Lesson – 15
Demand

Summary

Concept of demand refers to understand consumer`s spending behavior of consumers to fulfill their needs and requirements. We have unlimited wants. Most of them can be satisfied by goods and services. Therefore, we purchase goods and services from the market. In other words, demand for a commodity or service depends upon its utility to satisfy want or desire and capability of the prospective consumer to pay for the good or service. In nutshell therefore we can state that - When desire is backed by willingness and ability to pay for a good ot service then it becomes Demand for the good or service. Conceptually, demand is nothing but consumer's readiness to satisfy desire by paying for goods or services. A desire accompanied by ability and willingness to pay makes a real or effective demand. Let us discuss various aspects.

Meaning of Demand

- Demand for a commodity refers to the quantity of a commodity that a consumer is willing to buy at a given price during a given period of time.
- The definition of demand highlights three essential elements of demand –

a) Price of the commodity
b) Quantity of the commodity
c) Period of time - the time period may be a day, a week, a month, a year or any other period.

Individual Demand and Market Demand -

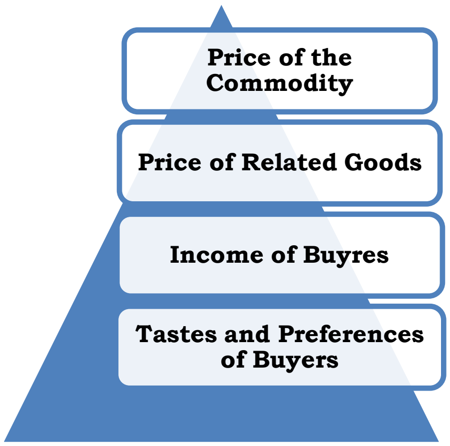
Individual Demand

- Individual demand for a commodity refers to the quantity of the commodity that an individual buyer is willing to buy at a given price during a given period of time.

Market Demand

- Market demand for a good means the total quantity of a commodity that all the buyers of the good are willing to buy at a given price over a given time period.
- In other words, market demand refers summation of quantity demanded by all individuals.

Factors Affecting Individual Demand for a Commodity



Price of the Commodity

- Other things remaining the same, there is an inverse relationship between the price of a commodity and its quantity demanded by its buyers.
- **Price of Related Goods**

Related goods can be of two types –
a) Substitute Goods

- Substitute goods are those goods which can easily be used in place of one another for satisfaction of a particular want, like tea and coffee.

b) Complementary Goods

- Complementary goods are those goods which are used together to satisfy a particular want like car and petrol.

Income of the Buyer of Commodity

- Demand for **normal goods** is directly related to the income of the buyer but demand for **inferior goods** is inversely related to the income of the buyer.

Tastes and Preferences of Buyers

- The demand for a commodity is also affected by the tastes and preferences of the buyers. They include change in **fashion, customs, habits** etc

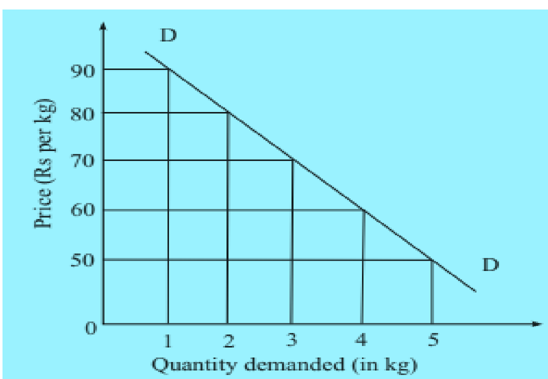
Factors Affecting Market Demand for a Commodity

- **Price of the Commodity**
- **Price of Related Goods**
- **Income of the Buyer of Commodity**
- **Tastes and Preferences of Buyers**
- **Number of Buyers in the Market (Population)**
- **Distribution of Income and Wealth**
- **Season and Weather Conditions**

Individual Demand Schedule and Curve

- Individual demand schedule is a tabular presentation which shows different quantities of a commodity demanded by an individual buyer at different prices.

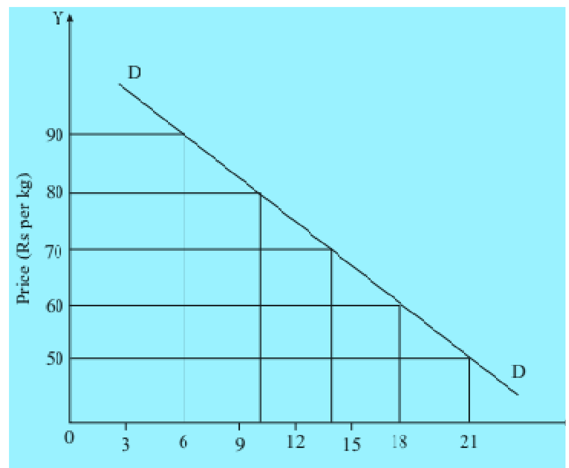
Price of Apples Per kg (Rs.)	**Quantity Demanded Per Week in kg**
90	**1**
80	**2**
70	**3**
60	**4**
50	**5**



Market Demand Schedule and Curve

- Market dem
and schedule is a tabulation of the quantity of a good that all consumers in a market will purchase at a given price.
- Summation of individual demand curve is known as

Price of X Good	QD by Mr. A	QD by Mr. B	QD by Mr. C	Market Demand of X (A+B+C)
90	1	3	2	1+3+2 = 6
80	2	5	3	2+5+3 = 10
70	3	7	4	3+7+5 = 15
60	4	9	5	4+9+5 = 18
50	5	11	6	5+11+6 =22



Law of Demand

Statement -

Other things remaining same, quantity demanded of a commodity is inversely related to its price.

Assumptions of Law

- Prices of substitute goods do not change.
- Prices of complementary goods do not change.
- Income of the buyer remains the same.
- There is no change in tastes and preferences of the buyer.

Reasons for the Operation of Law of Demand

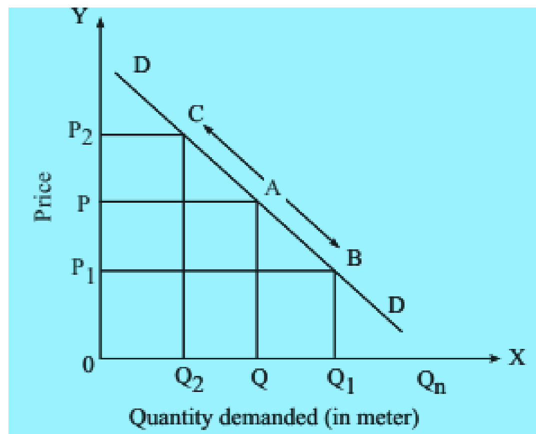
- Basis of Law of Diminishing Marginal Utility.
- Income Effect.
- Substitution Effect.
- Change in Number of Buyer.
- Diverse Uses of a Commodity

Exceptions to the Law of Demand

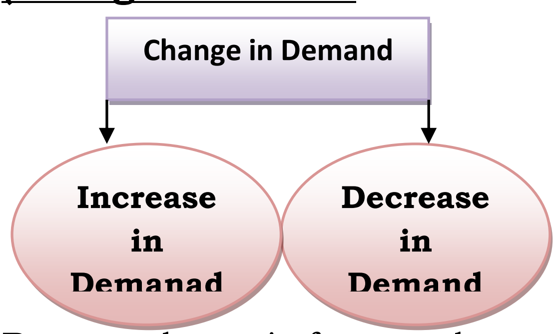
- Giffen Goods - Giffen goods do not follow law of demand as their demand rises when their price rises. Examples of Giffen goods are jowar and bajra etc.
- Status Symbol Goods - Some goods are used by rich people as status symbols, e.g. diamonds, gold jewellary etc. in which law of demand is not applicable.
- Necessities - Commodities such as medicines, salt, wheat etc. do not follow law of demand.
- Goods Expected to be Scarce - When the buyers expect a scarcity of a particular good in near future, they start buying more and more of that goods.

Movement Along the Demand Curve(Change in Quantity Demanded

- Movement along demand curve can be easily understood graphically
- Upward movement along the same demand curve is called contraction of demand or decrease in quantity demanded
- Downward movement along the same demand curve is known as expansion of demand or increase in quantity demanded.



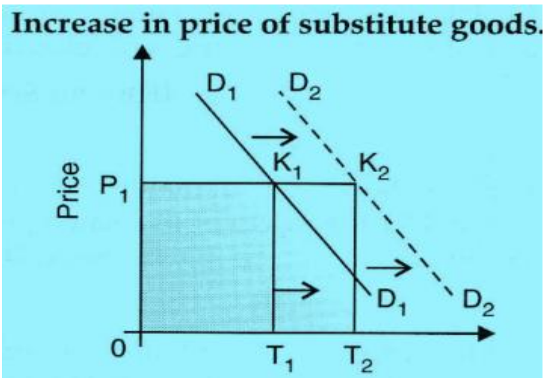
Shift in Demand Curve (Change in Deman



Reason- change in factors other than price shift demand curve either in rightward or leftward direction.

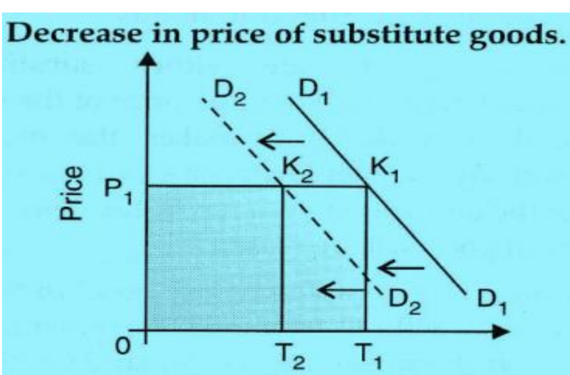
Increase in Demand –

Price of Apples(Rs.)	Q D of Apples In K.G.	Q D of Apples In K.G.
90	1	2
80	2	3
70	3	4



Decrease in Demand –

Price of Apples(Rs.)	Q D of Apples In K.G.	Q D of Apples In K.G.
70	3	2
60	4	3
50	5	4



The above example will help you to show the effect of other factors on increase and decrease in demand

Evaluate Yourself

Q. List out four factors which determine individual demand for a commodity.

Q. Distinguish between extension of demand and increase of demand.

Q. Explain law of demand with the help of schedule and diagram.

Q.“Demand curve always slopes downward.” Give reasons.