**The Demand Curve**

**Supply** and **demand** are **fundamental** **concepts** in economics. Usually, they're **represented** by a **graph** like this. So what does this mean? Well, let's start with the **demand** **curve**. ***In short, a demand curve shows how much of a good people will want at different prices*.** What happens when there's **a big sale**? Well, at a **lower** price people buy more. More shirts, more pants, more video games, and they do stuff like this. This is what happens on **Black Friday** when **retailers** lower their prices to get people to buy stuff for Christmas. The demand curve illustrates the **intuition** for why people go nuts on Black Friday.

Price is shown on the **vertical axis**, and quantity is shown on the **horizontal**. Here's the normal price, and here's the Black Friday **reduced** price. Simply put, the quantity demanded increases as the price gets lower. But let's **delve** a little deeper. There's a **different** demand curve for every good or service out there, but the ideas are the same. So, let's look at the demand curve for one of the most important products in the world, **oil**. **Oil** is used in a **wide variety** of products, from fueling cars and **planes**, to heating homes and **making** plastic for **rubber duckies**.

Looking at the demand curve for oil, we see a **familiar relationship** **between** price and the quantity demanded. At a high price, $55 per barrel, there's a **relative** low demand, let's say five million **barrels**. At $20 per barrel, 25 million barrels are **demanded**. **As the price goes down the demand for oil increases.** And at $5 per barrel, 50 million barrels of oil are demanded.

But, there's more to why the demand curve looks like this. As we **mentioned** before, oil has many **uses**. Some of those are **high-value** uses. Uses for which oil has few **substitutes**. An example would be **jet fuel**. Right now, you can't fly jets on **corn** or **natural gas.** If you want planes that fly, you're stuck with using oil. Other uses are low-value uses, like making gasoline or plastic for these **guys**. When oil prices are relatively low, the oil that is being demanded is used for high and low-value goods alike.

As the price of oil **goes up** **so** **does** the price of making plastic and **gasoline**. And at some point the cost of these low-value used products will get high enough that some people might **skip** buying a rubber ducky **altogether** or buy a substitute like a **wooden bath toy**.

Same goes for gasoline, as the price rises people will **economize**. They'll buy more fuel efficient cars or **forego** that road trip completely. For these consumers, the benefit of buying these products is too little to **justify** the cost. At these high prices, the demanders that are left are the ones who value oil the highest. For them, the benefit of, say, having planes that fly **outweighs** the increase cost. They still demand oil.

**So, with a simple line, the demand curve summarizes all the many and diverse ways that people respond to a change in price.** But, it doesn't stop here. If you want to test yourself, click Practice Questions or if you're ready to move on, just click Next Video.

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