DEMAND ANALYSIS

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Demand

- Refers to the desire, backed by the necessary ability to pay.

- "The demand for a good at a given price is the quantity of it that can be bought per unit of time at the given price."

3 aspects of Demand

1. It is the **quantity** desired at a given price.

2. It is the demand at a **price** during a given time.

3. It is the quantity demanded per unit of **time**.

Determinants of Demand

- <u>Function of Demand</u> – The term "*function*" is employed to show "*determined*" and "*determinant*" relationship.

  Example - we say that the quantity of a good demanded is a function of its price

  $Q = f(p)$

  Where Q represents quantity demanded

  f means function, and

  p represents price of the good.

Important Determinants

- Price of the goods
- Income of the buyer
- Prices of Related Goods
- Tastes of the buyer
- Seasons prevailing at the time of purchase
- Fashion
- Advertisement and Sales promotion

Law of Demand

- “Other things being equal the greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers, or
- In other words, the amount demanded increases with a fall in price and diminishes with a rise in price“ - *Alfred Marshall*

Demand Schedule

- It refers to the series of quantities an individual is ready to buy at different prices.

Price of Apple Per Unit (Rs)	Quantity demanded of apples (in dozens)
5	1
4	2
3	3
2	4

- Assuming the individual to be rational in his purchasing behaviour.

Demand Curve

- The demand schedule is translated into a diagram known as the demand curve.

Market Demand

- It is derived by adding the quantities demanded by each consumer for the product in the market at a particular price.

- Market Demand Schedule.

- Market Demand Curve

Reasons for the Law of Demand

- Law of Diminishing Marginal Utility
- Substitution Effect
- Income Effect – Real Income
- New Consumers
- Several Uses
- Psychological Effects

Exceptions to the Law of Demand

- Conspicuous goods – Esteem goods
- Giffen goods – Inferior Goods
- Future expectations about prices
- Irrational Consumers
- Ignorance or Unawareness of Price

Types of demand

- Price Demand
- Income Demand and
- Cross Demand
  - Substitute goods
  - Complimentary goods

Price Demand

- It refers to the various quantities of the good which consumers will purchase at a given time and at certain hypothetical prices assuming that other conditions remain the same.
- We are generally concerned with price demand only.

Income demand:

- Income demand refers to the various quantities of a commodity that a consumer would buy at a given time at various levels of income. Generally, when the income increases, demand increases and vice versa.

Cross Demand

- When the demand of one commodity is related with the price of other commodity is called cross demand.
- The commodity may be substitute or complementary

Substitute goods

- Substitute goods are those goods which can be used in case of each other. For example, tea and coffee, Coca-cola and Pepsi
- In such case demand and price are positively related

Complementary goods

- Complementary goods are those goods which are jointly used to satisfy a want.
- Complementary goods are those which are incomplete without each other.
- These are things that go together, often used simultaneously.

Other types of demand

- Joint demand
- Composite demand
- Direct and Derived demand

Importance of the Law of Demand

- Price determination
- Useful to government
- Useful to farmers
- In the field of planning

Definitions of Price Elasticity of Demand

- According to **Alfred Marshall: "Elasticity of demand may be defined as the** percentage change in quantity demanded to the percentage change in price."
- According to **A.K. Cairncross : "The elasticity of demand for a commodity is the** rate at which quantity bought changes as the price changes."
- According to **J.M. Keynes : "The elasticity of demand is a measure of the relative** change in quantity to a relative change in price."
- According to **Kenneth Boulding** : "Elasticity of demand measures the responsiveness of demand to changes in price."

Perfectly Elastic Demand

- Perfectly elastic demand is said to happen when a little change in price leads to an infinite change in quantity demanded

Perfectly inelastic Demand

- Perfectly inelastic demand is opposite to perfectly elastic demand.
- Under the perfectly inelastic demand, irrespective of any rise or fall in price of a commodity, the quantity demanded remains the same.

Unitary Elastic Demand

The demand is said to be unitary elastic when a given proportionate change in the price level brings about an equal proportionate change in quantity demanded, The numerical value of unitary elastic demand is exactly one i.e.,

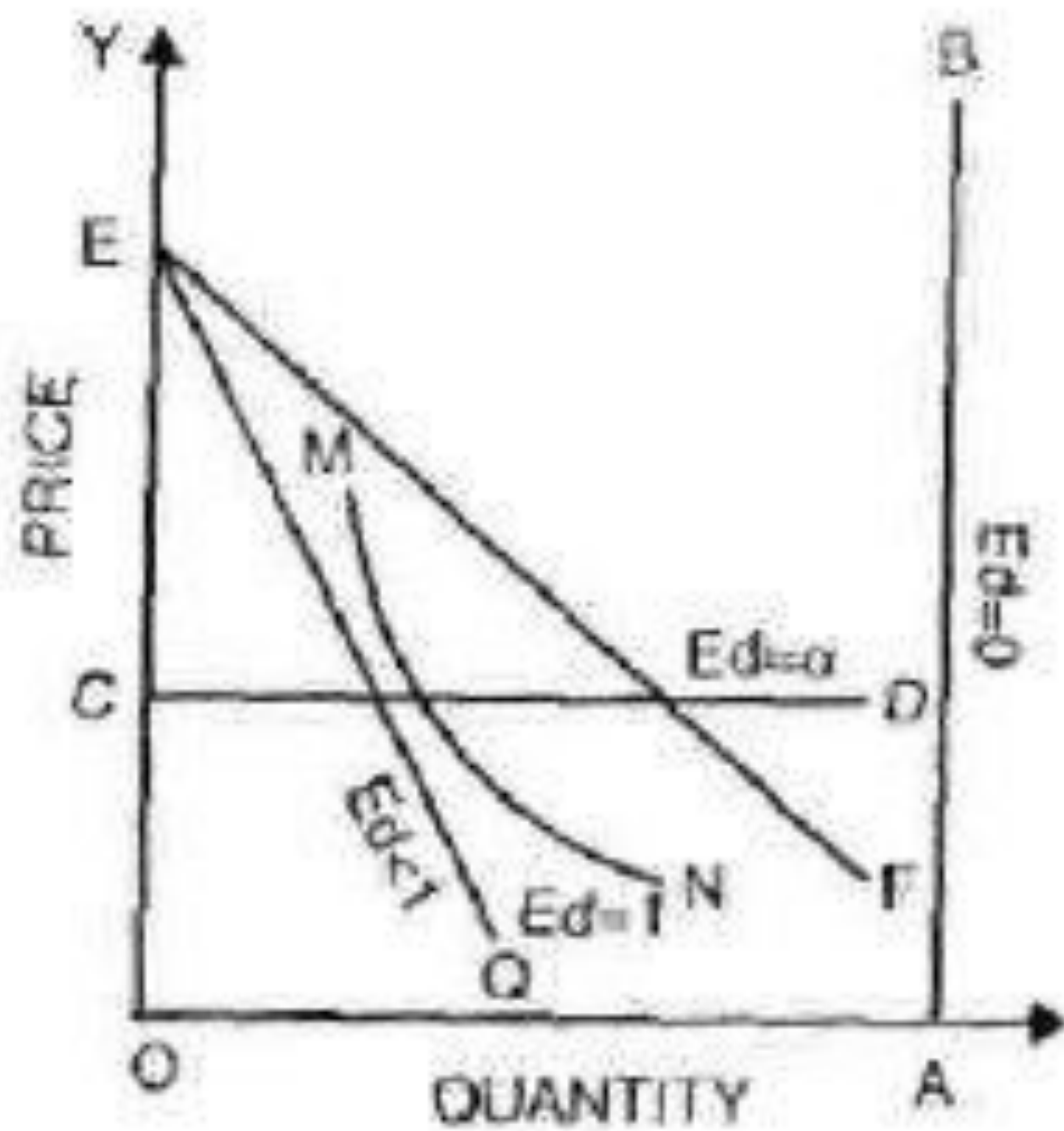
ed = 1.   Marshall calls it unit elasticity

Relatively Elastic Demand

- Relatively elastic demand refers to a situation in which a small change in price leads to a big change in quantity demanded.
- In such a case elasticity of demand is said to be more than one.

Relatively Inelastic Demand

- Under the relatively inelastic demand a given percentage change in price produces
- a relatively less percentage change in quantity demanded. In such a case elasticity of
- demand is said to be less than one



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