

Demand

Demand

- ▶ The **willingness and ability** of buyers to purchase a good or service.
- ▶ Demand for a particular product or service represents how much people are willing to purchase at various prices. Thus, demand is a **relationship between price and quantity**, with all other factors remaining constant.
- ▶ **Demonstration effects** are effects on the behavior of individuals caused by observation of the actions of others and their consequences. The term is particularly used in political science and sociology to describe the fact that developments in one place will often act as a catalyst in another place.

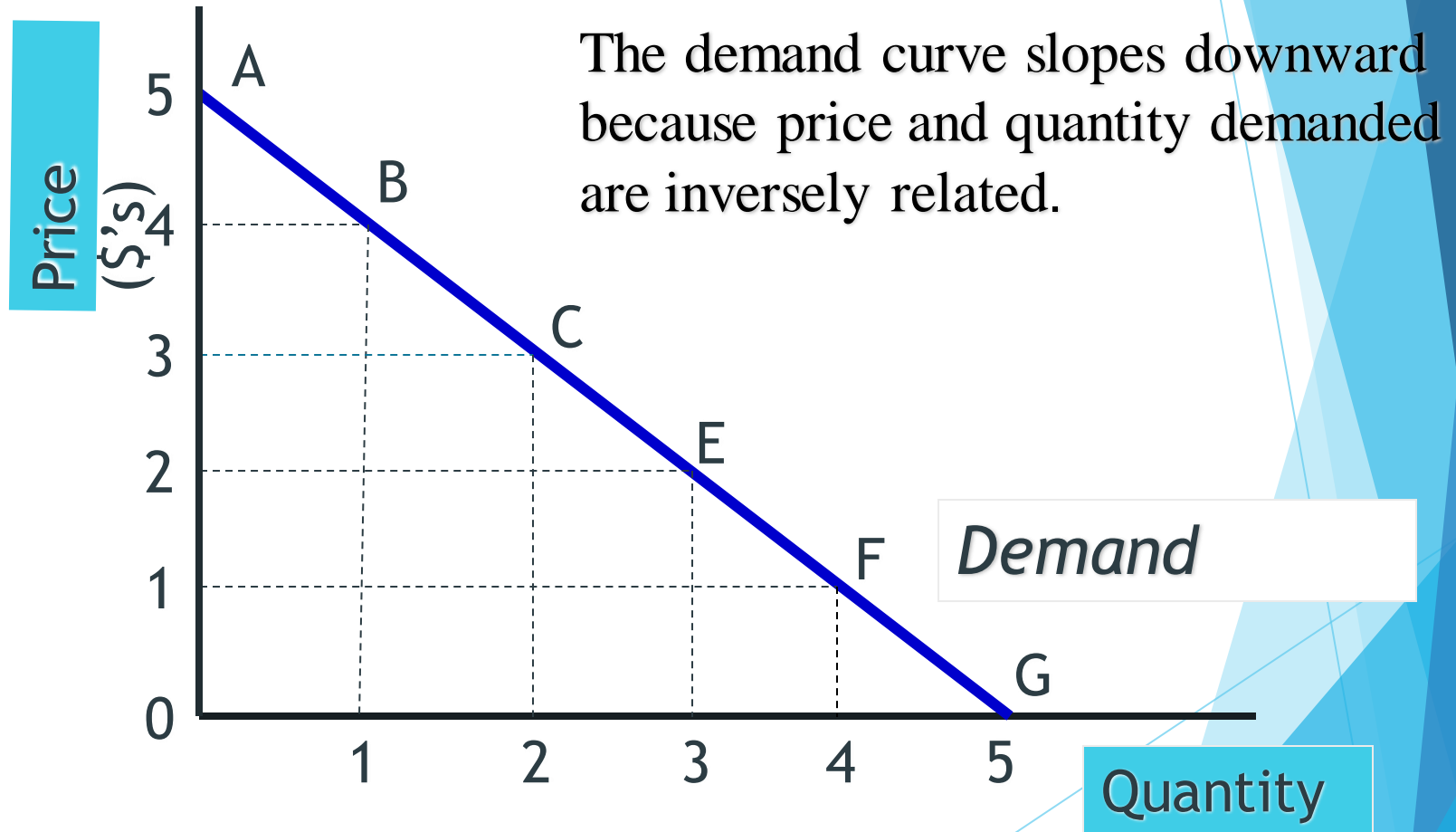
Law of demand

- ▶ Generally the relationship between price and quantity is negative. This means that the higher is the price level the lower will be the quantity demanded and, conversely, the lower the price the higher will be the quantity demanded.
- ▶ Demand is represented graphically as a downward sloping curve with price on the vertical axis and quantity on the horizontal axis.
- ▶ Law of Demand states that, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease and vice versa.

Demand Schedule

Data Point	Price (\$)	Quantity Demanded
A	5	0
B	4	1
C	3	2
E	2	3
F	1	4
G	0	5

Demand Curve



Exceptions to law of Demand

- ▶ Luxuries
- ▶ Giffen / Inferior goods
- ▶ Multiple uses of product
- ▶ Ignorance

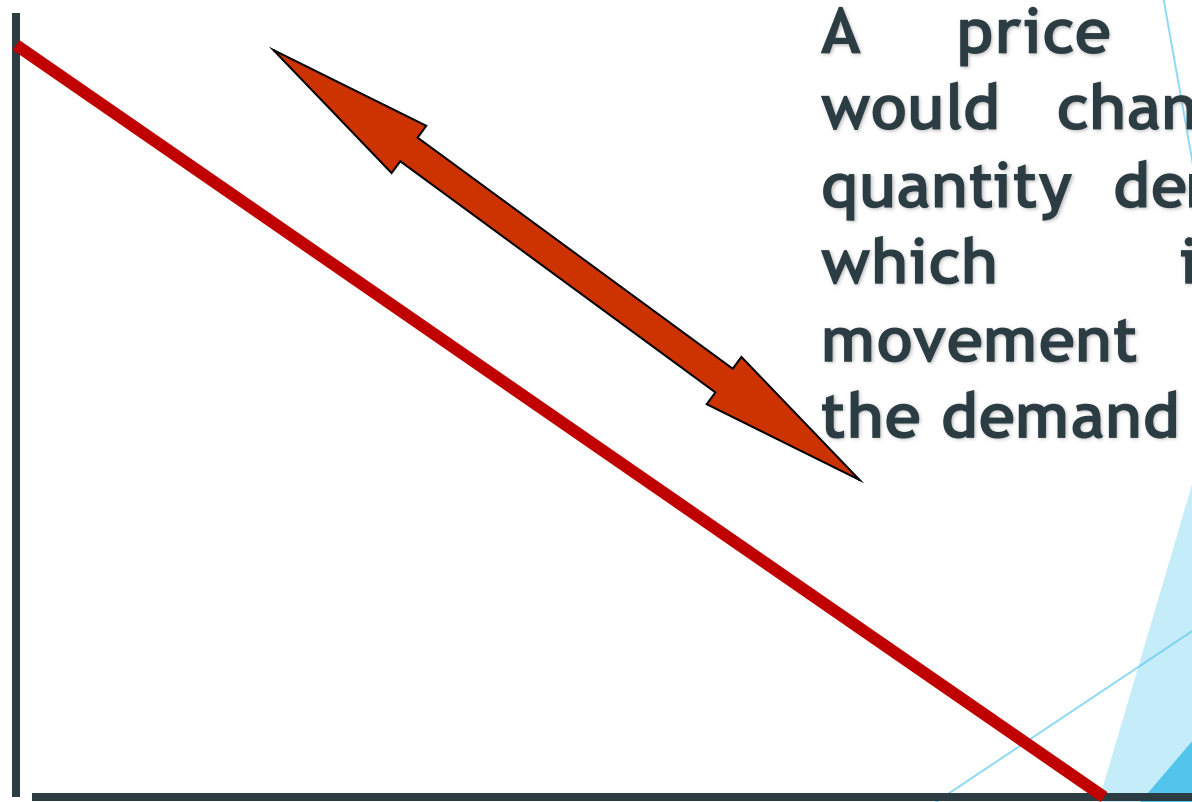
Determinants of Demand

- ▶ Price of the Commodity
- ▶ Income of Individual
- ▶ Price of related good
- ▶ Advertisement expenditure
- ▶ Taste and Preference of individuals
- ▶ Future expected Price
- ▶ Target Population

Shifting Demand versus Movements along a Demand Curve

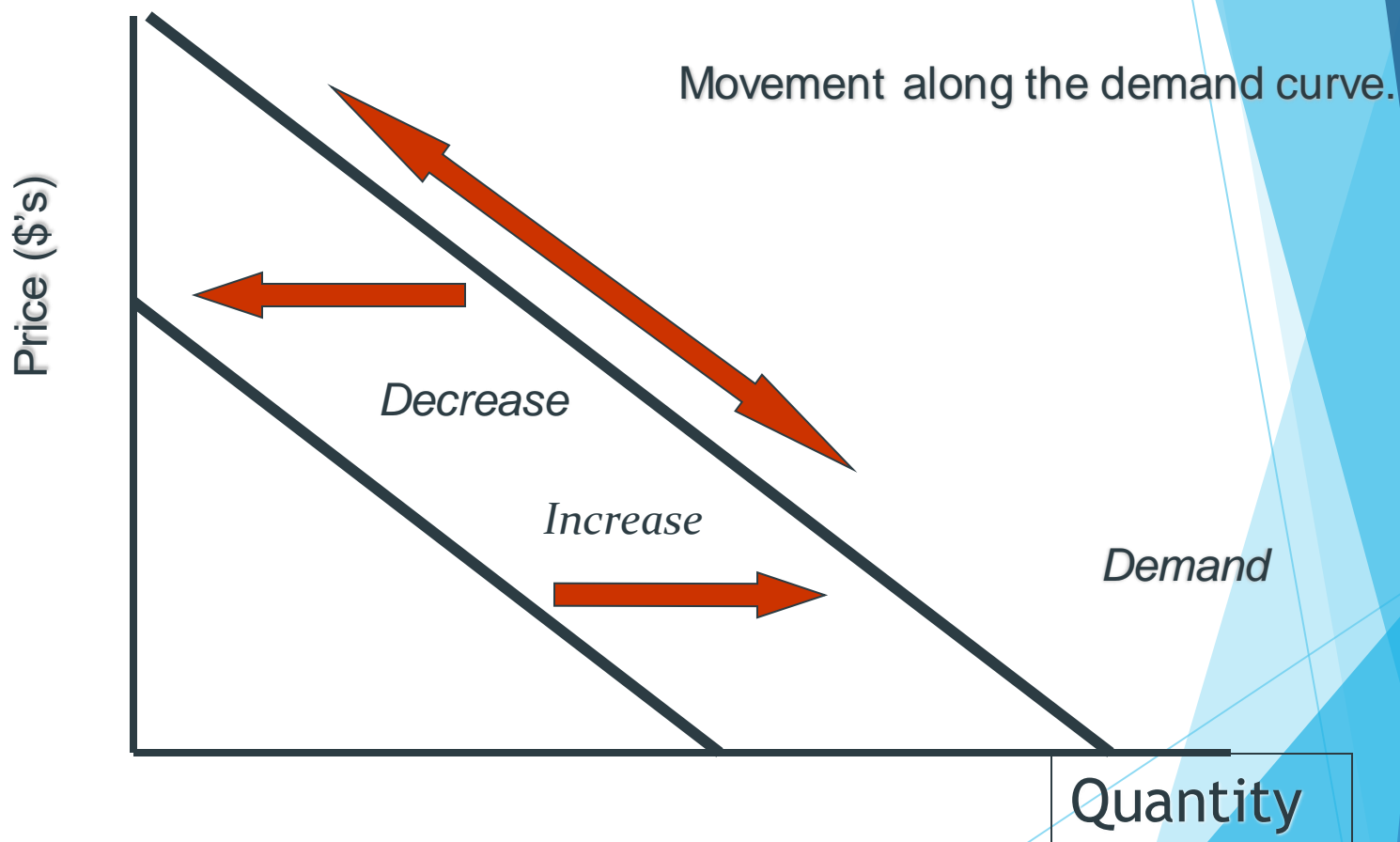
- A change in the price of a good causes a change in the quantity demanded, but does not shift demand.

Changes in Demand vs. Changes in Quantity Demanded



A price change would change the quantity demanded which involves movement along the demand curve.

Changes in Demand vs. Changes in Quantity Demanded



Factors causing Shift in Demand

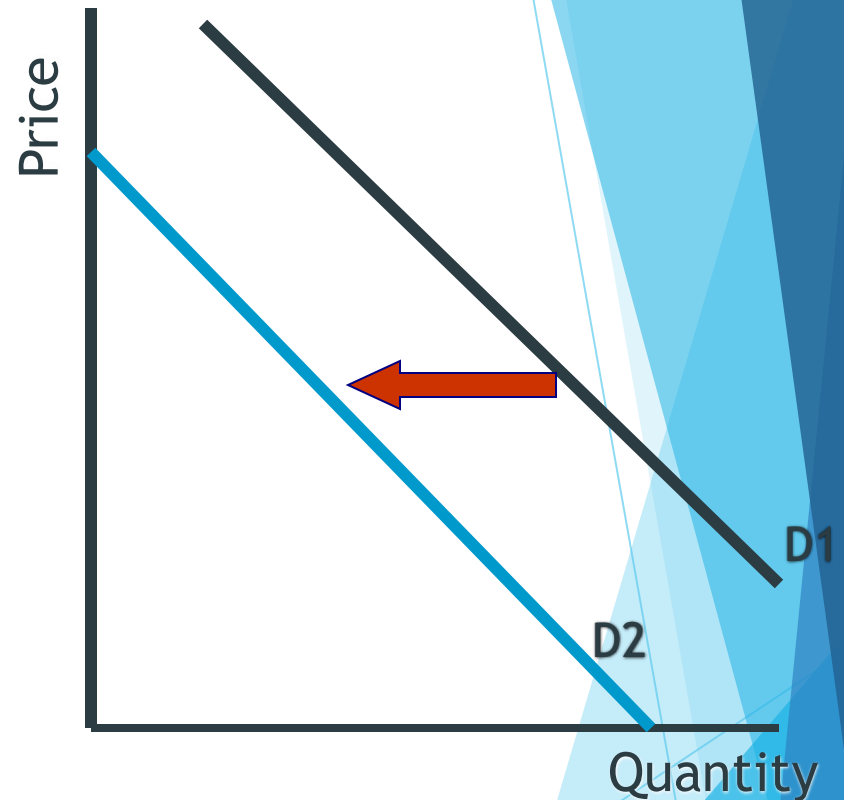
- ❖ *Tastes and Preferences*
- ❖ *Substitutes and Complements*
- ❖ *Income*
- ❖ *Population*
- ❖ *Price Expectations*

Changes in Demand - Decrease

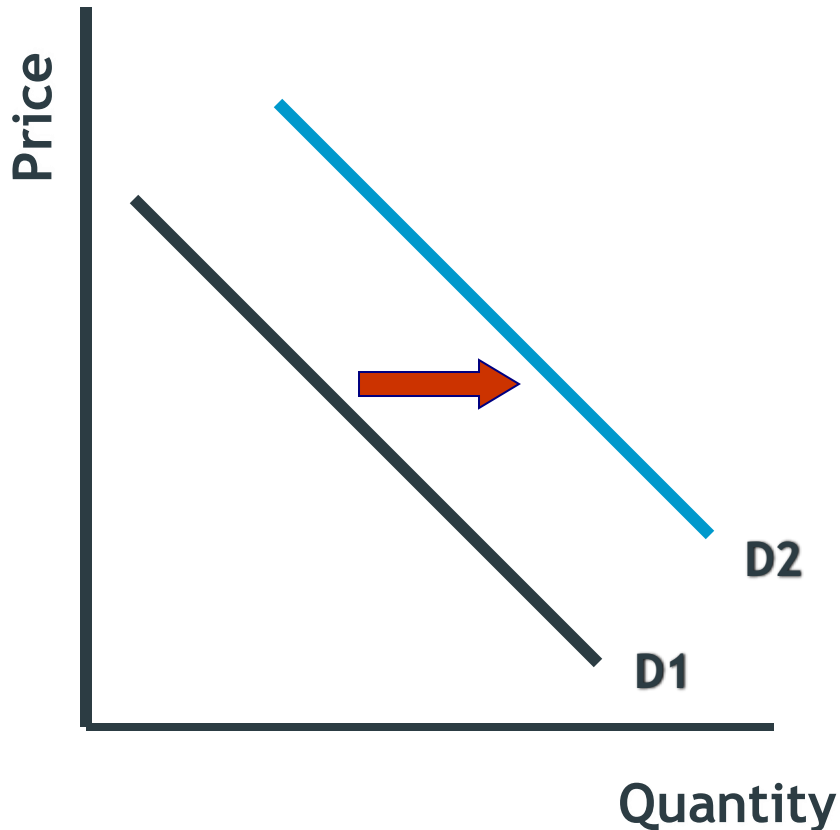
Demand Shifts LEFT

When:

- ❖ *Prices of substitutes decrease*
- ❖ *Prices of complements increase*
- ❖ *Normal good-income decreases*
- ❖ *Inferior good-income increases*
- ❖ *Population decreases*
- ❖ *Tastes & preferences turn against the product*



Changes in Demand - Increase



Demand Shifts RIGHT

When:

- ❖ *Prices of substitutes increase*
- ❖ *Prices of complements decrease*
- ❖ *Normal good-income increases*
- ❖ *Inferior good-income decreases*
- ❖ *Population increases*
- ❖ *Tastes & preferences turn in favor of the product*