

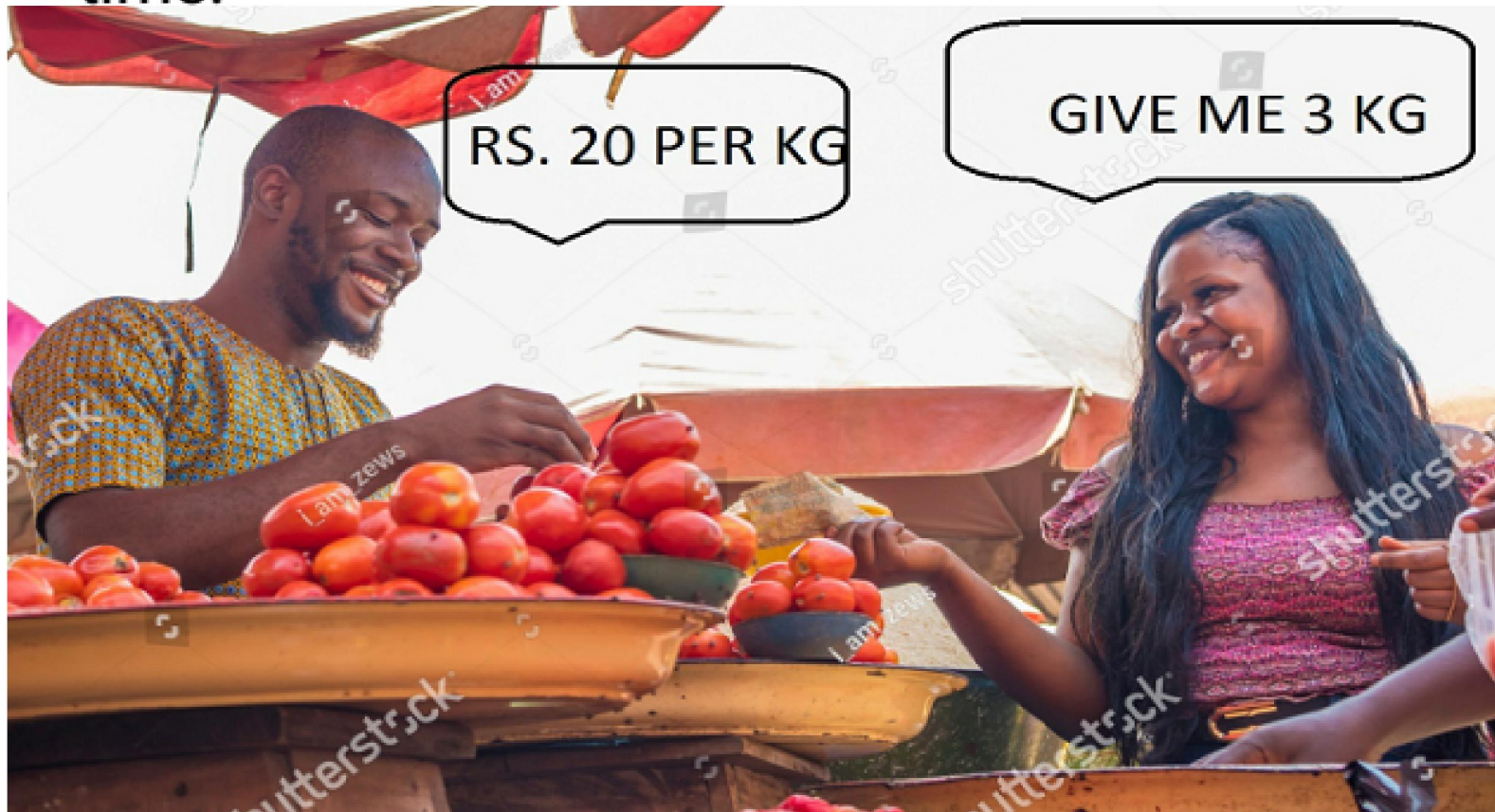
DEMAND

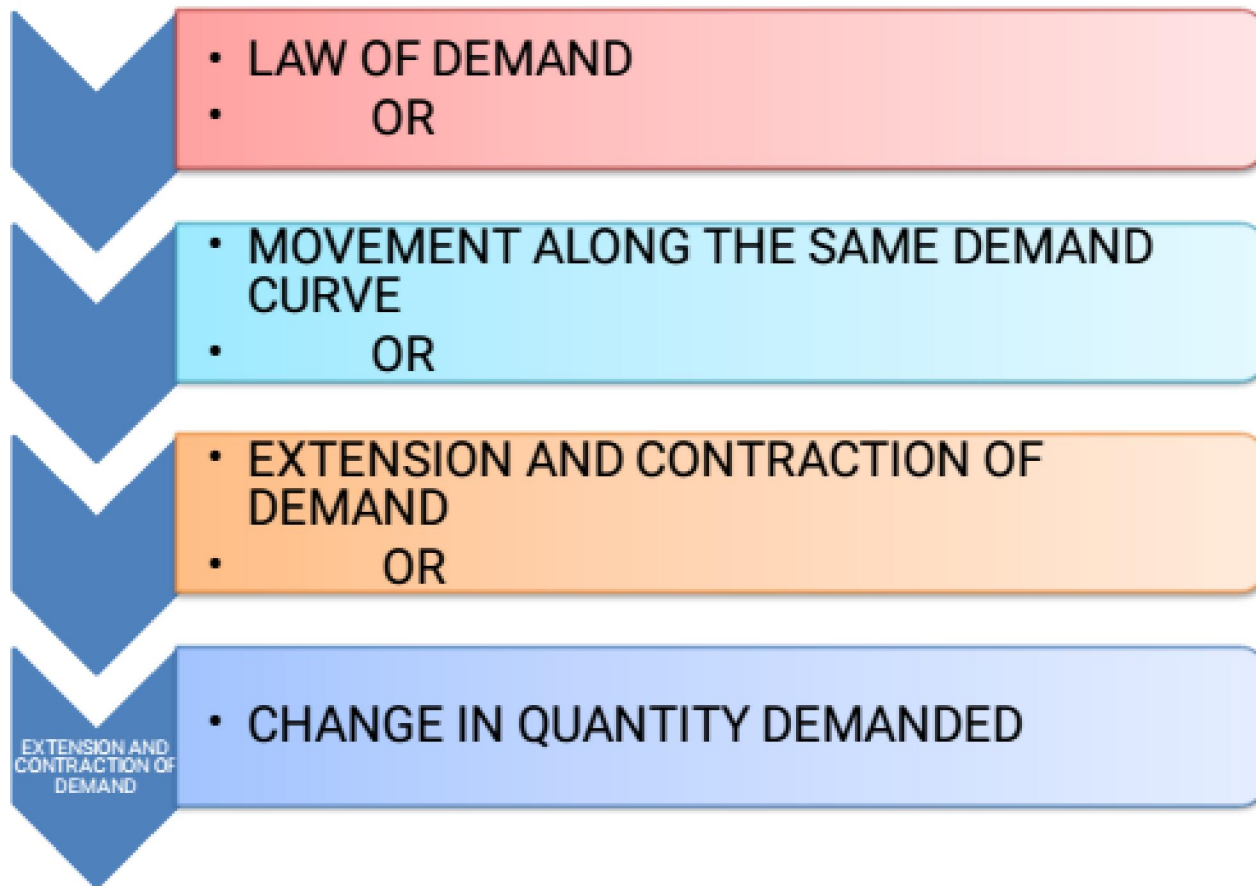


- Demand is a desire backed by ability to pay and willingness to pay.



- Demand for a commodity refers to the quantity of a commodity which a consumer is willing to buy at a given price and in a given period of time.





LAW OF DEMAND

Other things remaining the same, when the price of a commodity falls, demand for it expands, and when the price rises demand contracts.

Law of Demand

When the price goes up...

...the quantity demanded goes down.

NOTE: *The relationship between price and quantity is inverse.*

When the price goes down...

...the quantity demanded goes up.

ASSUMPTIONS OF THE LAW OF DEMAND

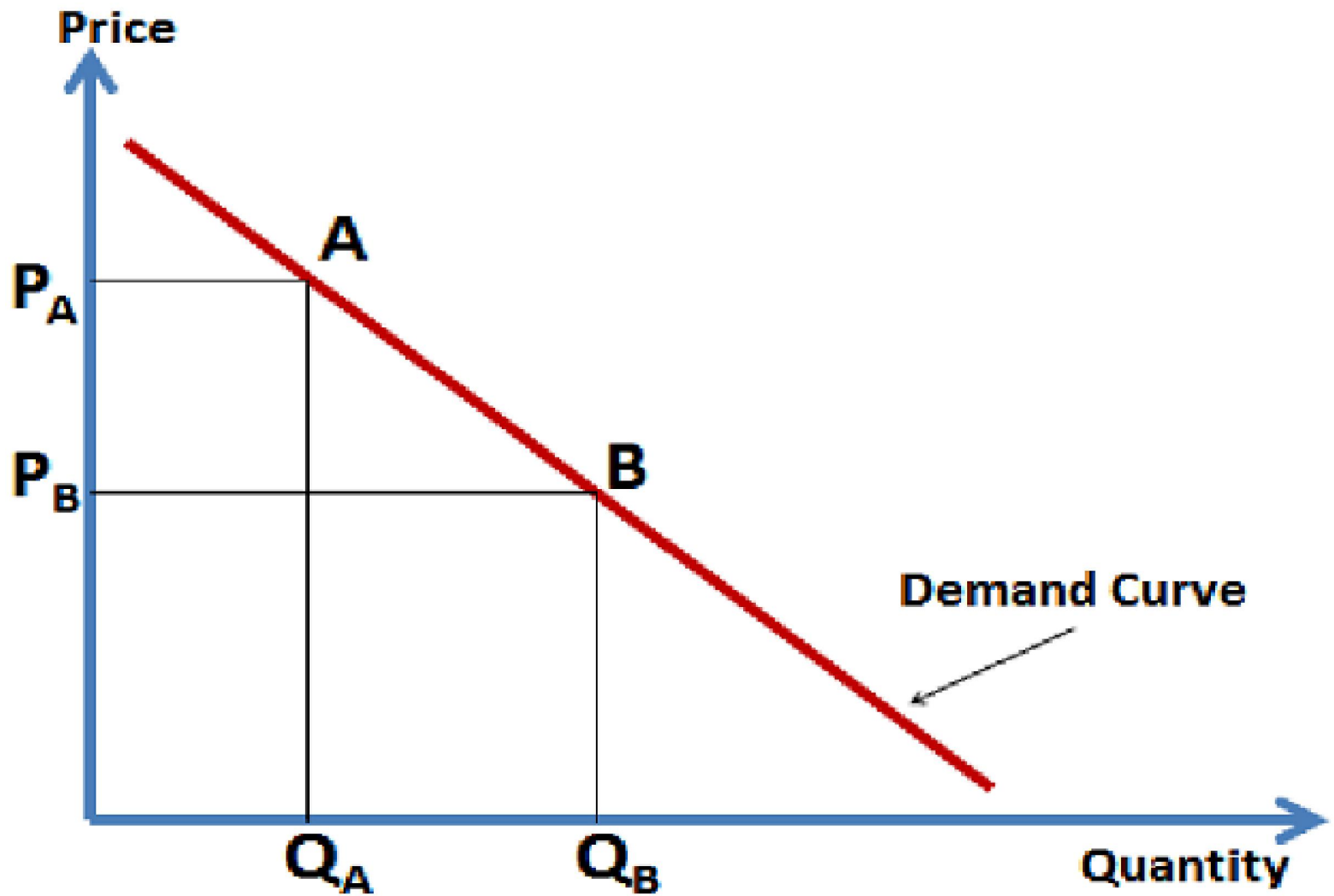
- The consumer is rational.
- There is no change in the price of related goods.
- Tastes and preferences of the consumer remain same.
- Population remains constant.
- There are no expectations about changes in future prices

DEMAND SCHEDULE

It is a tabular presentation that shows the relationship between quantity demanded and

PRICE	QUANTITY DEMANDED
50	1
40	2
30	3
20	4
10	5

- Demand Curve



EXCEPTIONS TO THE LAW OF DEMAND



1. GIFFEN GOODS

- They are inferior goods.
- The demand for Giffen's goods contracts when their prices fall.
- It is because people substitute them with superior goods.

2. DEMONSTRATION EFFECT

It means copying the acts of others.

Some people buy more units of a commodity even when their prices are rising just because others are buying it. It is called Demonstration Effect.

3. HABITS AND ADDICTIONS

- If a person is addicted to a commodity, he will not reduce the consumption of it even if the price rises.
- For example, a smoker may not reduce the consumption of cigarettes, even if the cigarette price is rising.

4. ESSENTIAL GOODS

- Increase or decrease in the prices of essential goods like medicines do not affect their demand.

5. VEBLEN'S EFFECT

Some people buy more of a commodity, even when their prices are rising just to maintain social status and prestige.

6. CLIMATE

The demand for woolen clothes increase in winter even if there is no change in price.

REASONS BEHIND THE LAW OF DEMAND

(Reasons behind the downward slope of demand curve)

- Only a downward sloping curve can show the inverse relationship between price and quantity demanded.
- When price falls old buyers will buy more quantity. New buyers will start buying.
- When price falls, people may find new uses for the commodity.
- Rational consumers will reduce the quantity demanded when the price rises in order to equalise price with marginal utility.
- Fall in price leads to increase in real income. Consumer can buy more with the given money income

Individual Demand

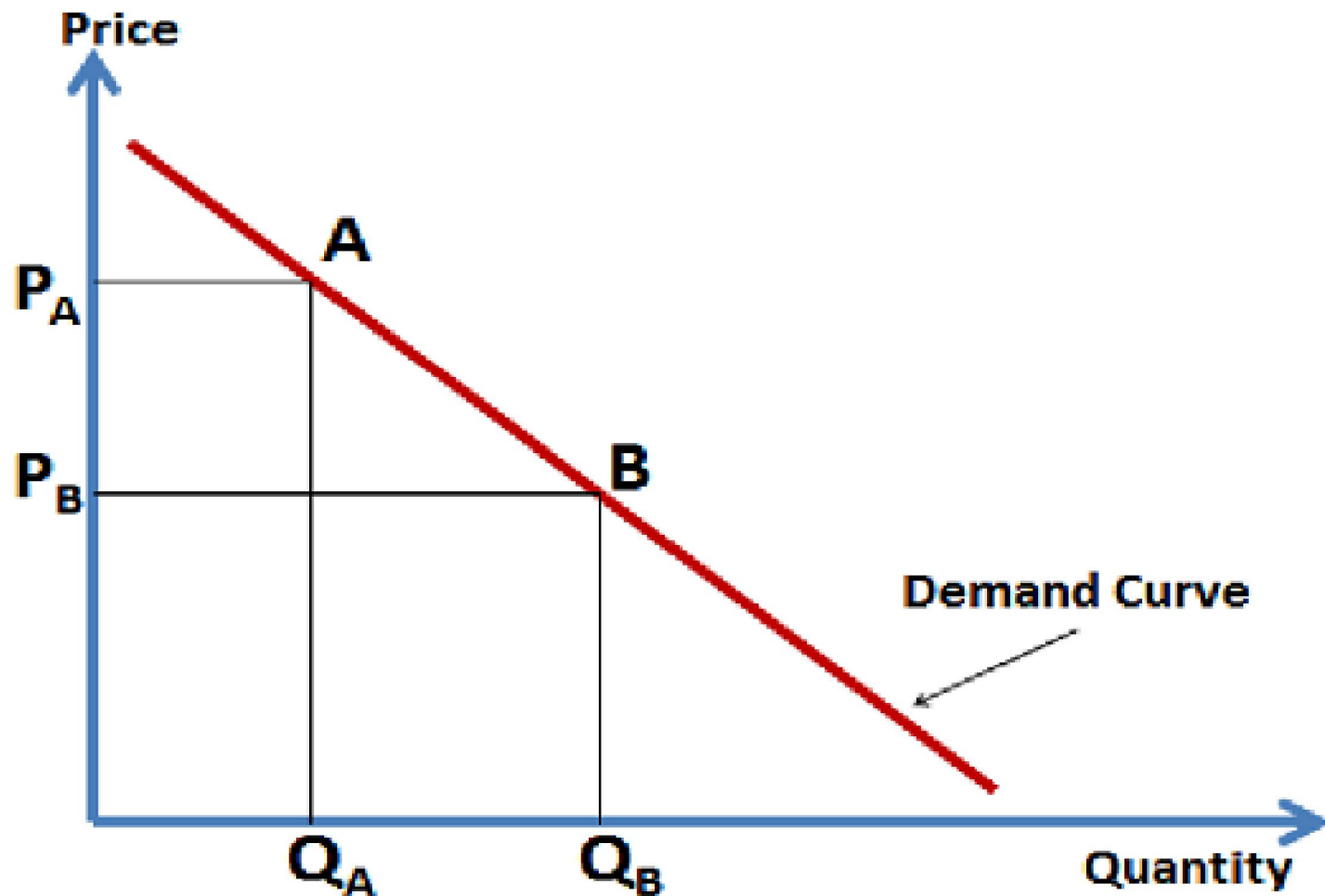


INDIVIDUAL DEMAND

- It refers to the quantity of a commodity which an individual consumer is willing to buy at a given price and in a given period of time.

PRICE	QUANTITY DEMANDED
50	1
40	2
30	3
20	4
10	5

- INDIVIDUAL DEMAND CURVE



MARKET DEMAND = HORIZONTAL SUMMATION OF INDIVIDUAL DEMANDS



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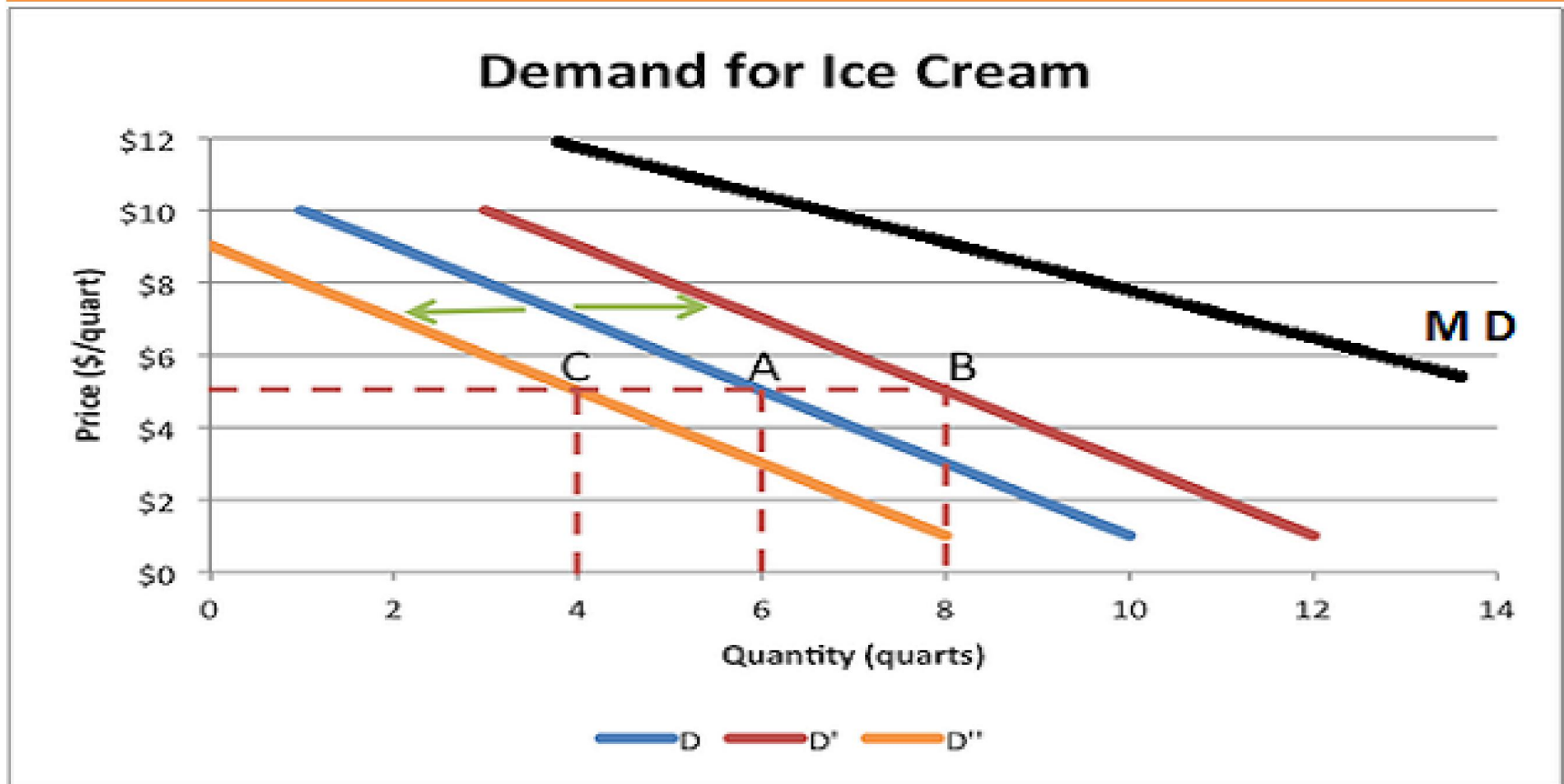
$$\begin{aligned} \text{MARKET} \\ \text{DEMAND} &= 2 + 1 \\ &+ 4 = 7 \text{ Kg} \end{aligned}$$

MARKET DEMAND

- It is the sum total of the quantities of a commodity demanded by all the consumers in a market at a given price and in a given period

PRICE	QUANTITY DEMANDED BY A	QUANTITY DEMANDED BY B	QUANTITY DEMANDED BY C	MARKET DEMAND
10	5	4	3	12
8	8	6	5	19
6	12	10	8	30
2	15	12	10	37

Market Demand Curve (MD) is flatter than Individual demand Curves (C,A,B) because Market Demand is the horizontal summation of individual demands.



CHANGE IN DEMAND

Rise or fall in demand due to factors other than price.

Rise in demand is called increase in demand and fall in demand is called decrease in demand

The demand curve will shift to the right in case of increase in demand and to the left in case of decrease in demand.

CHANGE IN QUANTITY DEMANDED

Rise or fall in price due to change in price

Rise in demand is called extension or expansion in demand and fall in demand is called contraction in demand.

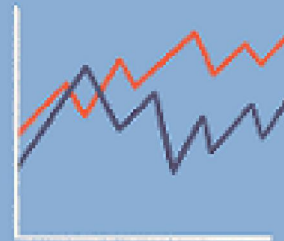
There is only a single demand curve. There will be rightward movement during expansion and leftward movement during contraction on the same

Factors That Cause a Demand Curve to Shift

(CHANGE IN DEMAND)



Income of the buyers



TASTES AND
PREFERENCES



Expectations of future price



The price of related goods



POPULATION

- **INCOME:** In the case of normal goods increase in income leads to increase in demand. In the case of inferior goods, increase in income leads to decrease in demand.
- **CHANGE IN TASTES HABITS AND FASHION:** This will also lead to change in demand.

Example: Students a days prefer ball point pens. So, the demand for ball point pens is increasing and the demand for ink fountain pen is decreasing

- **PRICE OF RELATED GOODS:** Substitute Goods and Complementary Goods are related Goods
- In the case of substitute goods, the increase in the price of one good will lead to increase in the demand for the other good.
- For Example: Tea and Coffee are substitute goods. If the price of tea rises, people will substitute tea with coffee. So, demand for coffee will increase.
- In the case of complementary goods, the rise in the price of one good will lead to fall in the demand for the other good.
- For example: Car and Petrol are complementary goods. Rise in the price of car will lead to fall in the demand for petrol.

- **POPULATION:** Increase in population leads to increase in demand for goods and services and decrease in population leads to decrease in demand for goods and services.
- **CREDIT FACILITIES:** If banks offer loans for purchasing costly goods like cars, their demand will increase. Absence of credit facilities may lead to fall in demand for costly goods.

NORMAL GOODS Vs INFERIOR GOODS

1. Normal Goods

- **As income increases, demand increases**
- **As income falls, demand falls**
- **Ex: Luxury cars, Sea Food, jewelry, homes**

2. Inferior Goods

- **As income increases, demand falls**
- **As income falls, demand increases**
- **Ex: Top Romen, used cars, used cloths,**



NORMAL GOODS ARE INCOME POSITIVE

Effect on Demand Curve of Normal Good due to Increase in income

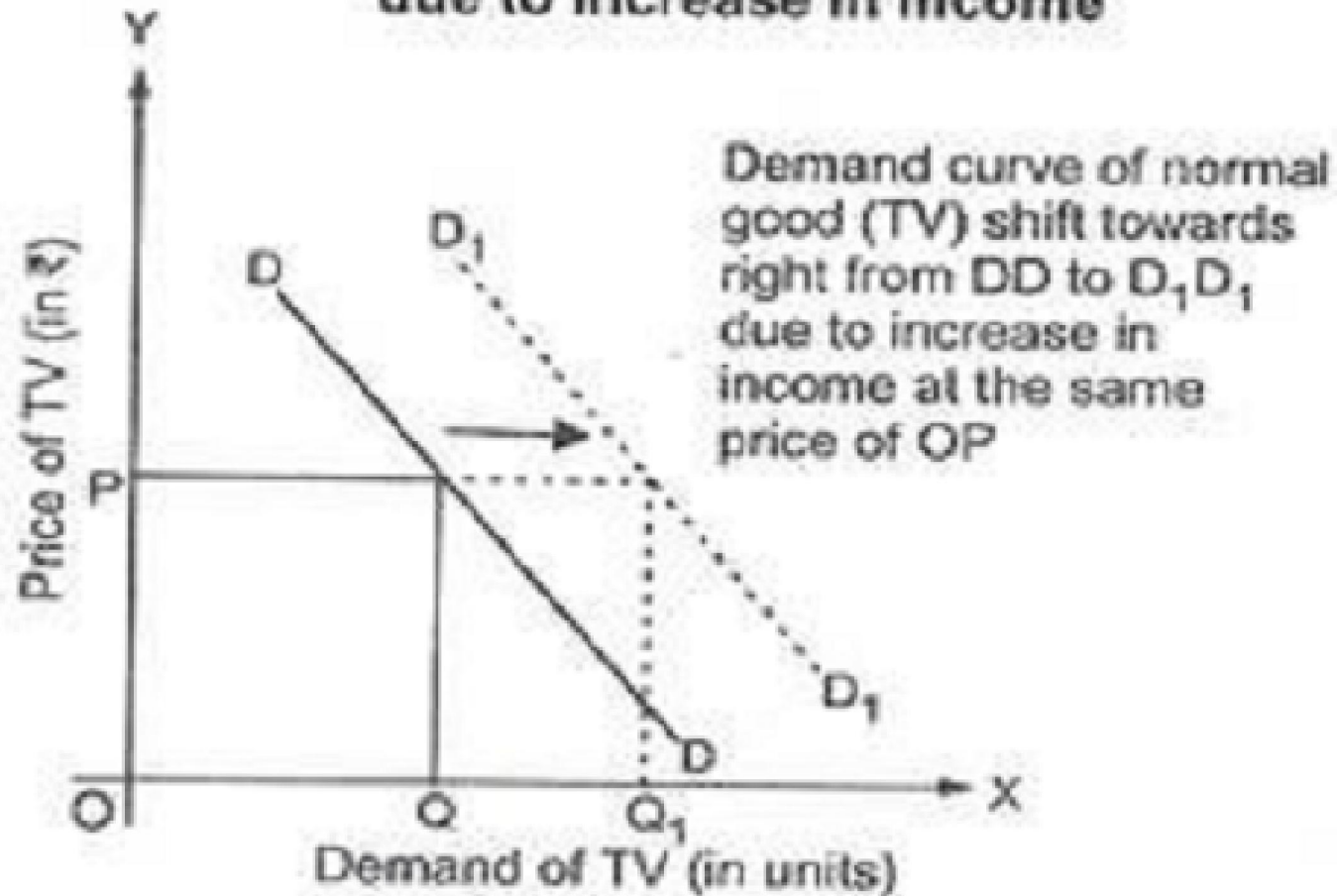


Fig. 3.18

INFERIOR GOODS ARE INCOME

