SNS COLLEGE OF TECHNOLOGY

An Autonomous Institution
Coimbatore-35

Department of Management Studies

23BBT603 – Managerial Economics

I MBA / I SEMESTER

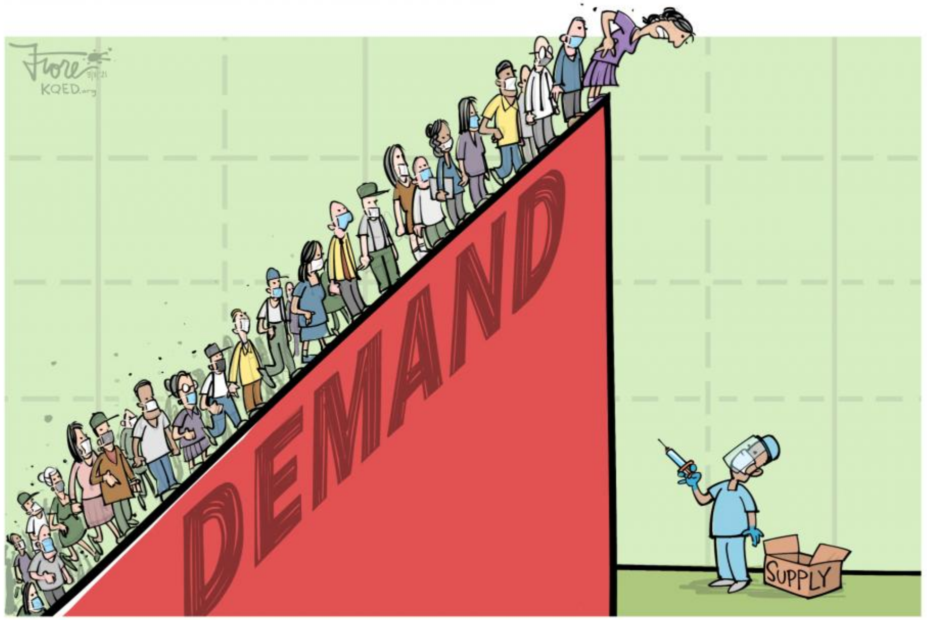
UNIT I : Fundamentals of Business Economics

Topic: Determinants of Demand

Introduction

- Demand for a product doesn't depend only on its price — it's shaped by several economic, psychological, and social factors.

- These factors are known as the Determinants of Demand, influencing how much consumers are willing and able to buy.



Price of the Commodity

- Primary determinant — as price decreases, demand typically increases (Law of Demand).

- Inverse relationship between price and quantity demanded.

Example:

A price drop in Netflix subscription increases new sign-ups.

Income of the Consumer

- When income rises, demand for most goods (normal goods) increases.
- For inferior goods, demand decreases with higher income.

Example:

As income grows, people buy fewer local bus tickets and prefer cabs or personal vehicles.

Price of Related Goods

- Substitute Goods: Demand for one rises if the other's price increases.

Example: Rise in Pepsi's price → Demand for Coke rises.

- Complementary Goods: Demand for one falls if the other's price rises.

Example: Rise in petrol price → Demand for cars decreases.

Consumer Tastes and Preferences

- Consumer lifestyle, trends, and advertising affect demand.
- Strong branding can shift consumer preference significantly.

Example:

The “eco-friendly” trend increased demand for paper straws and electric scooters.

Future Price Expectations

- ❖ If consumers expect prices to rise, they buy more now (increased current demand).
- ❖ If they expect a fall, they postpone purchases.

Example:

Gold purchases spike before anticipated price increases.

Population and Demographics

- Population growth expands market size.
- Demographic factors (age, gender, income levels) shape product categories.

Example:

India’s young population drives smartphone and apparel markets.

Government Policies and Economic Conditions

- Taxes, subsidies, and economic stability impact demand.
- Favorable government policies can boost certain sectors.

Example:

Subsidies on EVs increased their demand in India.

Design Thinking Connection

- Empathize: Understand what factors truly influence consumer demand.
- Define: Recognize key motivators — emotional, social, or financial.
- Ideate: Build customer-centric products that match those determinants.

Example:

Zomato personalized offers by analyzing user demand determinants (time, location, cuisine).

AI Relevance

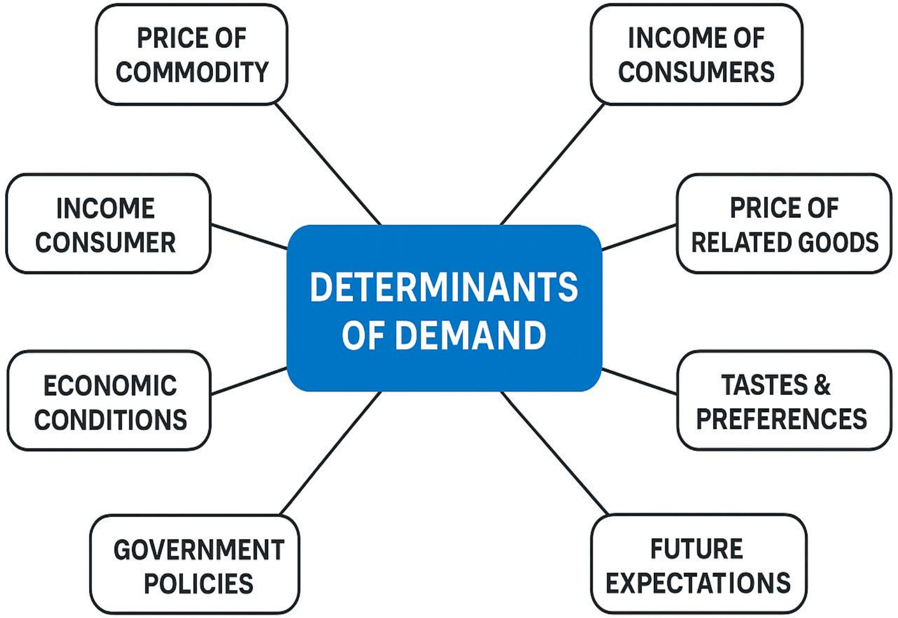
- ✓ AI-driven predictive analytics models estimate demand shifts based on determinants.
- ✓ Machine learning interprets the impact of price, income, and demographics on consumer behavior.

Example:

Amazon uses AI to adjust prices dynamically according to real-time demand drivers.

Summary

- Demand determinants explain why consumers buy what they buy.
- Understanding these helps firms in pricing, forecasting, and market segmentation.
- Integrating AI insights and Design Thinking empathy creates adaptive, demand-driven strategies.



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Thank you!