

DEMAND

Demand is the desire, the ability and willingness to pay for a commodity.

Determinants of Demand

1. Income of the household -

As income increases, demand also increases.

2. Price of Commodity -

When price increases, demand also increases.

3. Taste and preference of consumers -

Depending on tastes, demand will also vary.

4. Prices of Related Goods -

i) Substitute goods :-

Goods that could be easily substituted
eg: Tea & Coffee.

When price of tea, goes up, demand for coffee goes up.

ii) Complementary Goods -

Goods that are jointly used.
Eg: Pen & Ink
Car & Petrol.

When price of one good increases, demand for the other good decreases.

5) Other factors :

Emergency, war, sales etc :

LAW OF DEMAND.

The law of demand states that other factors remaining the same, when the price of a commodity increases, the demand for it decreases and vice versa.

PRICE	↑	DEMAND	↓
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Inverse relationship

Assumptions of the Law :

- 1) Prices of other goods remains constant.
- 2) Income of the consumer remains constant.
- 3) No new substitutes for the commodity.
- 4) Taste & preferences remains constant.

Exceptions.

- 1) Giffen Goods: [Robert Giffen]
When prices of these goods rise, demand will also rise.