CHAPTER- 3

Demand

Q.1 what is demand? Discuss the determination of demand?

Ans:-In the ordinary sense the term demand is conceived as a desire to possess a particular thing. But in economics demand is not the same thing as desire. In economics however demand is an effective desire. Desire becomes effective when it is backed by ability and willingness to pay for the goods. In other words, demand in economics implies three things.

(i)Desire for the commodity.

(ii)Ability to pay price, means the person should have adequate purchasing power.

(iii)Willingness to pay its price.

Further, demand is not an absolute term but it is a relative concept. Demand for any commodity should have always in reference to price, place and time. Therefore, to speak of demand without reference to price, place and time is meaningless.

- Determinants of Demand:

The price of a commodity is determined by the inter play between its Demand and supply. It is therefore necessary to look in to the nature of demand and supply. Here we are concerned with the theory of demand which attempts to identify the determinant of demand for a commodity. In practice demand for a commodity depends on number of factors. This factors are known as determinants of demand. The main determinants of demand are as follows-

1.The price of the commodity:-

Basically the demand of any commodity depends upon the price charge for it. Usually higher the price the lower the quantity demanded and lower the price the higher will be quality demanded. In this way price is one of the important determinants of the demand.

2.Income of the individual:-

The demand for a commodity influence by the income of the individual because a person would not be purchases any commodity which is out of their income limit. Generally larger the income the greater will be the quantity demanded. At present, demand for commodities does not contract in India inspite of price rise because monetary income is increasing rapidly.

3.The individuals habits, tastes and preferences:-

Habit, tastes and preferences of a individual can have a powerful influence on the level of demand for a commodity. If a particular commodity comes in to fashion it will be demanded in large quantity even if its price is high.similary if a particular commodity goes out of fashion it will be demanded in small quantity even if its price is low-

4.Prices of related commodity:-

Demand for a commodity is also influence, by the level of price of other related commodity related. commodity means either substitute or complementary goods.

For Example:- Lux and Liril are substitute commodity. If the price of Lux falls some people will substitute Lux for LIril. Thus, demand for liril decreases now takes an example of complementary goods.

For Example:-The scooter and petrol are complementary goods. If the price of scooter falls more scooter will be bought, At the same time demand for petrol will also increase .Though its Price is constant.

5.size of the population:-

Total demand for a commodity depends upon the number of its customers. If the number of its customers increases, the demand for commodity will increase. The number of customer depends upon the size of population.

For Example:-The number of customer of wheat will increase with the growth of population in the country. Hence, demand for wheat will increase.

6.Expectation about future price:-

Demand for a commodity will depend on people's expectation about its future price and availability.

For Example:-Demand for groundnut oil will increase inspite of its high price at present. If people expect, price will increase more in future.

7. Income Distribution:-

The pattern of demand for commodity depends upon the pattern of income distribution among various class of the society. If the income inequality increases the pattern of demand will change in favour of luxury.If the inequality is reduced and purchasing power shift from rich to poor overall demand will rise.When the above mentioned factors change the general demand pattern will be affected and there will be change in market demand as a whole.

Q.2 Short note on Demand Function:-

Ans:-The term function is basically derived from the terminology of mathematics. The demand function expresses the functional relationships between demand and its determinants.Thus demand function can be expressed as given below:

Dx is a function of Px, Y,Py, A

Dx=F(PX,Y,PY,A).

Here,

DX = Demand of x Commodity

F = Function

Y = Income of buyers

PY = Price of related commodity y

A = Advertisement

Px = price of x commodity

The above stated demand function is complicated one.Economist therefore adopt very simple statement of demand function assuming all other variable except price to be constaut.thus,an over simplified demand function is Dx=f (px).This indicates that the demand for X commodity is the function of its price. the traditional demand theory deals with this demand function.in this function DX is a dependent variable and PX is a indipendent vriable and both are related with functional relation.

Q.3 Demand Schedule:- (short note)

Ans:- Demand schedule is a tabular statement,showing quantities of a commodity demanded at different prices.It represent functional relationship between price and quantity demanded.Demand schedual are of two types.They are as under:-

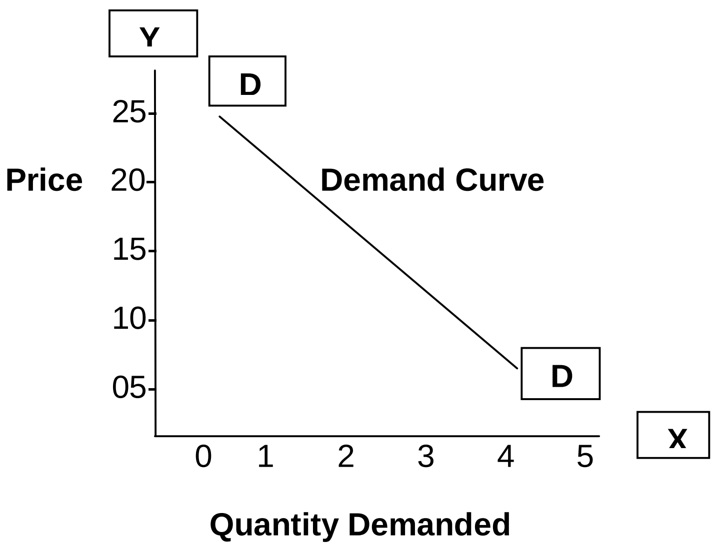
1.Individual Demand Schedule:-individual demand schedule show the quantity of commodity that a person will buy at different prices.In other words,it shows relationship between the price and quantity demand by an individual ,we can represent individual demand schedule as follows:-

Price of Commodity	Quantity demand by an individuals
5	5
10	4
15	3
20	2
25	1

In this way, most of the demand schedule shows inverse relationship between price & quantity demand.

It will be noted that the given demand schedule is **purely hypothetical**. A real demand schedule for any commodity is very different to estimate.

On the basis, of above given schedule we can draw individual demand curve as follows:-



The slopes of individual demand curve is downward from left to right, it indicates that lower the price, greater would be quantity demanded. And at higher the price smaller would be the quantity demanded.

2. **Market demand schedule:-**

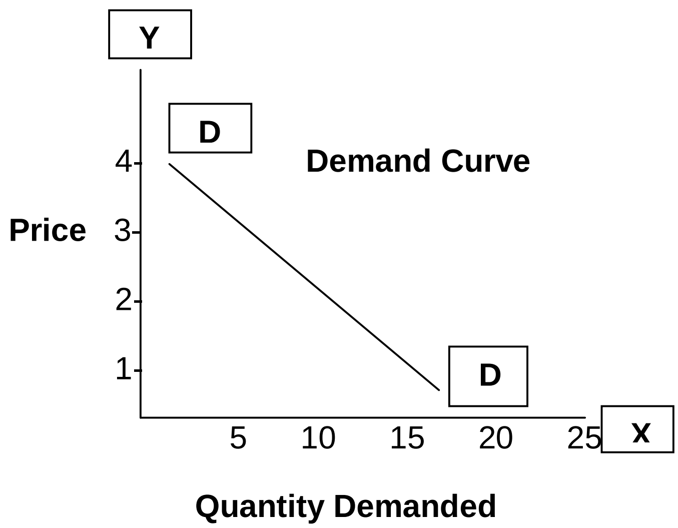
In any market, there is a large no. of buyers. Each of them has their own Demand schedule. The sum of these demand schedules Constitute market demand schedule. Thus, market demand schedule may be defined as a Schedule indicating various amount of commodity that would be purchased by all the buyers at various prices.

Here, we assume that there are three buyers in the market and their demand schedules are as follows:-

Per unit price	Unit purchased by 'A'	Unit purchased by 'B'	Unit purchased by 'C'	Total market demand
1	3	5	7	15
2	2	3	5	10
3	1	2	2	5

Above mentioned market demand schedule represents total demand for the commodity at various prices. Usually the market demand schedule denotes decreasing functional relational ship between price and quantity demanded. It refers to general tendency of the consumers that more will be bought at low price and less will be bought at high price.

On, the basis of this, we can draw market demand curve as follows:-



Here **DD** is market demand curve. The slop of market demand curve is downward from left to right. It indicates that quantity of demand decreases with the rise in priced.

Q.4 State and explain the law of demand with its exceptions.

Ans:-It is clear from the discussion of demand schedule that demand varies with price. There is an inverse relationship between price and quantity demanded. This relationship between demand and price has been generalized as the law of demand.

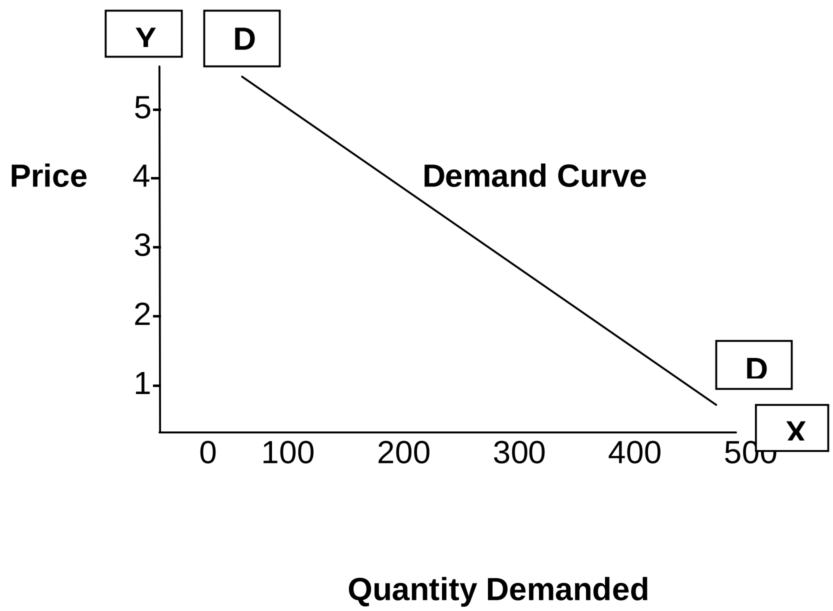
Statement of the law:-Other thing being equal .the higher the price of a commodity the smaller is the quantity demanded and the lower the price the larger the quantity demand.

Demand Schedule:-The law of demand can be illustrated with the help of schedule as follows:-

Price(per unit)	Quantity Demand (in Unit)
Rs.5	100
Rs. 4	200
Rs.3	300
Rs.2	400
Rs.1	500

The demand schedule shows that when the price of commodity declines the more quantity is demanded and the price of commodity rises the less quantity is demanded.

Demand curve:-In fact, the graphical presentation of the demand schedule is called a demand curve. On the basis of given demand schedule we can draw demand curve as follows:-



The X-axis measures the quantity demanded and the Y-axis is price.DD is the demand curve which has a negative scope. Sloping downward from left to right. it indicates an inverse relationship between price and demand.

Explanation:-

There are three reasons which explain why price and demand for a commodity are inversely related. They are as follows:-

(i) There are all types of consumers in the market-some are rich and some are poor. Some likes the commodity more than others. When price of commodity is high the poor consumers do not purchases because it is beyond their income limit and the people with less liking also keep away from the commodity because they do not consider it worth purchasing at this price. When however the price goes down the poor consumer can now afford to purchase it. Hence they begin to purchase the commodity and the people with less liking also feel that now the commodity is worth purchasing. Therefore they also buy it.

(ii) When the price of one commodity falls and the price of other commodity remains the same. this commodity becomes more attractive to the consumer in relation to other. Consumer will substitute it for other commodity whose price has remained unchanged. Therefore the demand will increase with the falls price. This is known as the substitution effect.

(iii) Besides the substitution effect there is also the income effect when the price of commodity falls the consumers can purchase more quantity by the same amount. In other words with the falls in price. The real income of consumer will increase and therefore consumer will purchase more quantity of commodity. This is known as the income effect.

Assumptions of the law of demand:-

The law of demand states that if other thing remains the constant demand Inversely related with price. It suggests that the law of demand hold true. When certain conditions are fulfilled. These conditions are known as the basic assumptions of the law of demand. They are as under:-

(i)Tastes and preferences of the consumer remain constant.

(ii)Consumers income is fixed and constant.

(iii)The price of related goods like substitutions and complementary remain constant.

(iv)The number of consumers (population) are remain constant.

(v)The distribution of national income is remain constant.

(vi) Climatic and weather conditions are unchanged.

Exception of the law of demand:-

The exceptions of the law of demand point the situation in which the law of demand does not hold true even when all basic conditions of the law are fulfilled. The main exceptions of the law of demand are as follows:-

(i)**Articles of prestige value:-**

The law of demand does not apply in case of articles which satisfy the desire for prestige value. It is known as article of snob appeal. These articles purchased by only rich people for status symbol.

For example:-Diamonds costly jewellery with increase in the price of these articles their prestige value also increase .Therefore when price of these articles goes up rich people will purchase more it.

(ii)**Inferior Articles**:-

In case of certain inferior goods like coarse grains or coarse clothe. It is said that law does not apply when the price of inferior goods falls. It will increase real income of the consumer and therefore consumer will substitute better quality goods for inferior goods.