Meaning of Demand:

Demand for a commodity refers to the amount of a commodity which consumers are willing to buy and able to buy at a particular price during particular time period.

Explanation:

i) Why is demand called an effective desire?

Desire is a wish to have something and demand is an effective desire.

Demand = Desire + willingness to buy + ability to buy.

Desire is a wish to buy a commodity. When desire is backed by willingness to buy and ability to buy, it becomes demand. For example: I may have the desire to buy a car, but it will only become demand when I have ability to buy it and willing to spend money on car.

ii) Demand in economics is always at a price. Demand is always expressed in relation to a particular price.

iii) Demand is always expressed with reference to a particular time period.

Types of Demand

- Individual Demand and Market Demand
- Ex ante and Ex post Demand
- Joint Demand
- Derived Demand
- Composite Demand

Individual Demand and Market Demand

Individual Demand	Market Demand
The quantity of a commodity that an individual consumer is willing to buy at a given price during a given time period is known as Individual demand.	The total quantity of a commodity that all the households are willing to buy at a given price during a given time period is known as Market demand.

Ex ante and Ex post Demand

Ex ante Demand	Ex post Demand
i) It refers to the amount of goods that consumers are willing to buy during a particular time period.	i) Ex post demand refers to the amount of goods that the consumers actually purchase during a particular time period.
ii) Ex ante is the planned or desired amount of demand.	ii) Ex post demand is the amount of the goods actually bought.

Joint Demand: It refers to the demand for two or more goods which are used jointly or demanded together. For example – cars and petrol, Ink and pen, bread and butter. An increase in demand for cars leads to increase in the demand for petrol.

Derived Demand: The demand for a commodity that arises because of the demand for some other commodity is called derived demand. For example: When demand for houses or buildings increases, the demand for cement, steel, bricks also increases. Here demand for cement, steel, bricks is derived demand.

Composite Demand: Demand for goods that have multiple uses is called composite demand. For example: Demand for milk is composite demand. Milk is demanded for multiple purposes like preparing tea, coffee, sweets, ice cream, curd.

Determinants of Demand/ Factors Affecting Demand:

i) Price of the Commodity

ii) Income of the Consumer

iii) Consumers' Tastes and Preferences

iv) Prices of Related Goods

v) Consumer – Credit facilities

vi) Size and Composition of Population

vii) Distribution of Income

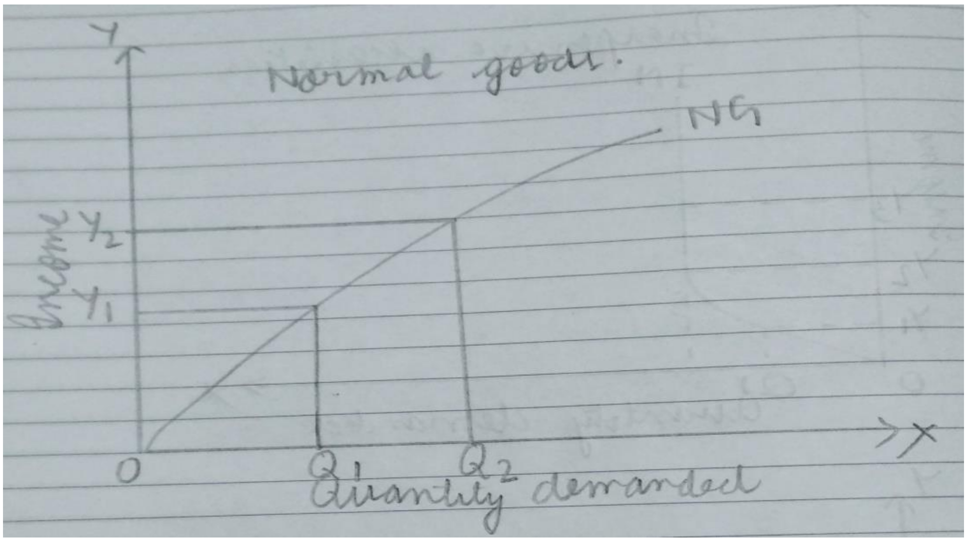
viii) Government Policy

i) **Price of the Commodity**: There is an inverse relationship between price of the commodity and quantity demanded. When the price of the commodity increases, the quantity demanded will decrease and when the price decreases, the quantity demanded will increase.

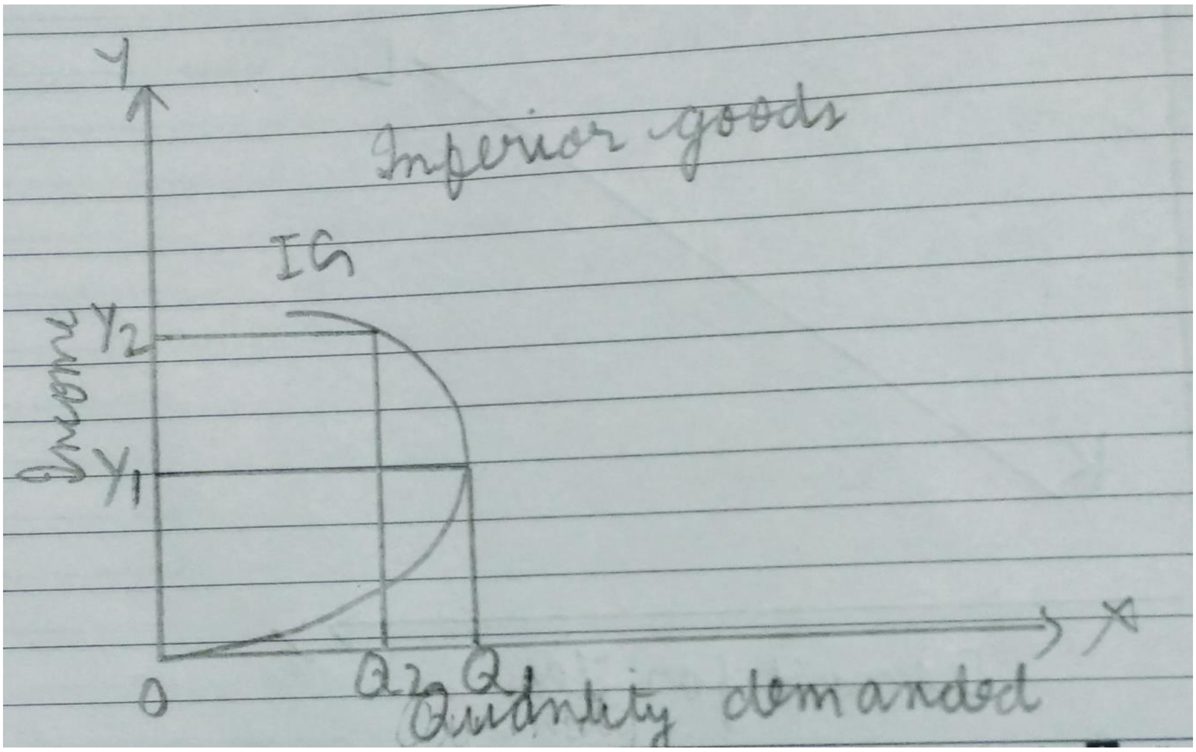
ii) Income of the Consumer: There is a direct relationship between income of the consumer and quantity demanded. With an increase in income of the consumer, the quantity demanded increases and with a decrease in income of the consumers, the quantity demanded decreases.
With respect to income, there are three types of commodities:

a) Normal goods
b) Inferior goods
c) Inexpensive necessities of life

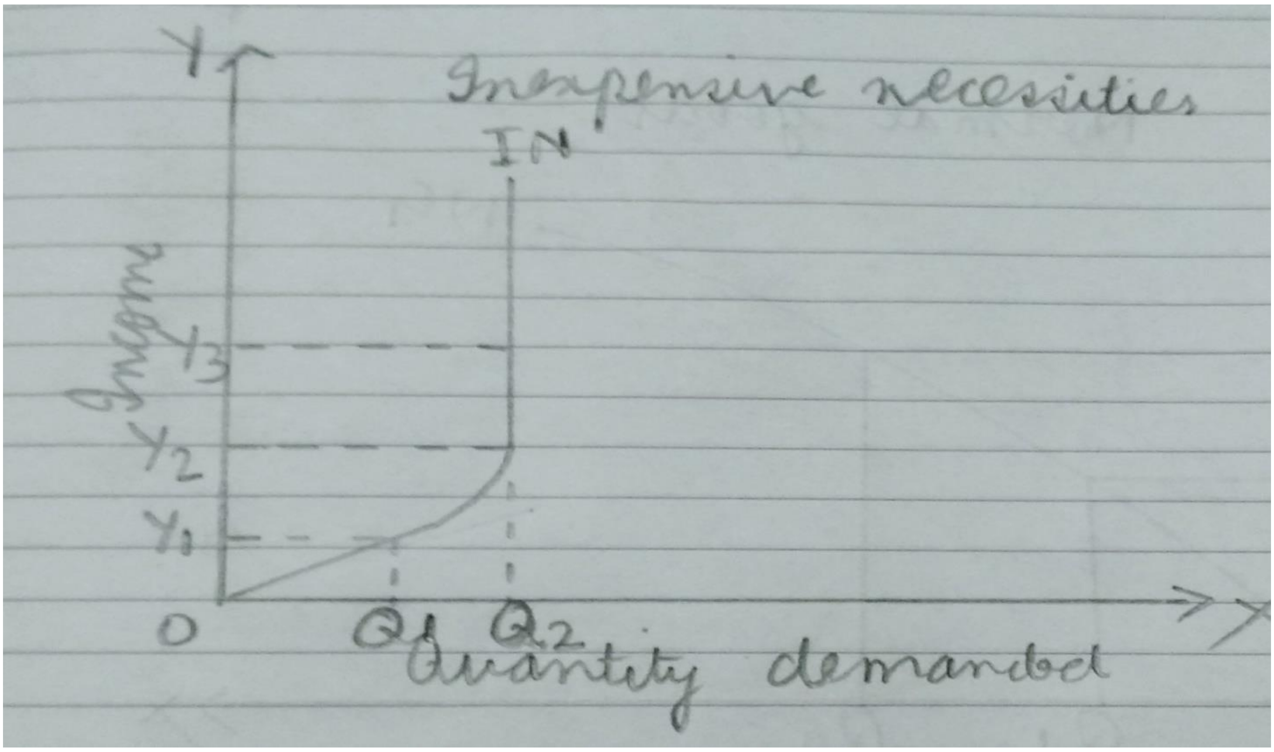
a) **Normal goods**: Normal goods are the goods, the demand for which increases with increase in income of the consumers and decreases with fall in income. For example: Television sets, phones, clothes are normal goods.



b) **Inferior goods**: Inferior goods are the goods, the demand for which falls with increase in income of the consumer. For example: Maize is an inferior good. When the income of the consumer increases, he will buy less of maize and substitute maize with a superior food like wheat.



c) **Inexpensive necessities of life**: In case of inexpensive necessities of life such as salt, soap, matchbox, the quantity demanded increases with increase in income up to a certain level and thereafter the quantity becomes constant irrespective of increase in income.

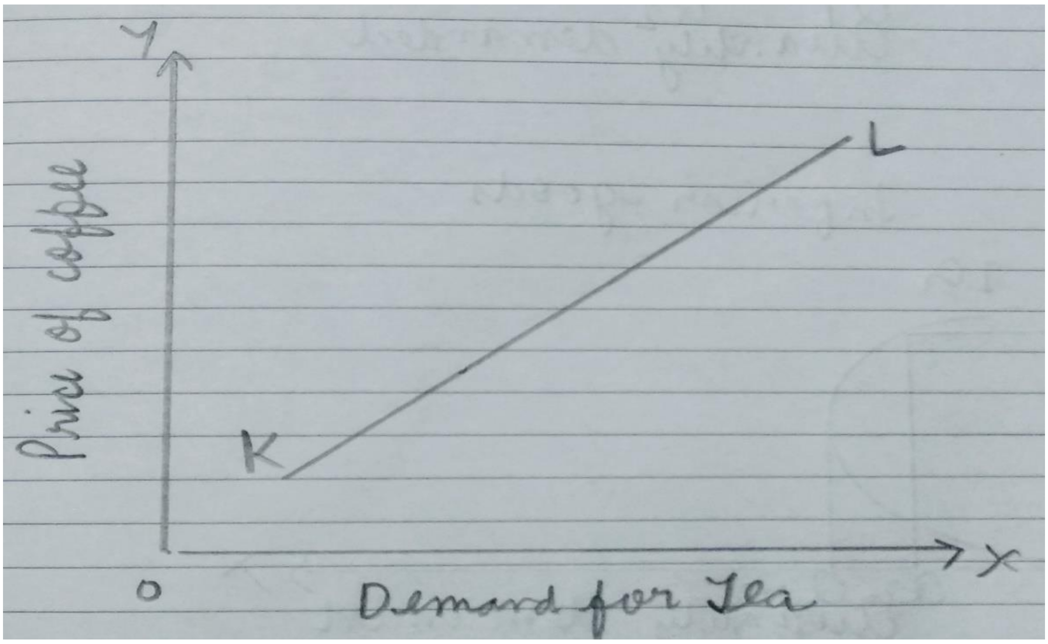


iii) <u>Consumers' Tastes and Preferences</u>: Taste and Preferences of consumers depend upon social customs, habits of the people, fashion, etc. These factors keep on changing resulting in changes of consumers' taste and preferences. For example: The physical fitness craze in India leads to increase in demand for gyms.

iv) <u>Prices of Related Goods</u>: Related goods can be classified into two categories:

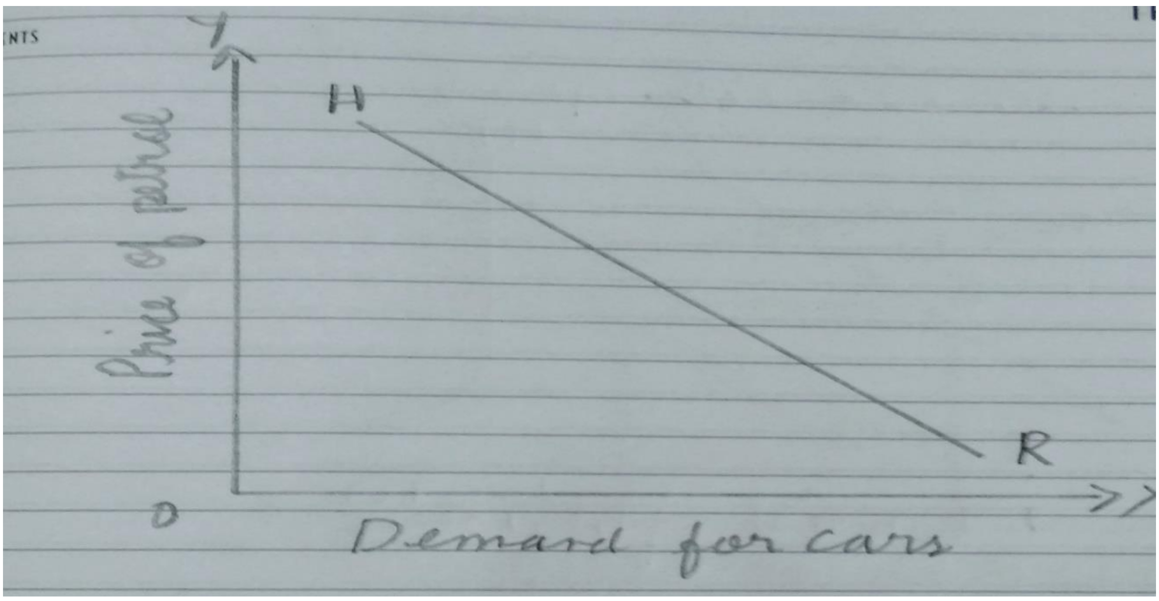
a) Substitute goods b) Complementary goods

a) **Substitute goods**: Those goods which satisfy the same type of need and hence can be used in place of one another to satisfy a given want are called substitute goods. For example – Tea and coffee, Coke and Pepsi



There is a direct relationship between demand for tea and price of substitute good coffee. When the price of coffee rises, consumers shift from coffee to tea and therefore the demand for tea increases.

b) **Complementary goods**: Complementary goods are the goods which are used jointly or consumed together to satisfy a given want. For example – Car and petrol, Ink and pen.



There is an inverse relationship between the demand for car and the price of petrol. When the price of petrol increases, the demand for petrol decreases and along with it demand for cars will also decrease.

v) Consumer – Credit facilities: If consumers are able to get easy credit facilities, loans for buying commodities, the demand for commodities will be more. For example: Home Loans are now easily available and this has increased the demand for houses in India.

vi) Size and Composition of Population: The population size of a country determines the number of consumers. An increase in the size of population will increase the demand for a commodity.

Composition of population also affects demand. Composition of population also affects demand. It means the number of children, adults, males, females, etc. The types of goods demanded by different people are different. For example: If the population comprises of old people, the demand for health and medical services will be more.

vii) Distribution of Income:

Distribution of income in the country also affects the demand for goods. If the distribution of income in a country is unequal, there will be more demand for luxury goods like cars. On the other hand, if the income is evenly distributed, there will be less demand for luxury goods and more demand for essential goods or necessities of life.

viii) Government Policy: Government Policy also influences demand for commodities. If the government imposes more taxes like GST on the commodities, the price of commodities will increase and hence the demand will fall. If taxes are reduced, demand for commodities will increase.

On the other hand, if the government incurs more expenditure on the construction of roads, bridges, the demand for the goods needed for construction will increase.

Demand Function:

Demand function states the relationship between the demand for a product and its determinants.

$Dn = f\ (Pn, Y, T, E, G.....)$

where Dn denotes Demand for a particular commodity

f shows functional relationship

Pn is the Price of commodity ‘n’

Y stands for Income of the Consumer

T stands for Taste and Preferences of the consumer

E is the consumers’ expectations

G is the Government Policy

Demand Schedule

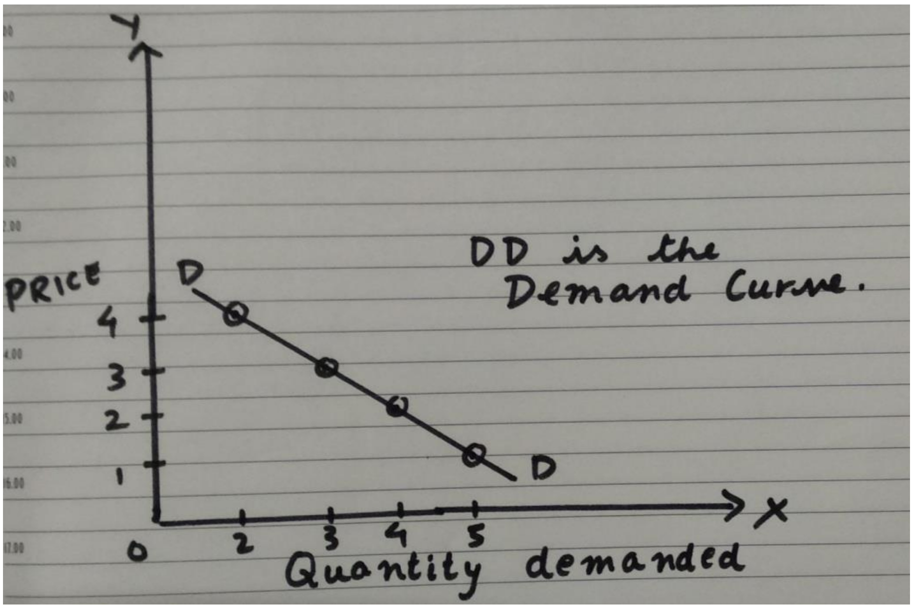
The Demand Schedule is a table that shows **different quantities** of a commodity that would be demanded at **different prices** during **given time period.**

There are two types of Demand Schedule

- Individual Demand Schedule
- Market Demand Schedule

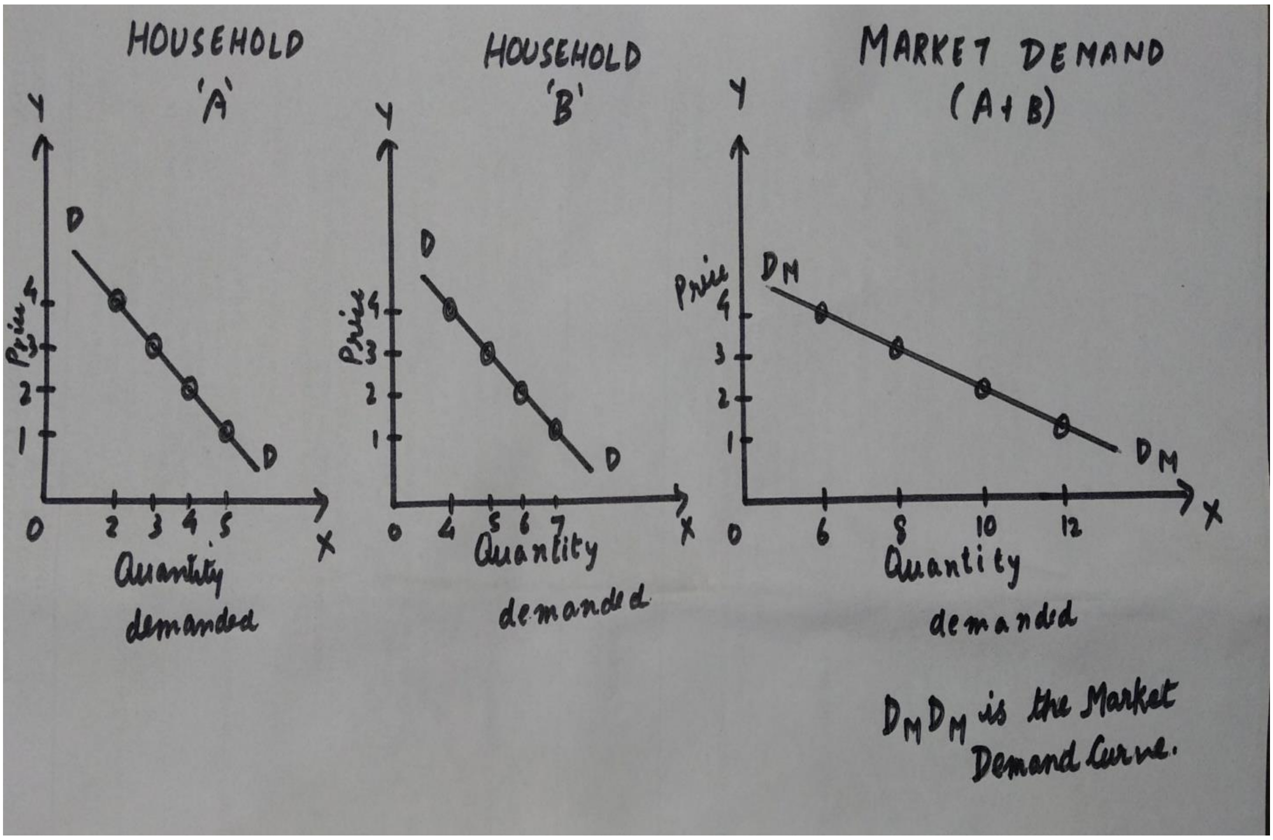
Individual Demand Schedule: It is the table which shows different quantities of a commodity that would be demanded at different prices by **one household** during given time period.

Price	**Quantity demanded**
1	**5**
2	**4**
3	**3**
4	**2**



Market Demand Schedule : It is the table which shows different quantities of a commodity that would be demanded at different prices by **<u>all the households (consumers)</u>** during given time period.

Price	Quantity demanded by 'A'	Quantity demanded by 'B'	Total Market Demand (A+B)
1	**5**	**7**	**5+7 = 12**
2	**4**	**6**	**4+6= 10**
3	**3**	**5**	**3+5 = 8**
4	**2**	**4**	**2+4 = 6**



Explain the Law of Demand with the help of a hypothetical schedule and diagram

<u>Law of Demand</u>

The Law of Demand states that, **other things remaining constant**, the quantity demanded of a commodity increases when its price falls and quantity demanded decreases when its price rises.

<u>Assumptions of Law of Demand:</u>

Ceteris Paribus (other things remaining constant), this signifies that all the factors affecting demand, other than its own price is assumed to be constant or remain unchanged.

i) No change in income of the consumer.

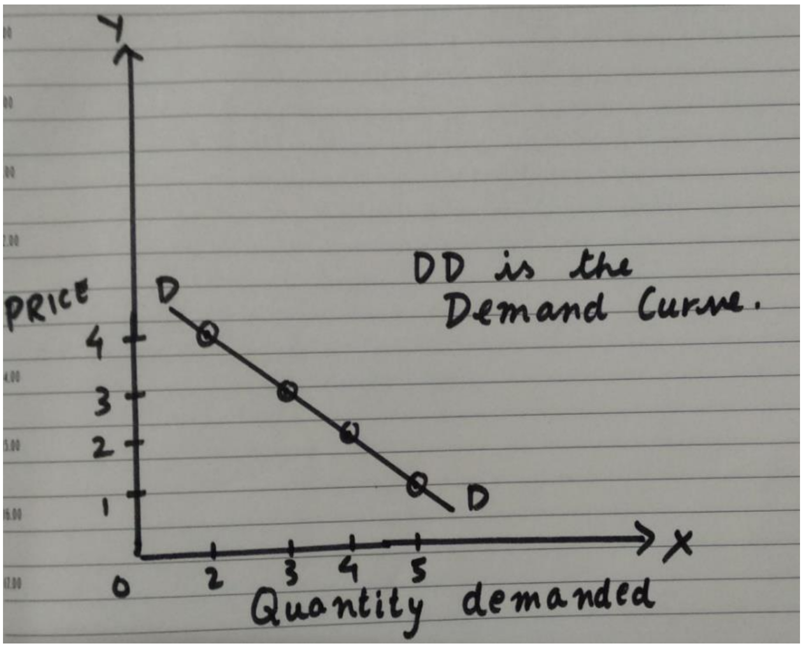
ii) No change in price of related commodities

iii) No change in taste and preferences of consumers.

iv) No change in size of population.

v) No change in Government policy.

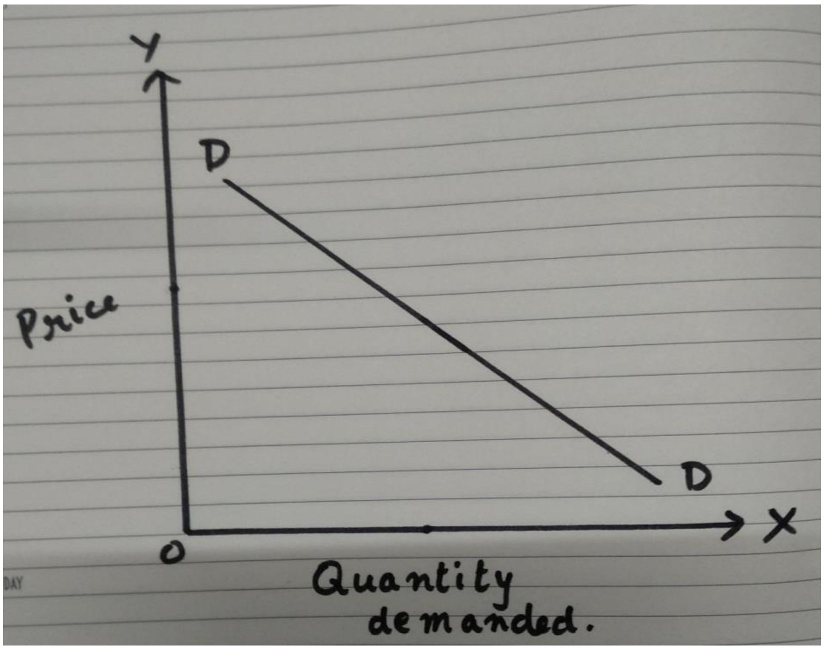
Price	**Quantity demanded**
1	**5**
2	**4**
3	**3**
4	**2**



Reasons for downward Slope of demand curve

Or Why does demand curve has a negative slope?

Or Why is there is an inverse relationship between price and demand?



The following are the reasons for downward slope of demand curve:

i) Law of Diminishing Marginal Utility

ii) Income effect

iii) Substitution effect

iv) Several uses of a commodity

i) Law of Diminishing Marginal Utility: The Law of Diminishing Marginal Utility states that as more and more units of a commodity are consumed, the satisfaction derived from each additional unit goes on decreasing. A rational consumer will only buy more quantity of a commodity when the price falls because the satisfaction derived from every additional unit goes on decreasing.

ii) Income effect: A change in demand because of change in real income resulting from fall in price of the commodity is called Income effect.

Price	Income	Real Income	Quantity demanded (Apples)
100	**1000**	**900**	**4**
40	**1000**	**960**	**5**

When the price of the commodity falls, there is an **increase in real income or purchasing power of the consumer increases.** With this increased real income, the consumer is able to buy more quantity of the commodity.

iii) Substitution effect: Substitution effect is the effect that a change in relative prices of substitute goods has on quantity demanded. For example: If the price of coffee falls and the price of tea remains the same, the quantity demanded for coffee will increase because consumers having tea will shift from tea to coffee.

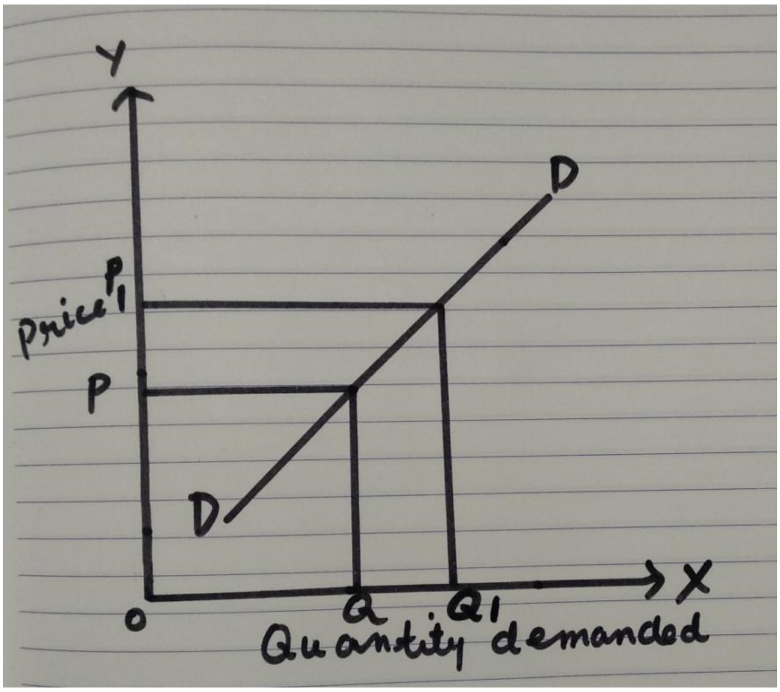
iv) Several uses of a commodity: There are some goods which can be put to different uses. For example: Milk can be used for different purposes like making tea, coffee, sweets, curd, butter. When the price of milk is high, it will be used for most important purposes like making tea. So, the demand for milk will be less.

On the other hand, when the price of milk is less, it will be used for other purposes as well. So, the demand for milk will increase.

Exceptions to the Law of Demand

Or

Describe the cases in which demand curve has upward slope



The following are the exceptions to the Law of demand:

i) Giffen goods

ii) Articles of Snob Appeal (Articles of Conspicuous Consumption)

iii) Expectations regarding future prices

iv) Emergencies

v) Quality – price Relationship or Veblen effect

i) Giffen goods: Giffen goods are the inferior goods on which consumers spends a large part of his income and the demand falls with fall in the price of the commodity.

For example: Maize and Jowar are inferior goods.

Price of Maize	Income	Real Income	Maize	Wheat
100	2000	1900	3	-
40	2000	1960	2	1

When the price of Maize falls, the real income of the consumer increases and with this increased real income, consumer will purchase superior foods like wheat and consume less of Maize.

When price of Maize falls, the quantity demanded of Maize also falls.

ii) Articles of Snob Appeal (Articles of Conspicuous Consumption): The Law of demand does not apply to the commodities which serve as 'status symbol'. Veblen termed these goods as articles of Conspicuous Consumption. Diamond is an example of such goods. Rich women will demand more of diamond when the price of diamond increases because the prestige value of diamond goes up.

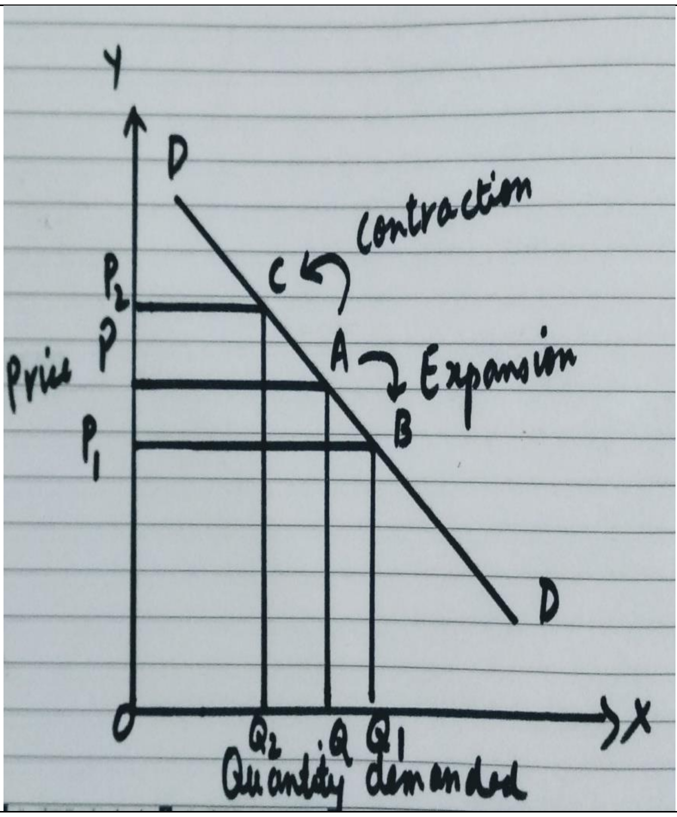
iii) Expectations regarding future prices: If the prices are high today and the price will rise more in the future, people will buy more even at existing high price today and store up the goods.

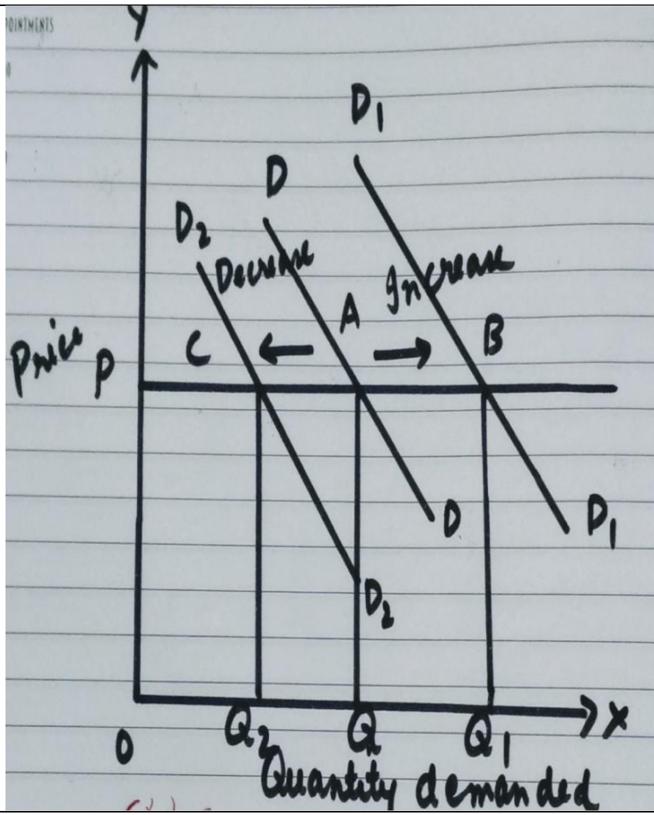
If the prices are low today, but it is expected to fall in future, people will buy less quantity even at lower prices today.

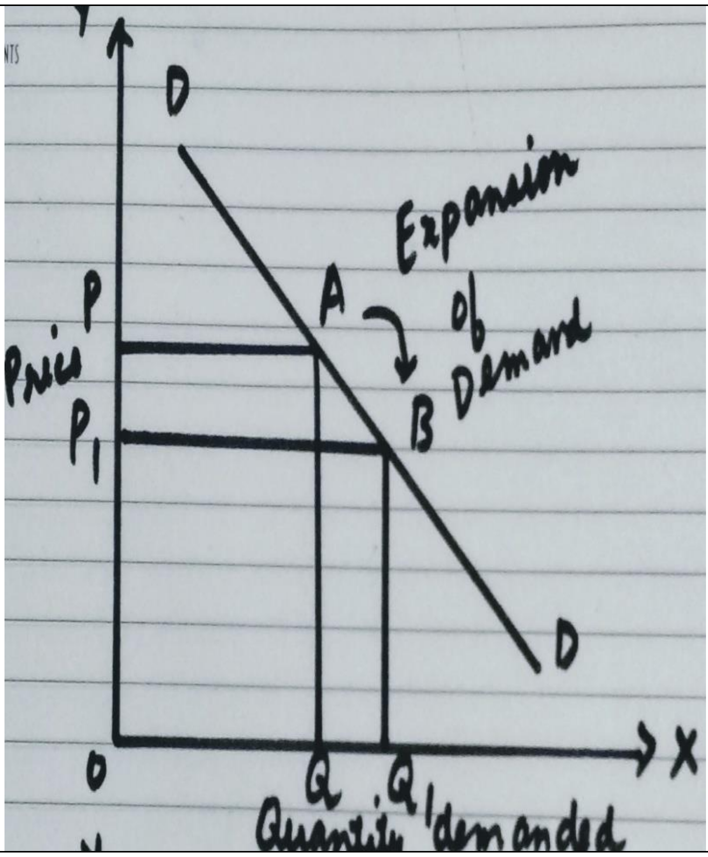
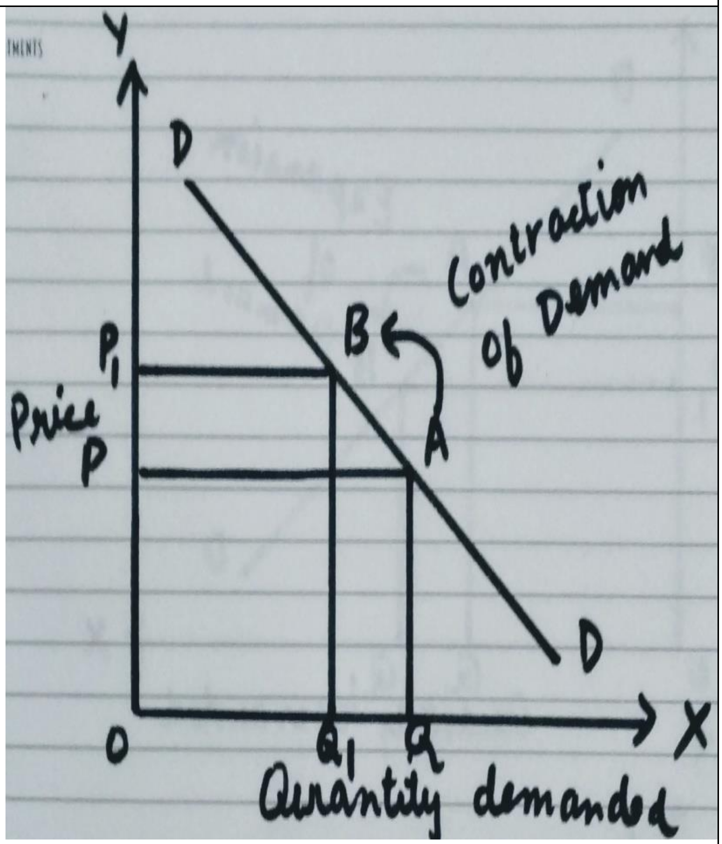
iv) Emergencies: Law of demand will not hold good during emergencies like war, famines. If the consumers expect shortage of goods, they will buy and hoard goods even at higher prices. For example: When lockdown was announced due to coronavirus, people started hoarding groceries fearing that there will be shortage of food items.

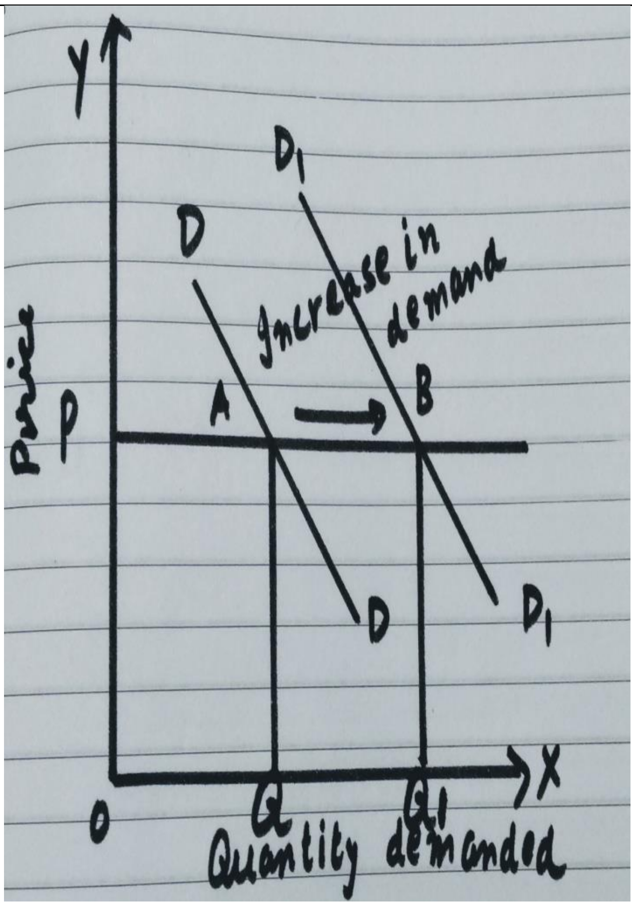
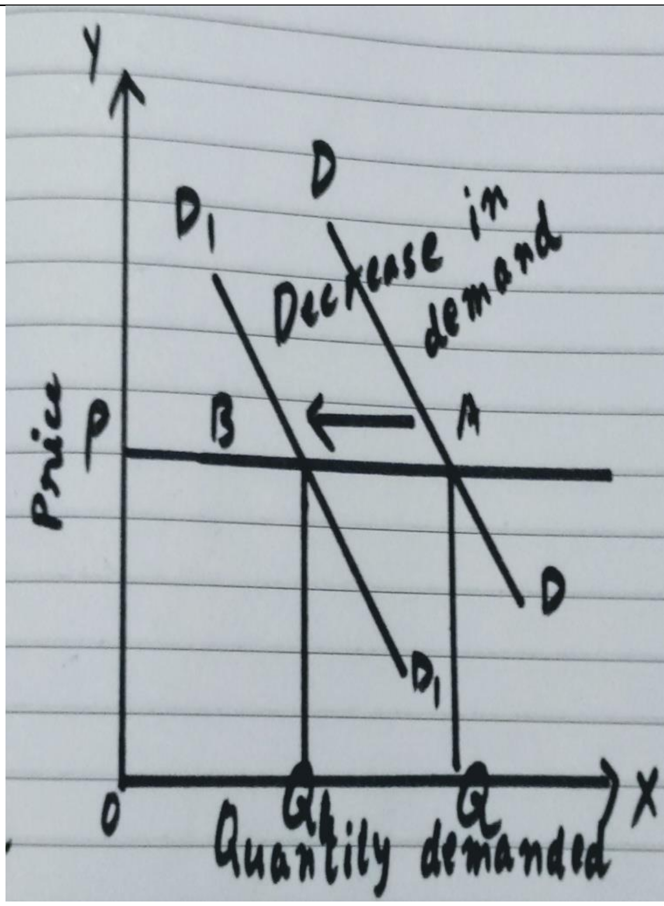
v) Quality – price Relationship or Veblen effect: Sometimes the consumers assume that high - priced goods are of higher quality than low – priced goods. More goods are demanded at higher price. For example: People demand more of 'Lux Supreme' having a higher price than 'ordinary Lux' having a lower price when both soap brands are almost of same quality. This is also known as Veblen effect.

Movement along the same demand curve or Change in Quantity demanded	**Shift in the Demand Curve Or Change In Demand**
i) When the quantity demanded falls or rises because of change in its own price, it is called <u>Change in Quantity demanded.</u>	i) When the quantity demanded increases or decreases because of change in other factors affecting demand, it is called <u>Change in Demand.</u>
ii) It is caused by <u>rise or fall in the own price</u> of the commodity.	ii) It is caused due to <u>change in other factors</u> affecting demand.
iii) It is of two types: Extension of Demand Contraction of Demand	iii) It is of two types: Increase in Demand Decrease in Demand
iv) There is upward or downward movement along the same demand curve	iv) There is leftward or rightward shift of the entire demand curve.





Expansion of Demand	Contraction of Demand
i) When the quantity demanded of a commodity **<u>increases due to fall in the own price</u>** of the commodity, it is called Extension or Expansion of Demand.	i) When the quantity demanded of a commodity **<u>decreases due to rise in the own price</u>** of the commodity, it is called Contraction of Demand.
ii) It occurs due to fall in own price of the commodity.	ii) It occurs due to rise in own price of the commodity.
iii) Expansion of Demand involves **<u>downward movement</u>** along the same demand curve.	iii) Contraction of Demand involves **<u>upward movement</u>** along the same demand curve.
	

Increase in Demand	Decrease in Demand
i) When the quantity demanded **increases** due to change in other factors affecting demand, it is called Increase in Demand.	i) When the quantity demanded **decreases** due to change in other factors affecting demand, it is called Decrease in Demand.
ii) Increase in demand results in **rightward shift** of the entire demand curve.	ii) Decrease in demand results in **leftward shift** of the entire demand curve.
 	

<table>
<tr><th>Expansion of Demand</th><th>Increase in Demand</th></tr>
<tr><td>i) When the quantity demanded of a commodity increases due to fall in the own price of the commodity, it is called Expansion of Demand.</td><td>i) When the quantity demanded increases due to change in other factors affecting demand, it is called Increase in Demand.</td></tr>
<tr><td>ii) It occurs due to <u>fall in own price</u> of the commodity.</td><td>ii) Increase in demand occurs due to <u>change in other factors</u> affecting demand.</td></tr>
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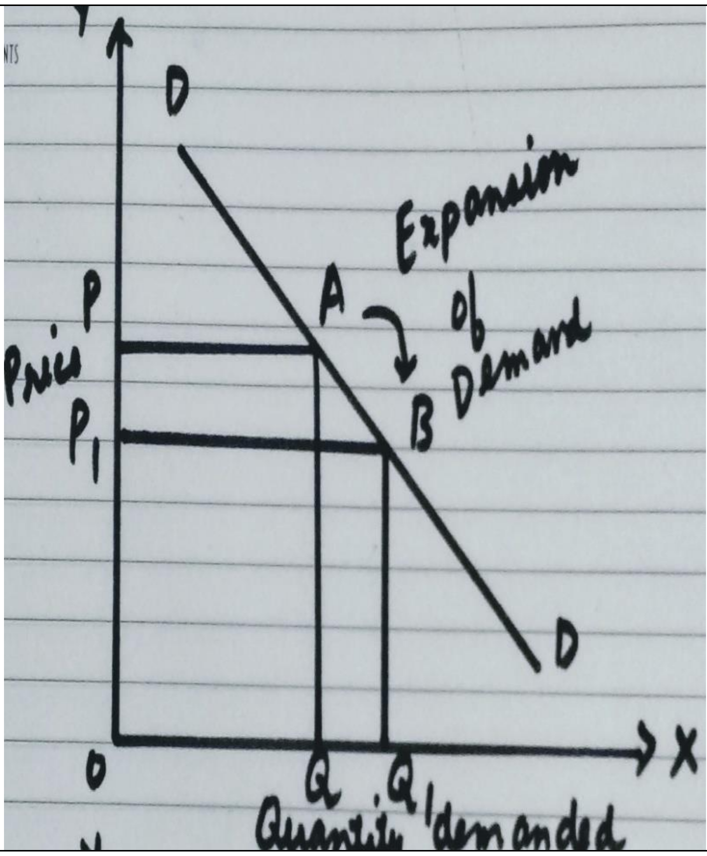
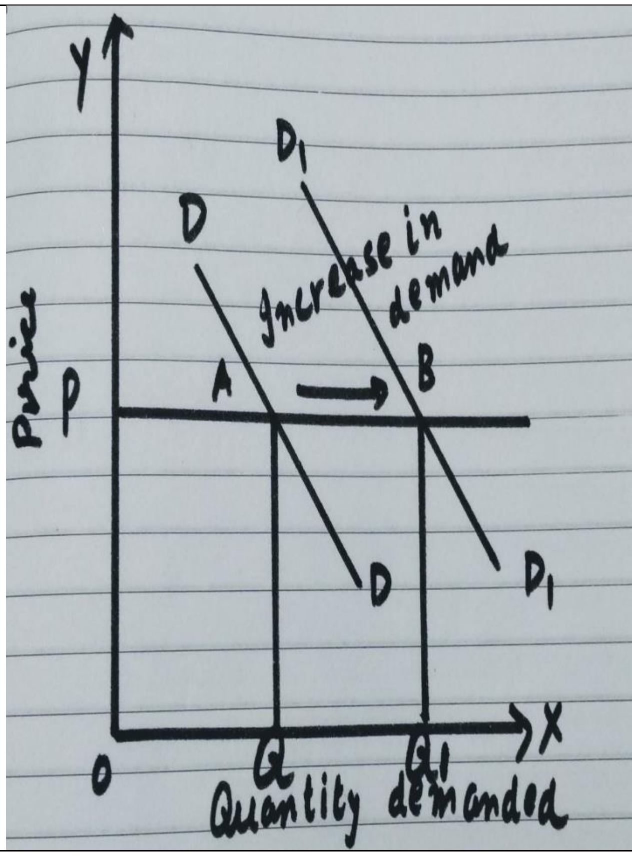
<tr><td>
</td><td>
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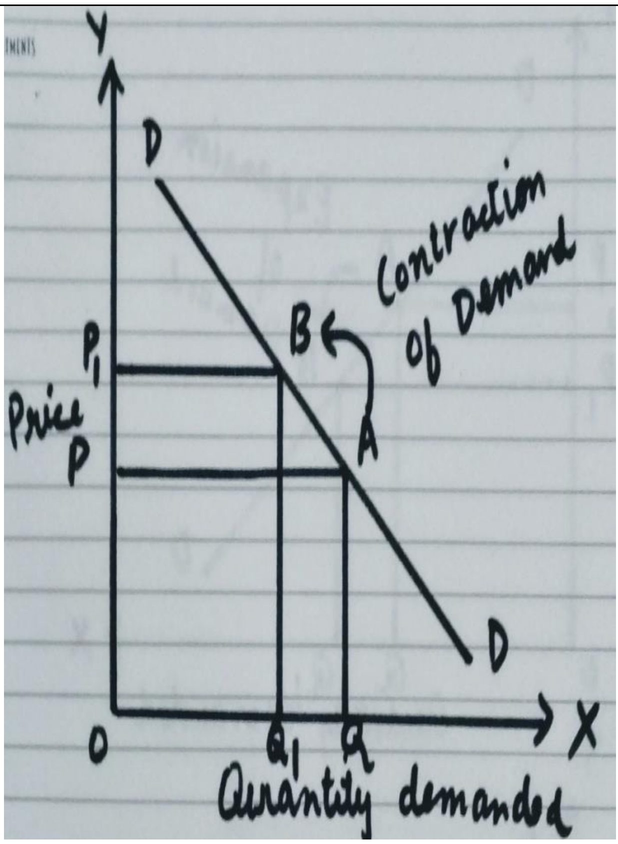
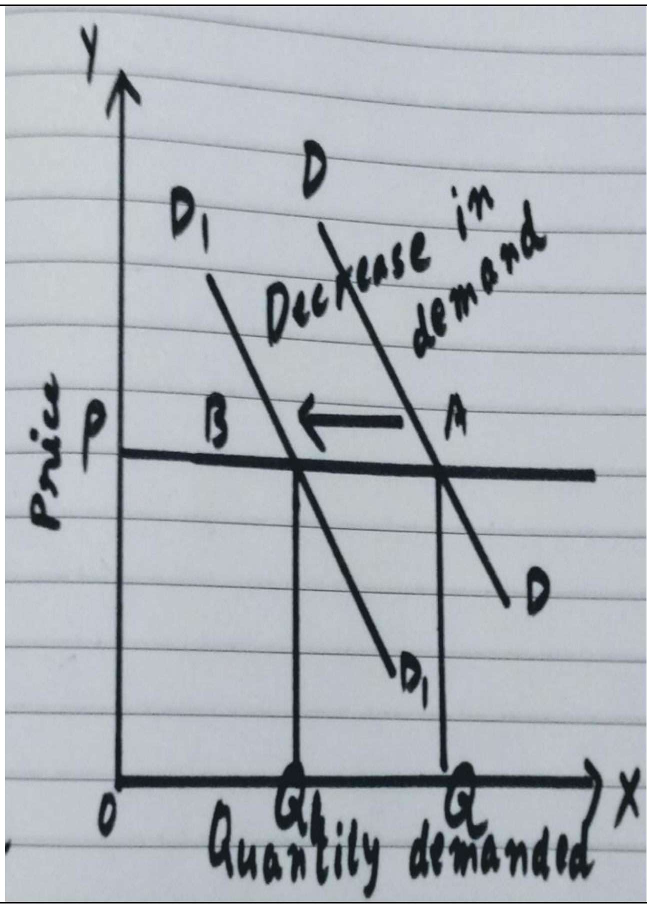
<tr><th>Contraction of Demand</th><th>Decrease in Demand</th></tr>
<tr><td>i) When the quantity demanded of a commodity decreases due to rise in the own price of the commodity, it is called Contraction of Demand.</td><td>i) When the quantity demanded decreases due to change in other factors affecting demand, it is called Decrease in Demand.</td></tr>
<tr><td>ii) It occurs due to <u>rise in own price</u> of the commodity.</td><td>ii) Decrease in demand occurs due to <u>change in other factors</u> affecting demand.</td></tr>
<tr><td>iii) Contraction of Demand involves <u>upward movement</u> along the same demand curve.</td><td>iii) Decrease in demand results in <u>leftward shift</u> of the entire demand curve.</td></tr>
<tr><td>
</td><td>
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Factors responsible for Increase in Demand (Rightward Shift of the Demand curve)

- Increase in Income
- Rise in the price of substitute goods
- Fall in the price of Complementary goods
- Favourable changes in Tastes and Preferences
- Increase in Population

Factors responsible for Decrease in Demand (Leftward Shift of the Demand curve)

- Decrease in Income
- Fall in the price of substitute goods
- Rise in the price of Complementary goods
- Unfavourable changes in Tastes and Preferences
- Decrease in Population