Chapter

"Thearyp of Demand And Supply"

Demand

Introduction:

Quantity demand for a good or service depends upon the many factors like price of the commodity or service itsef, price of other related goods and services, consumer's income consumer's taste etc.

Demand:

A specific quantity of a commodity that is purchased at a specific price is called demand

$$Qd = f(P)$$

It is a decreases function or inverse function.

Demand equation

$Q = C - ap \Rightarrow$ Standard form

$Q = 10 - 2p \Rightarrow$ Numerical form

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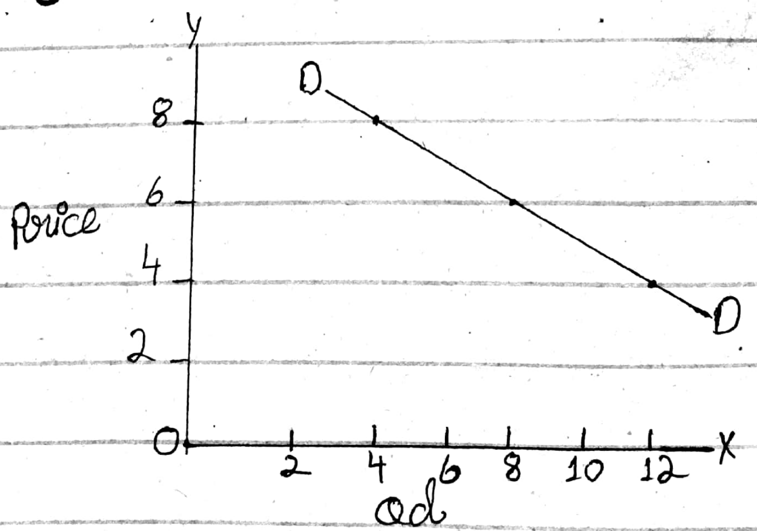
Law of demand:

Demand of a commodity expands due to fall into price and contracts due to rise is its price while other things remaining constant is called Law of demand.

Demand Shadule:

Price	Quantity demanded
8	4
6	8
4	12

Diagram:



Explanations:

Both the table and diagram reveal that when price the decreases, quantity demanded extends and vise versa. In the given diagram DD represents demand curve which moves downward from left to right.

In other wards, it has negative slope which reveals that when price decrease, Qd extends and when price increases, Qd contracts.

Assumptions:

Law of demand is based on the following assumptions.

- No change in consumer's Income.
- No change in Taste / customs.
- No change in price of related Goods.
- No change in Quality.
- No change in consumer's Strength.
- No new Substitutes.
- No Emergency.
- No change in Expectations.
- No change in weather conditions.
- No unjust Distribution of wealth.

Limitations:

- Giffen Goods.

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- Veblen Goods
- Risk of Shortage
- Ignorance of facts
- Depression
- Speculation
- out of fashion
- Quality-conscious products.

"Supply"

Introduction:

Supply is a schedule of the amount of a good that would be offered for sale at all possible prices, during a specific period of time concept of supply is based on following factors.

- Willingness to sell
- Ability to sell
- particular set of prices
- Period of time.

Supply: A specific quantity of a

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commodity that is sold at a specific price is called supply

$$Qs = F(P)$$

$$Q = d + ap \Longrightarrow \text{Standard form}$$

$$Q = 10 + 2p \Longrightarrow \text{Numerical form.}$$

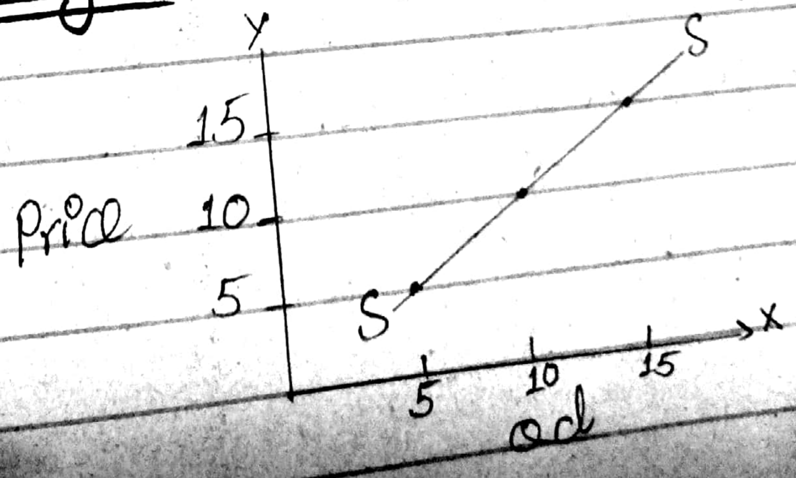
Law of Supply:

Other things remaining the same, quantity supplied extends when price increases and quantity supplied contracts when price decrease is called law of supply.

Supply Shedule:

Price	Qs (kgs)
5	10
10	15
15	20

Diagram:



Explanation:

Both the table and diagram show that higher price leads to higher quantity supplied and vice versa. It means that quantity supplied is an increasing function of price and the slope of supply curve is positive.

Assumptions:

Law of supply is valid if only if the following condition/Assumptions are given below.

- No change in Technology
- No change in cost of production.
- No change in the price of input.
- No change in weather conditions
- No new Substitutes.
- No change in Number of Producers.
- No Emergency
- No change in price of Related Goods
- No change in Taxes
- No change in political Situations.

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