Demand

Q: Difference between Demand and wants.

WANTS are the unlimited desires or wishes that people have for goods and services.

Demand: If you demand something then you

- want it
- can afford it
- plan to buy it.

→ $Q^D = f(Y, P, \text{Taste}, \text{Expectations}, \text{number of buyers}, \text{Price of Sub}, \text{comple})$ ⇒ Determinant of D

Quantity Demanded: the amount of a good that buyers are willing and able to purchase at a particular price during a time period.

Law of Demand: other things remaining equal, the quantity demanded of a good falls when the price of the good rises.

P↑ Qd↓
P↓ Qd↑

demand schedule: A table that shows the relationship between the price of a good and the quantity demanded.

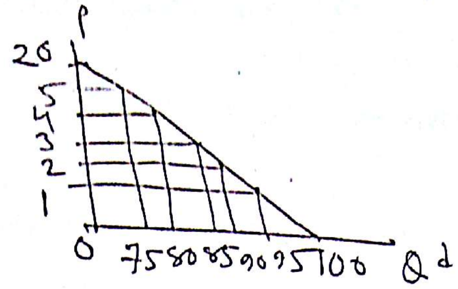
Q: suppose you are given the demand function $Q^d = 100 - 5P$. make a demand schedule and draw the curve.

$Q^d = 100 - 5P$

P	Q^d
1	95
2	90
3	85
4	80
5	75

Scanned by CamScanner

Demand curve:



Explanation:

What is
Q: Market Demand Vs Individual Demand?

- To analyze how market works, we need to determine the market demand, the sum of all the individual demands for a particular good or service.

- We sum the individual demand curves horizontally to obtain the market demand.

- The market demand curve shows how the total quantity demanded of a good varies as the price of the good varies.

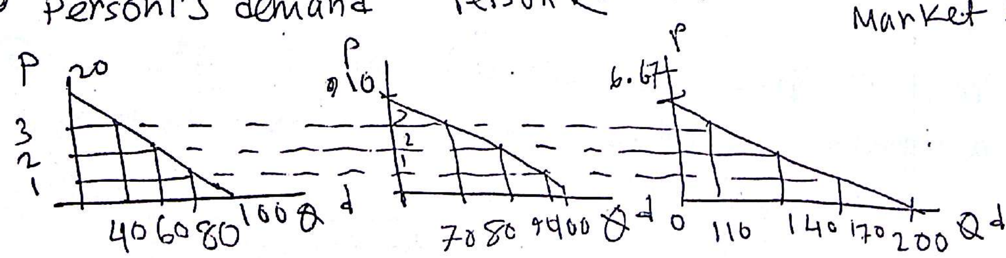
$Q^{d1} = 100 - 20P$ $\quad$ $Q^{d2} = 100 - 10P$ $\quad \Rightarrow \quad$ $Q^{dM} = 200 - 30P$.

P	Qd1
1	80
2	60
3	40

P	Qd2
1	90
2	80
3	70

P	Qd
1	170
2	140
3	110

Person1's demand $\quad$ Person2's demand $\quad$ Market Demand.



Q: Why the Demand curve slopes downward?

$P\uparrow Q^d\downarrow$ } Why?
$P\downarrow Q^d\uparrow$

i) Income effect: $P\uparrow$, ceteris paribus, $P\uparrow$ relative to income.
$P\uparrow$es but income unchanged. So he has to buy less product. Purchasing power decreases.

$\boxed{P\uparrow \bar{Y}\ Q^d\downarrow}$

TK. 10, P of Pen = 1 | Amount of Q^d = 10
TK = 10, P of P = 2 | Amount of Q^d = 5

} 5 Lost pen is Loss in purchasing power or Real income.

ii) Substitution effect: When price of pen increases, it becomes expensive. People try to move to cheaper one.
As $P\uparrow Q^d\downarrow$

iii) Law of DMU: As people consume more of one commodity continuously, utility from additional consumption decreases. So, the person decreases consumption of the product.

Tea example

iv) Change in usage of product: if price increases, people do not use for the less important need.

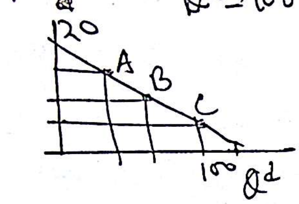
- Electricity & cooking
- plastic ($P\downarrow Q^d\uparrow$, used for diff. purpose

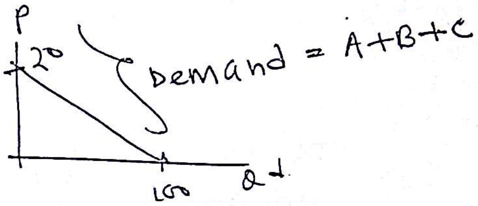
Scanned by CamScanner

Q: Difference between Quantity demanded & Demand.

Q^d Quantity demanded	Q Demand
- The term Q^d refers to a point on a demand curve - the Q^d at a particular price	- The term demand refers to the entire relationship between the price of a good and the quantity demanded of that good.

$Q^d = 100 - 5p$





Q: Change in Demand (shift in demand curve):

- When any factor that influences buying plans changes other than the price of the good, there is a change in demand.

- Any changes that increases the quantity demanded ~~Or~~ at every price, shifts the demand curve ~~decreases Qd~~ to the right and is called an increase in demand.

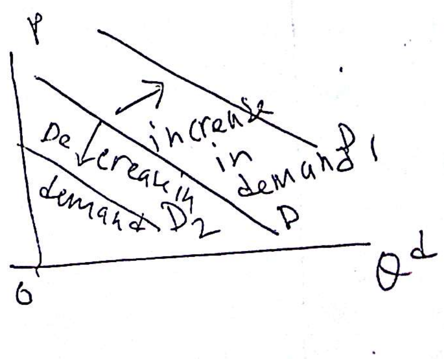
- decrease in demand - demand curve shifts left.

Example:

$Q^d = 100 - 5P$
$Q^d = 90 - 5P$
$Q^d = 110 - 5P$

$Q^d = 100 - 2.5P$
$Q^d = 100 - 10P$

$Q^d = f(\bar{P}, t, y \ldots)$



Q.: Reasons for change in demand: (See Mankiw)

change in income, Price of related good, Taste, Expectations, number of buyers

~~Distinction between Q^d & Demand~~

⇒ If the Price of a substitutes rises, the Price of a complement falls, the expected future Price of the good rises, income increases, expected future income or credit increases or the Popn increases, then demand increases and the demand curve shifts to the right.

⇒ Demand decreases and demand curve shifts to the left if the Price of a substitute falls, the Price of a complement rises, the expected future Price of the good falls, income decreases, expected future income or credit decreases or the population decreases.

$\boxed{\text{change in } Q^d:}$ Movement along the curve indicates Δ in Q

Q: Exceptions to the Law of demand:

a) change in Taste (Leaving smoke & Price of cigarrete)
b) " income (P↑ Y↑)
c) substitute Price increase
d) No substitute good (salt)
e) Future Price expectation (change)
f) ~~Illitera~~ Knowledge of buyer
g) Giffen good.
h) aristocratic consumption.

supply & eqm
Δ in eqm (graph+Math)

Scanned by CamScanner