Law of Demand

By

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Meaning of Demand

Meaning and Definition of Demand

- According to Benham: "The demand for anything, at a given price, is the amount of it, which will be bought per unit of time, at that price."
- According to Bobber, "By demand we mean the various quantities of a given commodity or service which consumers would buy in one market in a given period of time at various prices."
- Requisites:

a. Desire for specific commodity.
b. Sufficient resources to purchase the desired commodity.
c. Willingness to spend the resources.
d. Availability of the commodity at

- (i) Certain price (ii) Certain place (iii) Certain time.

FACTORS AFFECTING DEMAND

- 1. Prices of Goods
- 2.Income of Consumer
- 3.Prices of Related Goods
- 4.Population
- 5.Tastes,Habit
- 6.Expectation about future prices
- 7.Climatic Factors
- 8.Demonstration Effect
- 9.Distribution of national income

Demand Schedule

- Demand Schedule: a tabular presentation showing different quantities of a commodity that would be demanded at different prices.

- Types of Demand Schedules

Individual Demand schedule

Price	A
1	50
2	40
3	30
4	20

Market Demand Schedule

Price	A	B	C	M.S
1	50	45	40	135
2	40	30	38	108
3	35	20	30	85
4	20	15	25	60

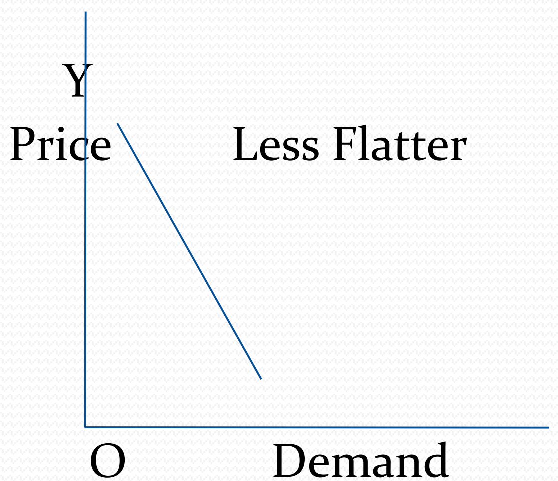
Demand Curve

- The Graphical Representation of Demand Schedule is called a Demand Curve. It is of two types:

Types of Demand Curve

Individual DC

Market DC



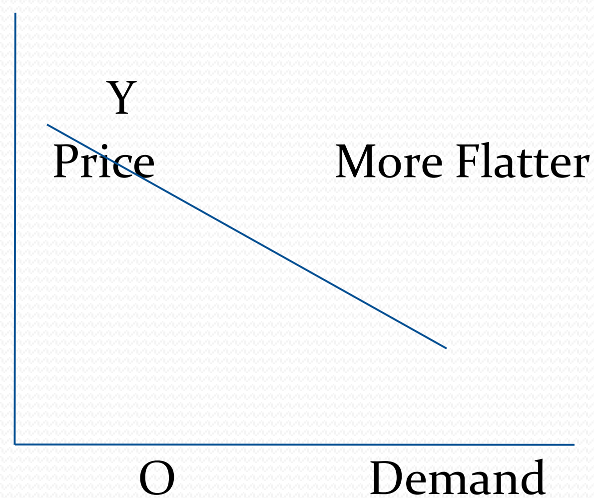


Figure 2.1 Market demand for tomatoes
Demand, the assumed inverse relationship between price and quantity purchased, can be represented by a curve that slopes down toward the right. Here, as the price falls from $11 to zero, the number of bushels of tomatoes purchased per week rises from zero to 110,000.

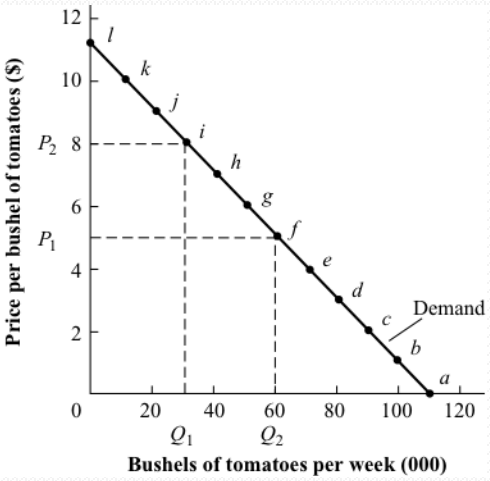
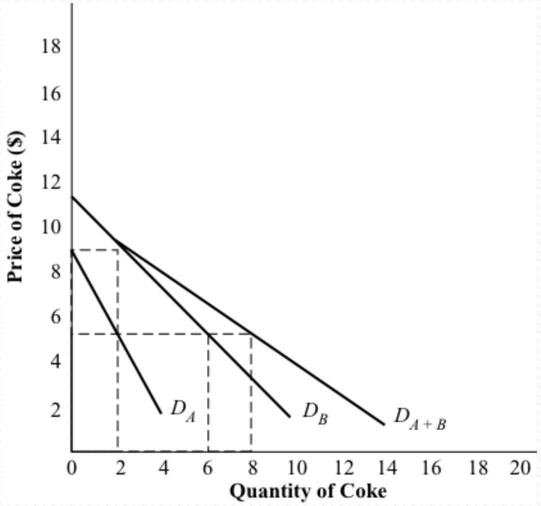


Figure 7.2 Market demand curve
The market demand curve for Coke, D_{A+B}, is obtained by summing the quantities that individuals A and B are willing to buy at each and every price (shown by the individual demand curves D_A and D_B).



Demand Curve

- <u>Movement along demand curve Vs. Shift in demand curve:</u>
- Distinction between change in quantity demanded and change in demand.

- <u>A. Change in quantity demanded</u> – When quantity demanded changes (rise or fall) as a result of change in price alone, other factors remaining the same.

- Contraction/fall in quantity demanded
- Extension/Rise in quantity demanded

- **The change is depicted/ represented by the movement up or down on a given demand curve. This does not require drawing a new demand curve.**
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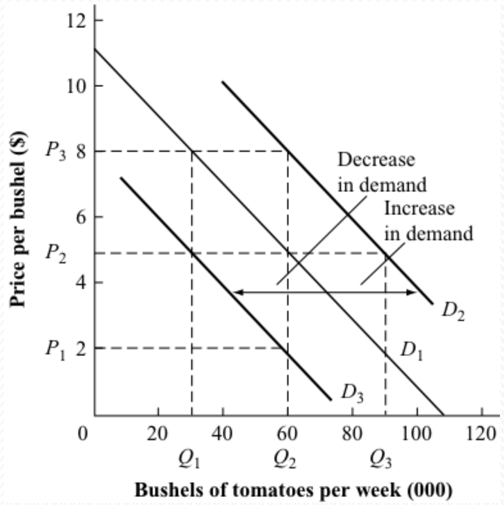
Figure 2.2 Shifts in the demand curve

An increase in demand is represented by a rightward, outward, shift in the demand curve, from D_1 to D_2. A decrease in demand is represented by a leftward, or inward, shift in the demand curve, from D_1 to D_3.



The Law of Demand

- Prof. Samuelson: "Law of demand states that people will buy more at lower price and buy less at higher prices, others thing remaining the same."
- Ferguson: "According to the law of demand, the quantity demanded varies inversely with price".

- Chief Characteristics:

1. Inverse relationship.
2. Price independent and demand dependent variable.
3. Income effect & substitution effect.

- Assumptions:
- No change in tastes and preference of the consumers.
- Consumer's income must remain the same.
- The price of the related commodities should not change.
- The commodity should be a normal commodity

The Law of Demand

EXPLAINERS:

Why demand curve slopes downwards?

1. Income effect
2. Substitution effect
3. Diminishing Marginal Utility

Law of Demand

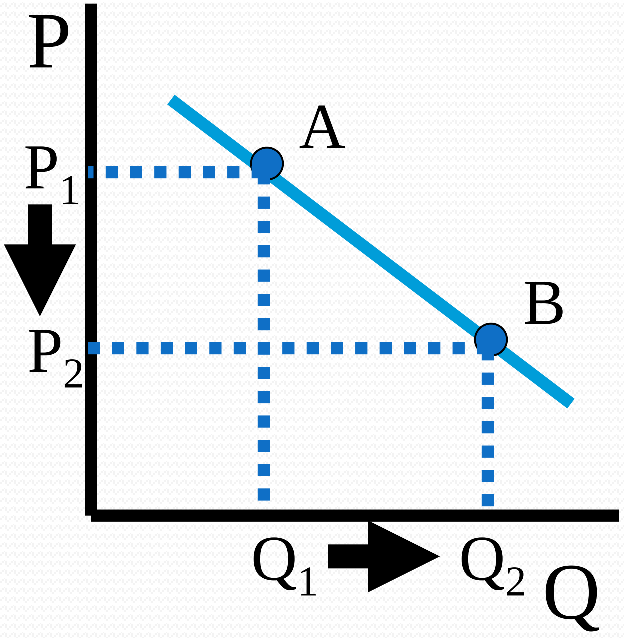
- <u>Exceptions:</u>
- Inferior goods
- Articles of snob appeal. (exception: Veblen goods, eg., diamonds)
- Expectation regarding future prices (shares, industrial materials)
- Emergencies
- Quality-price relationship
- Conspicuous necessities.
- Ignorance
- Change in fashion, habits, attitudes, etc..

- <u>Importance:</u>
- Price determination.
- To Finance Minister
- To farmers
- In the field of Planning.

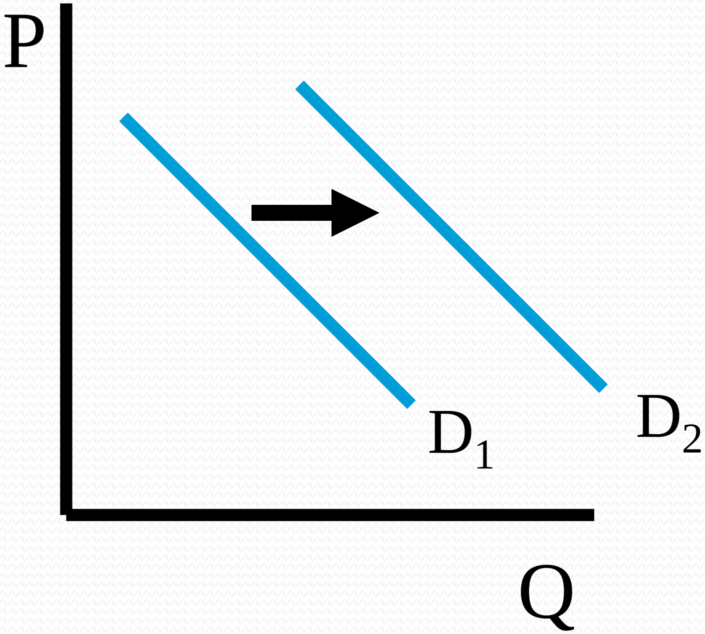
Demand

1. The more confidence a person has in price information as a predictor of quality, the more likely he'll be to choose a high-priced, rather than a low-priced item.
2. A person who perceived himself as experienced in purchasing a product will generally choose a low-priced item, but an inexperienced person will select a high-priced one.
3. A person who selects a high-priced item will (i) believe it's more difficult to judge product quality, and (ii) feel he has less ability to make accurate quality judgments than one who chooses a low-priced item.
4. A person who purchases a high-priced product would perceive large quality differentials. He would also feel that it is risky and uncertain to go in for a low-priced product.
5. Business executives also disbelieve that the consumer is rational. (Eg., Yale – the under priced lock)
6. Purchasing behavior of the consumer is mostly repetitive.

The Law of Demand

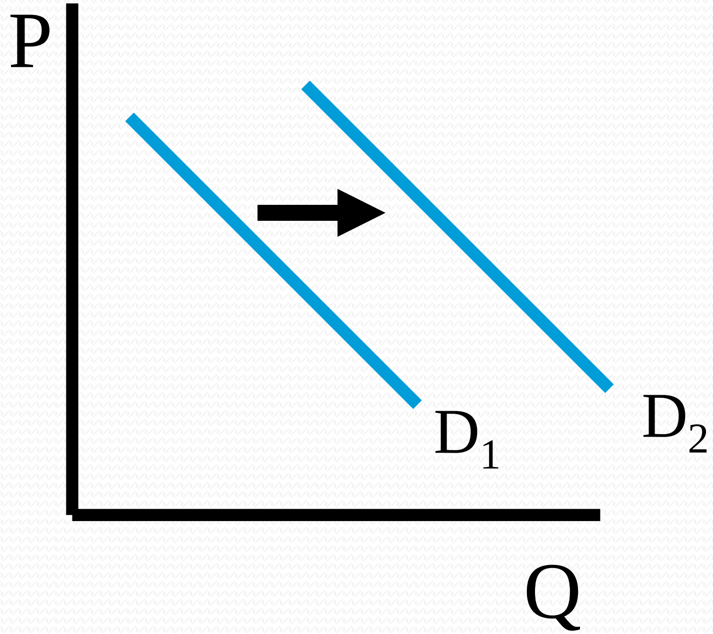


CHANGE IN PRICE=
change in quantity
demanded



CHANGE IN OTHER=
change in demand

The Law of Demand



CHANGE IN OTHER=
change in demand

Determinants of Demand

Things other than price that cause the whole curve to shift

Increase: shift to the right
Decrease: shift to the left

Determinants of Demand

Change in consumer tastes

Change in people's income

normal goods

inferior goods