# MICROECONOMICS

## *(BCS 2002 & BSE 2002)/BA]*

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# (C) DEMAND AND SUPPLY

# LECTURE-7
# DEMAND

## Lecture 7(i)

- Demand and Law of Demand
- Demand & Inverse Demand Function

## Lecture 7(ii)

- Demand-Change and Shift in Demand
- Determinants of Demand & Full Demand Function

## Lecture 7(iii)

- Price  Elasticity Demand
- Income and Cross Elasticity of Demand

# A. Non-Price Factors that effect Demand

**The factors (listed on next slide)will cause the demand curve to shift to the left (less quantity demanded) or to the right (more quantity demanded). The demand function depends on all factors together, along with price.**

# B.CHANGE AND SHIFT IN DEMAND

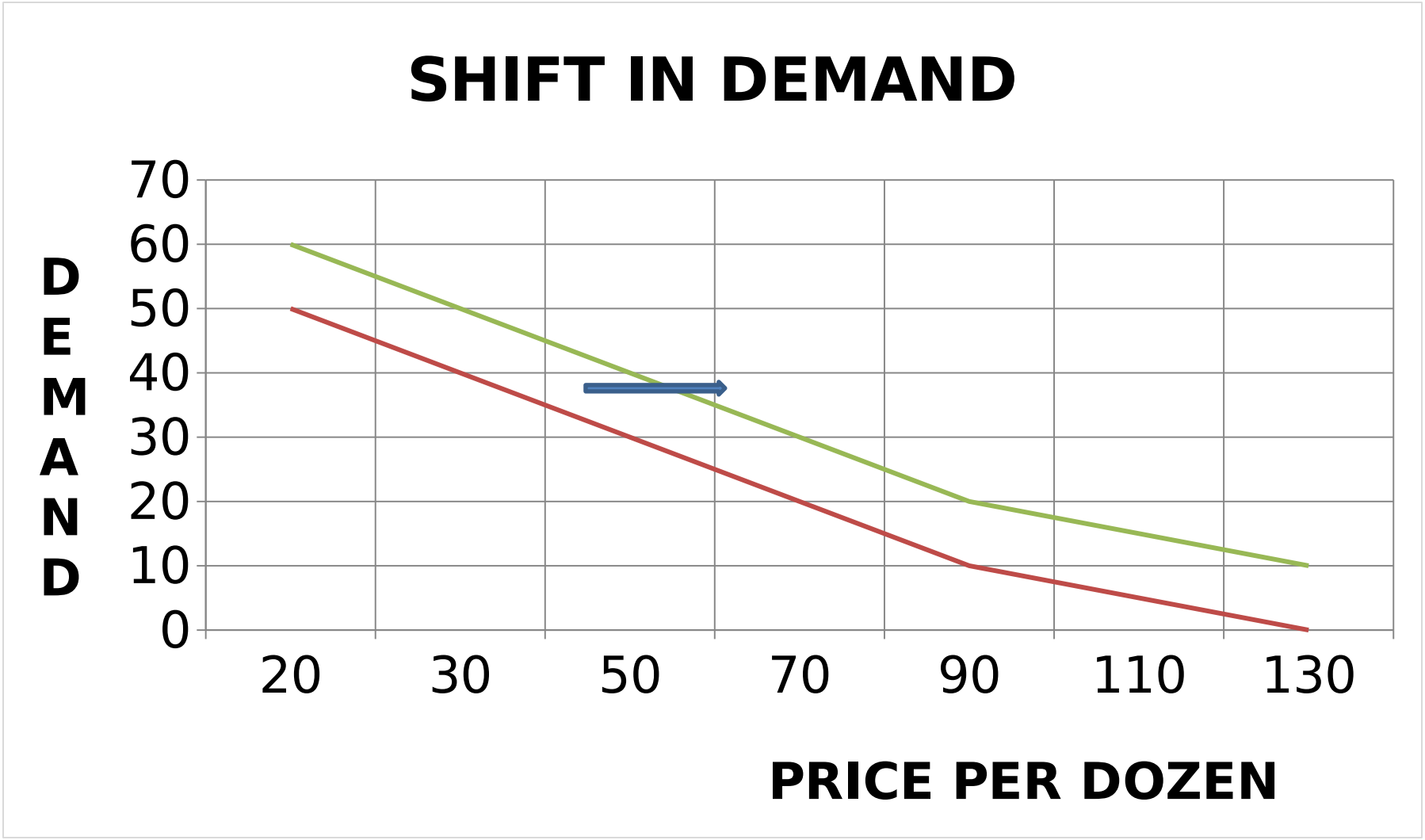
- **A change in Demand is brought by change in price (movement on same curve)**
- **A shift in Demand (movement of the curve)**

**is brought by:**

- **Change in Income**
- **Price of Substitutes**
- **Price of complimentary goods**
- **Advertisement**
- **Price Expectation**
- **Change in Attitudes**
- **Change in Population**

# SHIFT IN DEMAND

| PRICE PER DOZEN | QUANTITY DEMANDED-1 | QUANTITY DEMANDED-2 |
|---|---|---|
| 10 | 50 | 60 |
| 30 | 40 | 50 |
| 50 | 30 | 40 |
| 70 | 20 | 30 |
| 90 | 10 | 20 |
| 110 | 5 | 15 |
| 130 | 0 | 10 |


SHIFT IN DEMAND
DEMAND
70
60
50
40
30
20
10
0
20
30
50
70
90
110
130
PRICE PER DOZEN

# 1. Change in Income

- **As people earn more money, the demand for normal goods will increase (and vice versa (for normal good)**
- **With increase in income demand for inferior goods will decrease**

## Positive or Negative Relationship

**Therefore the shift in demand curve due to increase in income may be upward or downward depending upon the nature of the good (and is versa)**

# 2. Substitution Effect

- **If there is a substitute product, demand for an item is influenced by the price of the substitute.**

**Positive Relationship**

**Example:. If the price of CNG goes up, people will substitute with petrol.**

# 3. Complimentary Products

- **The demand for an item will increase or decrease if the price of a complimentary product increases or decreases**

**Negative Relationship**

**Ex. If the *price* of Electricity goes up, the *demand* for Air Conditioners go down, thereby *decreasing* the demand for Air Conditioners**

# 4. Advertisement

- **Advertisement has direct and positive relationship with demand;]. Wit increase in Advertisement the demand is expected to increase and vice versa.**

**Positive Relationship**

**Often companies promote their product in the market with aggressive advertisement. Advertisement is now almost essential tool of marketing**

# 5.Price Expectation

**Expectation about future price of a product strongly affect the current demand of that product with positive relationship. If future price of product is expected to rise the current demand of the product will increase and vice versa.**

## Positive Relationship

**The consumption of goods that can be easily stored, or whose consumption can be postponed, is strongly affected by buyer expectations. If price of petrol is expected to rise tomorrow , the demand for petrol will rise today.**

# 6. Change in Attitudes

**As people's attitudes about products change, so does the demand (upward or downward)**

**Positive or Negative Relationship**

**For example fashion, taste, entry of new substitute in the market etc.**

# 7.Change in Population

**Population has a direct relation with total market demand With an increase in population the demand for the product increase the demand. The change age composition of the population also accordingly change the demand according to the requirement of segment of population.**

## Positive or Negative Relationship

**With increase in population of Pakistan almost market demand for**

# 8.Full Demand Function

**Full demand function can be presented as below:**

$$Qd = f(P, Y, Ps, Pc, A, Pop)$$

**Numerically a hypothetical Demand equation with function will appear like this:**

$$Qd = 10-5P +- 4Y + 2Ps -1.5Pc +3A$$

**Where:**

***a*** **is constant** ***P, Ps and Pc*** **stand for the price of the product price of he substitute and price of commentary in Rupees, Y is monthly income in 000 Rupees, *A* is Advertisement in million Rupees and Pop is population in million**