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| DEMAND | December 12  2024 | |
| SUBMITED BY NISHAT SADIA | | DETERMINATES OF INDIVIDUAL DEMAND |

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**Introduction**

The study of my topic is "Demand and Its Determinants." I have chosen this topic because I want to analyze the practical applicability of the "Law of Demand" and understand the context in which it is applicable in the real world. Demand is one of the market forces determining prices. The theory of demand is related to the economic activities of consumers who aim to seek maximum satisfaction and maximum utility within the limits set by their income. Demand analysis provides the basic information required for understanding consumer behavior and market dynamics.**WHAT IS DEMAND?**

In economics, **demand** refers to the quantity of a good or service that consumers are willing and able to purchase at various prices over a specific period of time. It is one of the key concepts in economics and is influenced by factors such as price, income levels, preferences, and the prices of related goods.

**The Law of Demand**

The low of **demand** states that as the price of a good rises, the quantity demanded of the good falls, and that as the price of a good falls, the quantity demanded of the good rises, ceteris paribus**. That is,**

P Q

where P= price and Q= quantity demanded.

Quantity demanded is the number of units of a good that individuals are willing and able to buy at a particular price during a particular period. For example, suppose individuals are willing and able to buy 100 TV dinners per week at a price of $4 per dinner. Therefore, 100 units is the quantity demanded of TV dinners at $4 per dinner.

**Demanded schedule**

|  |  |  |
| --- | --- | --- |
| price | Quantity demanded | Point in part (b) |
| 4 | 10 | A |
| 3 | 20 | B |
| 2 | 30 | C |
| 1 | 40 | D |

**Graphical representation of demand:**

**Determinants of Demand:**

- **Price of the good**: The most direct influence.

**- Income of consumers**: Higher income can increase demand for normal goods and decrease demand for inferior goods.

- **Prices of related goods**:

**- Substitutes**: If the price of a substitute rises, demand for the good may increase.

**- Complements**: If the price of a complementary good rises, demand for the good may decrease.

- **Consumer preferences**: Trends, tastes, and cultural influences.

**- Expectations of future prices**: If prices are expected to rise, current demand may increase.

- **Population size and demographics**: Larger or specific populations can affect demand.

**Types of Demand**:

**- Individual Demand**: Demand by a single consumer.

- **Market Demand**: The aggregate demand by all consumers in a market.

**- Derived Demand**: Demand for a good or service that arises from the demand for another good (e.g., demand for steel due to demand for cars).

**Elasticity of Demand**:

* **Price Elasticity of Demand (PED):** Measures how sensitive quantity demanded is to a change in price.
* **Elastic Demand**: Significant response to price changes (PED > 1).
* **Inelastic Demand**: Small response to price changes (PED < 1).
* **Income Elasticity of Demand**: Measures how demand changes with consumer income.
* **Cross Elasticity of Demand**: Measures how demand for one good changes in response to the price change of another good.

Demand plays a critical role in determining market prices, influencing production decisions, and shaping economic policy.