Demand

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.

Demand is an outcome of the Utility experienced by the consumer from a particular product or service

Types of Demand

Basic Classification

- Cross Demand – Demand for Substitutes
- Joint Demand – Demand for Complementary
- Composite Demand – Demand for Factors of Production

Other classifications

- Individual or Market
- Direct or Derived

Factors affecting Demand

- Price
- Income
  - Consumption or saving
  - Expectation of future prices
- Price of Substitutes
- Taste of customers
  - Change in composition of population
  - Change in Trends/Fashions

Law of Demand

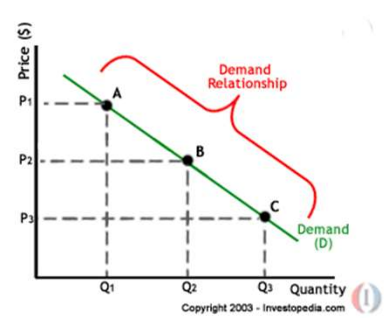
Other things remaining same:

Price ↓ Demand ↑

Price ↑ Demand ↓

Price and Demand hence have an inverse relationship represented by downward sloping curve.

Demand Curve



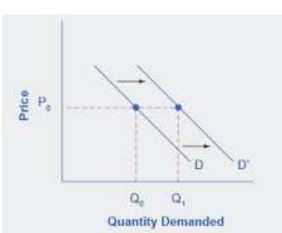
Shift in Demand Curve

- Shifts in the demand curve occur **only due to** changes in the Quantity Demanded for **changes in factors other than price**
- If the Quantity demanded changes due to price, it is called as 'Movement along the demand curve'.
- If the Quantity demanded changes due to other factors, it is called as 'Shift in the demand Curve'

Exceptional Observations

- **Giffen Paradox (Inferior goods)**
  - As Mr. Giffen has pointed out, a rise in the price of bread makes so large a drain on the resources of the poorer laboring families and raises the marginal utility of money to them so much that they are forced to curtail their consumption of meat and the more expensive food items: and, bread being still the cheapest food which they can get and will take, they consume more, and not less of it. [*Alfred Marshall, Principles of Economics (1895 ed.)]*
  - In an experiment in China, when the price of rice (the staple food) reduced, the demand for the same started falling due to a 'substitution effect' under which consumers started allocating their income to expensive food items.
- **Veblen Goods (Goods having prestige value)**
  - The higher prices of Veblen goods may make them desirable as a status symbol. Thus in some cases when the price of these goods rise, consumers will feel they are more precious and buy them more.

Shift in Demand Curve



Demand Curve Shifting to Right

Demand Curve Shifting to Left

Chapter 3 – Consumer Behavior - II

Prof. Siddhesh Soman

Elasticity in general

Inelastic

Elastic

Types of Elasticity of Demand

- Price Elasticity:
  Measures % change in QD for a given % change in Price
- Income Elasticity:
  Measures % change in QD for a given % change in Income
- Cross Price Elasticity
  Measures % change in QD of 'X' for a given % change in Price of 'Y'

Elasticity of Demand

- It is a measure of
  % change in one variable for a given % change in another variable
- An elastic variable is the one which responds more to changes in the other variable
- An inelastic variable is the one which responds less to changes in the other variable

Price Elasticity of Demand

- Price Elasticity= $\dfrac{\text{\% Change in QD}}{\text{\% Change in Price}}$

$$\text{\% Change} = \frac{\text{New} - \text{Old}}{\text{Old}} \times 100$$

$$\text{\% Change} = \frac{\text{New} - \text{Old}}{\text{Avg.}} \times 100$$

Values of Price Elasticity

Value |Ep|	Name	Interpretation
∞	Perfectly Elastic Demand	Even a small changes in price causes the demand to change significantly
Greater than 1	Relatively Elastic Demand	% Change in QD > % Change in P
1	Unit Elastic Demand	% Change in QD = % Change in P
Less than 1	Relatively Inelastic Demand	% Change in QD < % Change in P
0	Perfectly Inelastic Demand	Even a large change in price has no effect on quantity demanded