CIE Economics A-level

Topic 2: Price System and the Microeconomy

b) Indifference curves and budget lines

Notes

Income, substitution and price effects for various types of goods

- Demand is the **quantity of a good or service that consumers are able and willing to buy at a given price during a given period of time.**
- Demand varies with price. Generally, the lower the price, the more affordable the good and so consumer demand increases.
- With an increase in price:
    - The good becomes more expensive that alternatives. This is the **substitution** effect and it assumes the same level of income. It measures how much a high price on a good causes the consumer to switch to substitutes.
    - Disposable income reduces, which may lead to a fall in demand. This is the **income** effect. It explores how price changes affect disposable income.
- These explain the downward sloping nature of the demand curve.