

In terms of consumer's point of view

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↳ consumer's point of view →

↓
1) Normal goods } Based on income of consumer.
2) Inferior goods }
3) Related goods }
 → substitute
 → Complementary

4) Giffen goods 10) Veblen goods

5) free goods.

b) Basic goods

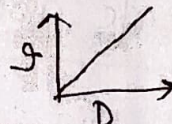

7) Intermediate good

8) Finished good

9) Capital good.

9) Capital good.

1) Normal good - If income is more then demand of the good is more. $I \uparrow D \uparrow$



They have positive relation with income. D

example - Personal vehicle, Saffola oil, & Desi ghee.

2) Inferior goods - on increasing income, demand of these goods will fall down.

- They have negative relation with income.

Example - Public transport, Designee.

3) Substitutive goods.

on increasing the price of one good, demand of substitute goods will increase.

ex - Tea - coffee, Pepsi - coke.
P↑ D↑ P↑ D↑

4) ^{Pr}complementary goods -

1) Complementary goods -
on increasing price of one good demand of related goods will decrease. Bread \uparrow Butter \downarrow

Intermediate good

It is a product used to produce a final or finished product.

Steel

Car engine.

Paint

wood

glass

2. Veblen goods

- These are society status goods.
- Highly expensive
- On increasing price, demand will increase.
ex - Diamond, luxury car etc.
- Giffen goods:- These are special kinds of inferior goods whose demand rises with increase in price.
 - They are cheaper than their substitutes.
 - Example - Bajra, Raji whose substitute is wheat which is costlier.

Price \uparrow demand \uparrow .

- Free goods - If one does not need to pay anything for a good.
ex - air.

Samples which are not for sale are not free goods

- Basic goods - It means a good which itself may not have any utility, but goods derived from it have that utility.

ex - Cotton, textile

- Intermediate goods - These are incomplete goods which goes as an input for further finishing

- Finished goods - These goods have completed required manufacturing processes and are ready to provide its utility.

- Capital goods - Goods which are used to convert intermediate goods to finished goods.

Raw material
Work in process
Finished good.

Mostly fixed assets that are purchased by the producer in order to produce consumer goods
ex - building, eqm, machine, furniture.

Demand:-

①

It is the quantity of good that consumers are willing and able to purchase at various prices during a given time.

Determinants of Demand:-

or factor affecting demand.

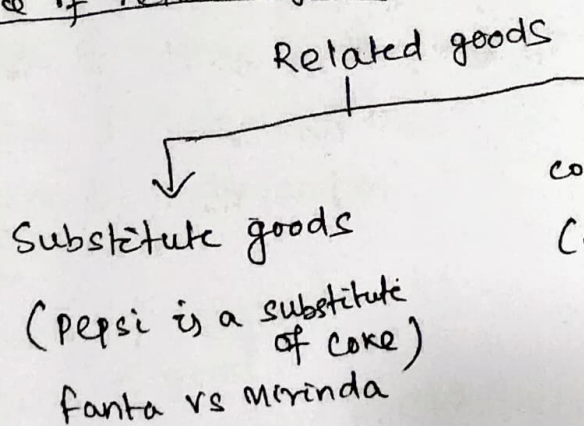
1. Price of good:-

If price increases, demand quantity of the product decreases. However if price decreases demand ~~decreases~~ increases.

Price & demand are inversely related.

Price \uparrow	demand \downarrow .
Price \downarrow	demand \uparrow .

2. Price of related goods:-



Substitute good:-

An increase in the price of substitute goods lead to an increase in the demand for given commodity and vice-versa.

Complementary goods:-

Are those goods which are used together to satisfy a particular want. i.e. tea & sugar, car & petrol, etc. bread & butter.

- An increase in the price of complementary good leads to a decrease in the demand for given commodity and vice-versa.

3. Income of the consumer:-

In case of Normal goods

Income \uparrow	Demand \uparrow
Income \downarrow	demand \downarrow

In case of inferior goods

Income \uparrow	demand \downarrow
Income \downarrow	demand \uparrow

4. Taste & Preferences:-

If commodity is in fashion or is preferred by the consumers, then demand for such a commodity rises and vice-versa.

5- Expectation of change in the price in future:-

Price \uparrow demand \uparrow .

Price \downarrow demand \downarrow .

6. - Advertisement

Summary:-

Determinants of demand

1. Price of good
2. Price of related goods
3. Income of consumer
4. Taste & Preferences
5. Expectation of change in the price in future.
6. Advertisement

Demand function :-

Demand function shows the relationship between quantity demanded for a particular commodity and the factors influencing it.

Individual demand function: refers to the functional relationship between individual demand and the factors affecting individual demand.

$$D_x = f(P_x, P_r, Y, T, F, A)$$

where D_x = Market demand of commodity X.

P_x = Price of given commodity X

P_r = Price of related goods.

T = Tastes & preferences.

Y = Income of customer.

F = Expectation of change in price in future

A = Advertisement.

Market demand function :- Functional relationship

between market demand & factors affecting market demand.

$$D_x = f(P_x, P_r, Y, T, F, P_0, S, D)$$

P_0 = Population size & composition

S = Season & weather

D = Distribution of income.

Law of Demand

(3)

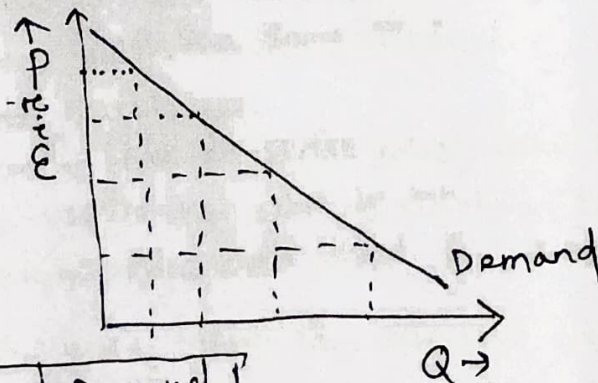
Law of demand states that the inverse relationship between price and quantity demanded ~~being~~ keeping other factors constant.

OR.

There is an inverse relationship between price & quantity demanded, *Ceteris Paribus* (Latin phrase meaning "all other things being equal or constant")

Assumption under which law of demand is valid :-

- No change in price of related commodities.
- No change in income of consumer.
- No change in taste & preference of consumers.
- No change in size of population.
- No expectation regarding future change in price.



Price	Demand
1	20
2	16
3	12
4	8
5	4

What accounts for the law of demand?
→ People tends to substitute for goods whose price has gone up.

marginal utility is the added satisfaction a consumer gets from having one more unit of a goods or service.

The Law of diminishing marginal utility

It says that the marginal utility from each additional unit declines as consumption increases.

Reasons for Law of Demand :-

Various reasons for operation of Law of demand are:

1. Law of Diminishing Marginal utility

It states that as a consumer consumes more and more units of specific commodity, utility from the successive units goes on diminishing.

2. Substitution effect :-

Substitution effect refers to substituting one commodity in place of other when it becomes relatively cheaper hence changing the demand pattern.

3. Income Effect :- It refers to effect on demand when real income of the consumer changes due to change in price of commodity.

When price falls, it increases the purchasing power of the consumer. Customer can purchase more with the same income.

4. Additional customers.

Due to fall in price, many new consumers, who were not able to purchase earlier due to high price will start purchasing it.

5. Different uses - Milk has different uses, some are more important than the others.

When price of these products increases, its uses get restricted to the most important purpose and demand for less important uses gets reduced.

* Exception of Law of demand

1. Giffen Goods

These are special kind of inferior goods whose demand rises with an increase in price and demand falls with decrease in price.

Bajra

Inferior good

Cheaper than it's substitute.

claims a larger part of family income.

Wheat

Normal good.

	Price/kg	Quantity demanded (kg)	Expenditure
Bajra	5/-	20 kg	100/-
Wheat	10/-	10 kg	100/-
		30 kg/-	Total = 200/-

Total monthly expenditure = 200/-

If price of Bajra rises to 6/- total monthly income will be $6 \times 20 + 10 \times 10 = 220/-$ (which is beyond the budget)

New consumption bundle to get 30kg of cereal in 200/- will be.

Bajra = ~~20~~ 25 kg.

Wheat = 5 kg.

Total Expenditure = $25 \times 6 + 5 \times 10 = 200/-$

This shows demand of Bajra increased irrespective of increase in it's price.

If price of Bajra will decrease people of low income will switch toward wheat which is superior to Bajra.

So Giffen goods does not follow law of demand.

2. Status Symbol goods

Diamond, gold, apple phone which are status symbol goods will also not follow law of demand. These are wanted by rich people for prestige & status, higher the price higher is the demand.

3. Fear of Shortage

If consumer expect a shortage of particular commodity in near future, then they will buy more and more of the commodity even if the price is high.

4. Ignorance :-

People buy more goods at higher price when they are ignorant of the price of the good in the market.

5. Fashion related goods - Goods related to fashion do not follow the law of demand. For example if anything is in fashion or trend, then demand of those goods will increase even if its price is rising.

6. Necessities of life :-

Necessity products i.e. wheat, rice, medicines, etc are purchased even if their price increases.

7. Change in weather :-

With change in season demand of certain goods will rise irrespective of their prices.

Demand schedule :-

Demand Schedule is a tabular statement showing various quantities of commodity being demanded at various level of price during a given time.

1st Individual demand schedule

Demand schedule of a consumer



Price (in ₹)	Quantity demanded (in units)
5	1
4	2
3	3
2	4
1	5

Market demand schedule

It is a tabular statement showing various quantities of a commodity that all consumers are willing to buy at various level of prices during a given time.

Price	House hold 1 (D ₁)	House hold 2 (D ₂)	Market demand (D ₁ + D ₂)
5	1	2	1 + 2 = 3
4	2	3	2 + 3 = 5
2	3	4	3 + 4 = 7

Demand curve :-

Demand curve is a graphical representation of demand schedule.

Individual demand curve :-

It refers to a graphical representation of individual demand schedule.

The slope of graph is downward.

