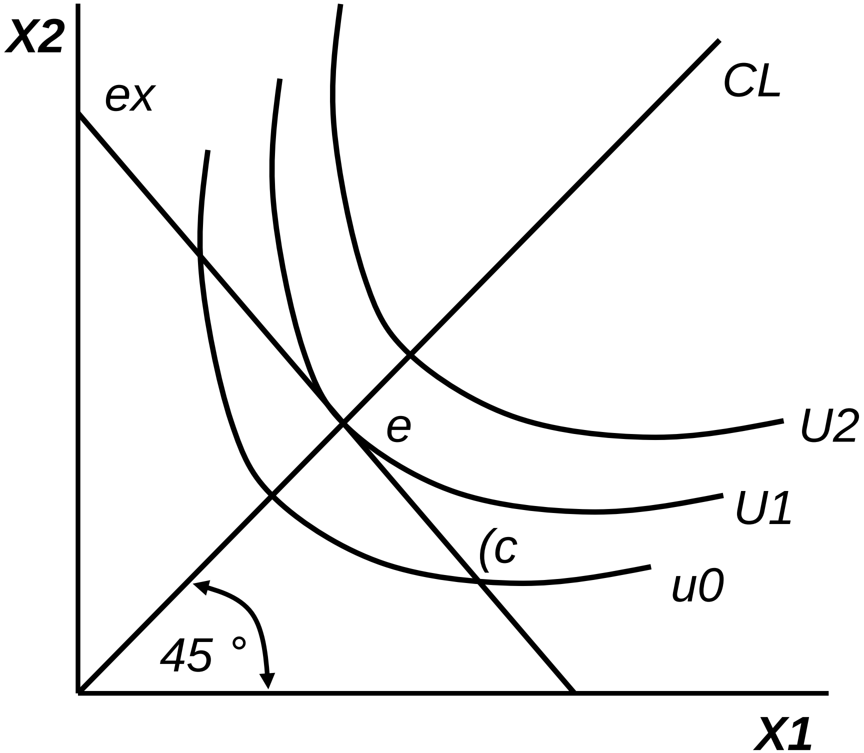
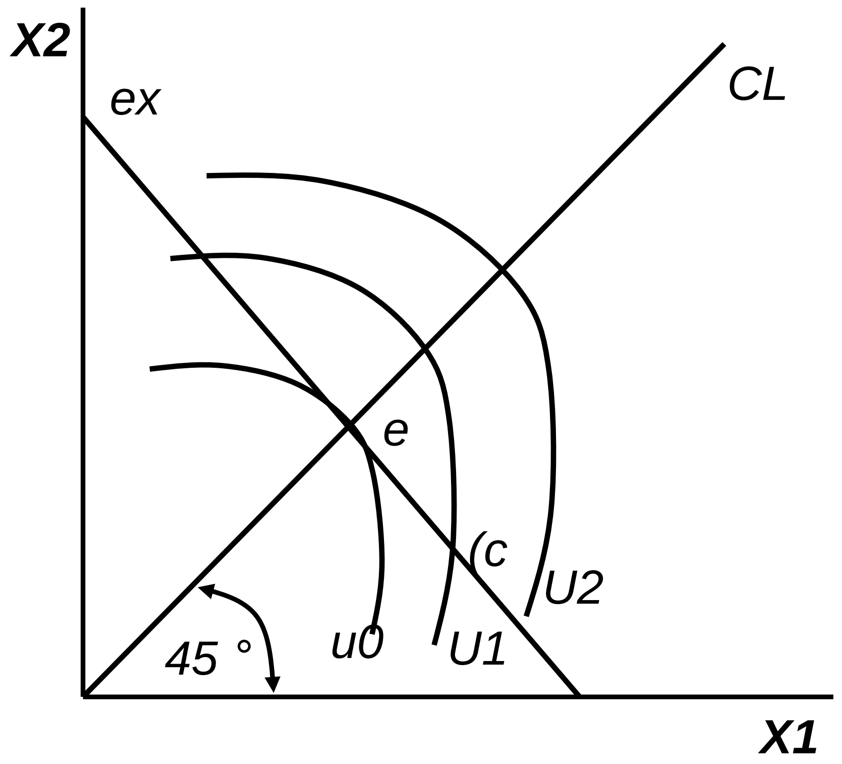
Risk aversion

(a) to the risk aversion



Risk searching

(b) searching for risk

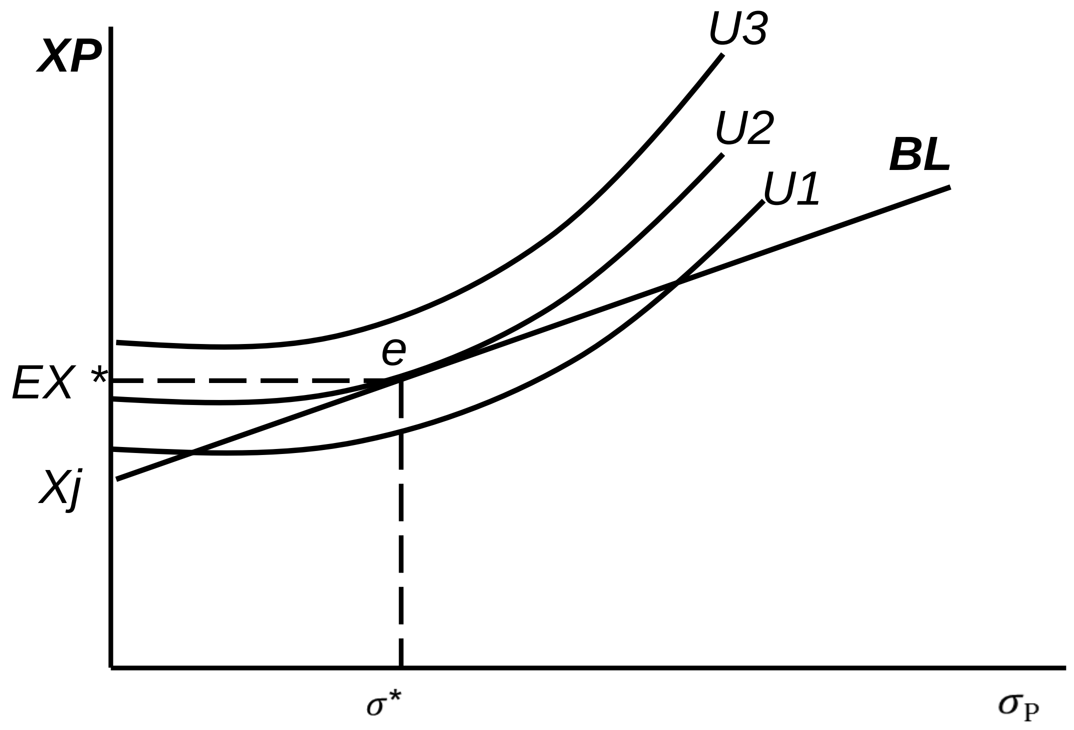


Insurance

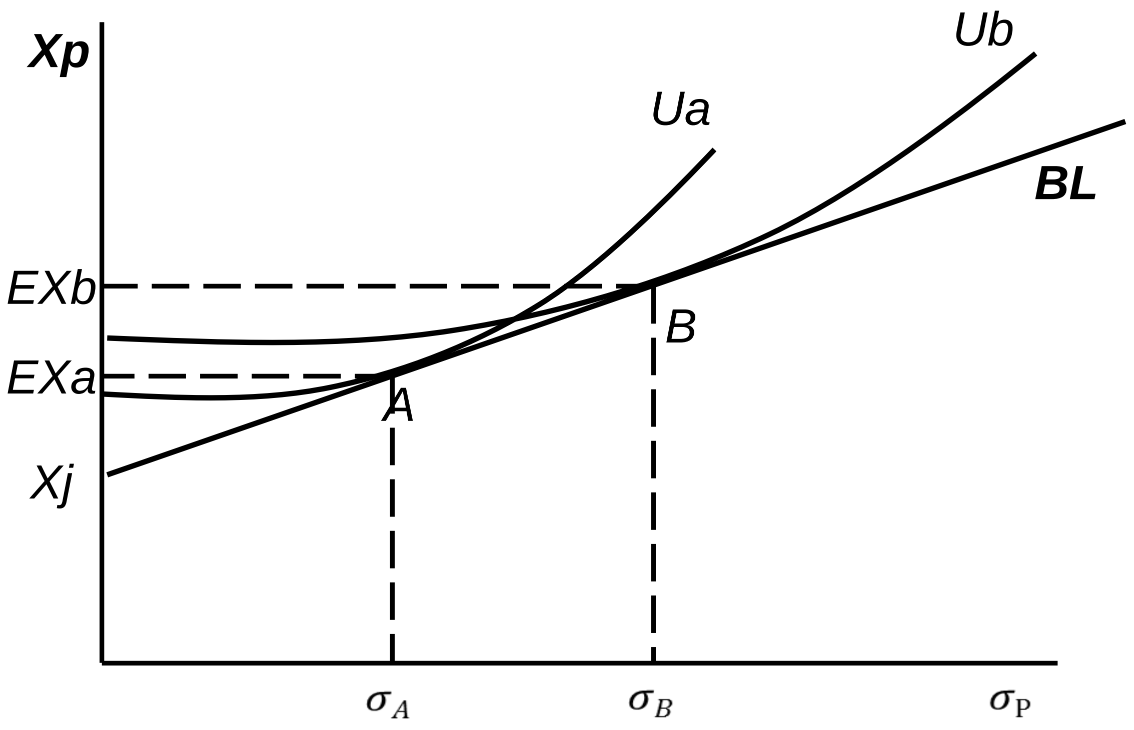
- *People with negative relationship to the risk they are willing to give up certain parts of their income in order to avoid the risk. Such a possibility provides them with insurance.*

- **Fair insurance policy**

The choice between risk and yield



Two people with a different approach to risk



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Thank you for your attention