



Name: Garcia, Lizbeth Grace C.

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Course Code: E433

ACTIVITY 2: DEMAND FUNCTION

I. Suppose that the demand function for a commodity is given by:

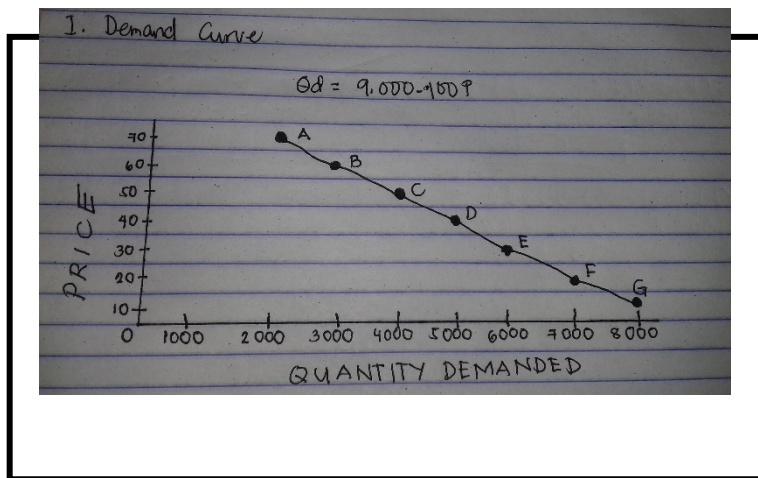
$$9,000 - 100P.$$

- a. Derive the market demand schedule for this commodity using the various prices below. Indicate your answer on the corresponding space provided on the table. **(Provide your solution)**

PRICE	10	20	30	40	50	60	70
Qd	8,000	7,000	6,000	5,000	4,000	3,000	2,000

- b. Draw the demand curve for this commodity.

Price



Quantity

I. $Q_d = 9,000 - 100(P)$

① $Q_d = 9,000 - 100(10)$
 $Q_d = 9,000 - 1,000$
 $Q_d = 8,000$

② $Q_d = 9,000 - 100(20)$
 $Q_d = 9,000 - 2,000$
 $Q_d = 7,000$

③ $Q_d = 9,000 - 100(30)$
 $Q_d = 9,000 - 3,000$
 $Q_d = 6,000$

④ $Q_d = 9,000 - 100(40)$
 $Q_d = 9,000 - 4,000$
 $Q_d = 5,000$

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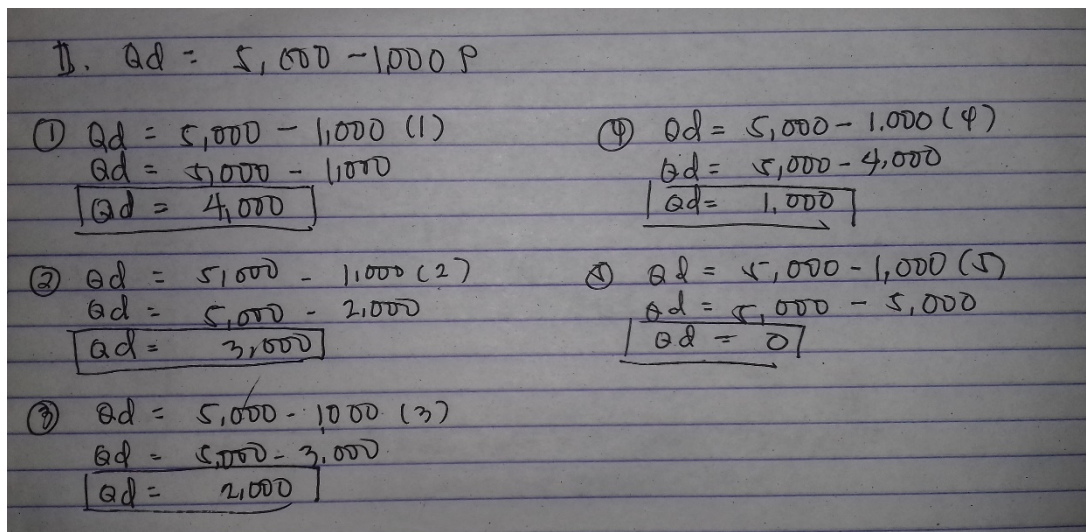
SOLUTIONS:

II. Assume that the demand function is equal to:

$$Q_d = 5,000 - 1,000 P$$

Where price range is Php. 1 to Php. 5, derive the demand schedule economics. **(Provide your solution)**

PRICE	Qd
1	4,000
2	3,000
3	2,000
4	1,000
5	0



SOLUTIONS:

III. Based on the following functions for demand, compute the demand schedule

$$Q_d = 500 - 20 P$$

PRICE	Qd
5.00	400
10.00	300
15.00	200
20.00	100
25.00	0

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(075) 600 - 1507
San Vicente West, Urdaneta City, Pangasinan
ucu.edu.ph | univpresidentofficial@gmail.com

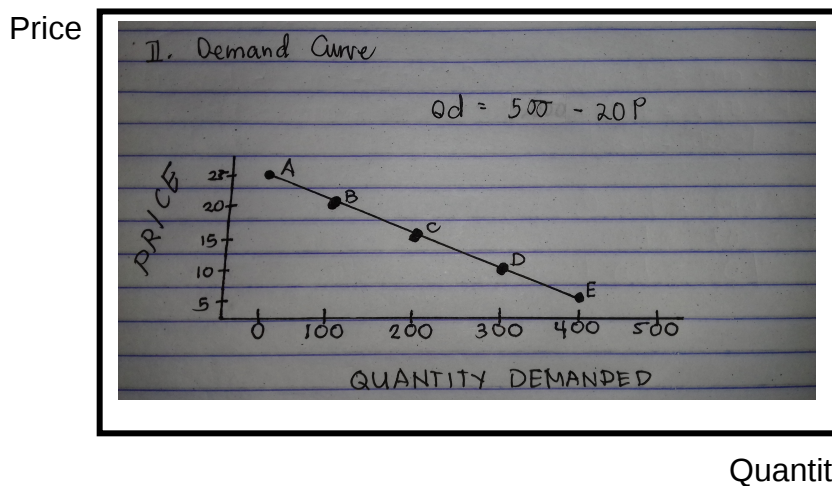


III. $Q_d = 500 - 20P$

① $Q_d = 500 - 20(5)$ $Q_d = 500 - 100$ $Q_d = 400$	④ $Q_d = 500 - 20(20)$ $Q_d = 500 - 400$ $Q_d = 100$
② $Q_d = 500 - 20(10)$ $Q_d = 500 - 200$ $Q_d = 300$	⑤ $Q_d = 500 - 20(25)$ $Q_d = 500 - 500$ $Q_d = 0$
③ $Q_d = 500 - 20(15)$ $Q_d = 500 - 300$ $Q_d = 200$	

SOLUTIONS:

IV. Plot the above demand schedule.



a. Why do economists use the ceteris paribus assumption? (5 pts.)



The concept of ceteris paribus is important in economics because in the real world, it is usually hard to isolate all the different variables that may influence or change the outcome of what you are studying. To understand how each variable affects demand, we must hold all the other variables constant or unchanged. Furthermore, economists use the ceteris paribus assumption to develop economic models. By 'holding all things constant', the ceteris paribus assumption makes the analysis more manageable so the economists can focus on the effects of a specific hypothetical change.

b. Why does the demand curve slope downward? **(5 pts.)**

The slope of the demand curve was downward because it shows the conflicting relationship between price and quantity of what consumers want and can afford. Additionally, the demand curve is downward sloping because, as per the law of demand price change and quantity change are in the opposite direction. In other words, due to the operation of the law of demand a typical demand curve has a negative slope. Of course, it is indicating the negative relationship between the price of a product and the quantity demanded. For normal goods, a change in price will be reflected as a move along the demand curve while a non-price change will result in a shift of the demand curve.