Theory of Demand

BCA Sixth Semester

Meanings:

The word ‘demand” refers to the quantity of goods and services that consumers are able and willing to purchase at various prices during a period. In economics demand is something more than desire. A desire without sufficient resources is merely a wish. A desire accompanied by ability and willingness to pay is only a potential demand. For example, a beggar may desire food, but due to lack of means to purchase it, his demand is not effective. Thus, effective demand for a commodity depends on:

- Desire
- ability to pay
- willingness to pay

“The term demand is defined as the numbers of units of particular goods and services that consumer are willing to purchase during a specific period and under a given set of condition” J. L. Pappas and E. F. Brigham.

For example, demand for the micro-economics book is 5000 pieces per year for Sulav Book Pasal (a book seller) at price Rs. 350.

Features of Demand

- ❖Demand depends upon the utility of the goods and services.
- ❖Demand often refers to the effective demand.
- ❖Demand is a flow concept generally defined at a period or point of time.
- ❖Demand refers to the demand for final consumer goods.

Types of Demand

A. Direct Demand:- Direct demand refers to the demand for a commodity which is directly consumed by individuals, households and institutions to get satisfaction. Demand for foods by individual is direct demand. It can be further classified into three types:-

Price Demand:- If the consumer purchase various quantities of a commodity at different prices which is directly consumed by individuals, households and institutions to get satisfaction.

$Qd = f(P), f' < 0$

Where

Qd = quantity demanded

P =price of the commodity

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B. Income Demand: if the consumer purchase various quantities of a commodity or services at a given time period at various levels of consumer's income other things remaining the same, it is known as income demand.

C. Cross Demand: Cross demand refers to the change in quantity demanded of a commodity due to the change in price of related commodity, other things remaining the same.

Joint Demand: When two or more than two commodities are demanded together to serve a single purpose they are said to be joint demand. Demand of car with petrol, demand for sugar and tea are joint demand.

Derived Demand: it is also known as indirect demand. Demand for intermediate factors such as raw materials, labor, power and fuel. Demand of water, sugar, milk, fuel, labor to make a cup of tea.

Composite Demand: Composite demand is the demand for an article, which is used for a variety of purposes. The demand for such an article is composed of its demand in several uses. For example, demand for electricity for lighting, cooking, running machines etc.

Demand Function:-

According to the Edwin Mansfield, “Demand function is the relationship between the quantity demanded of the product and the various factors of that influence this quantity”.

Demand of a commodity is affected by various determinants such as income of the consumers (Y), price of the product (Px), price of related goods (Pi), advertisement (A), taste and preference of the consumer (t), past level of income (Y_{t-1}) and so on.

Types of Demand Function

- **Linear Demand:** constant slope throughout its length
- **Non-linear Demand Function:** A demand function is said to be non linear or curvilinear when the slope of the demand curve i.e. $\Delta Q / \Delta P$ changes along the demand curve.
- **Dynamic Demand Function:-** The demand function, which includes all determinants of demand as independent variable, is known as dynamic demand function. A demand function with price as a single independent variable known as short-run demand function.

Determinants of Demand

- Price of the commodity
- Income of the consumer
- Fashion, taste and habit
- Size of population
- Weather
- Change in distribution of wealth
- Advertisement
- Discoveries