DEMAND

Demand is the desire to purchase a commodity and is backed by purchasing power of the consumer at a given period of time. Just a desire to own a commodity cannot be called a demand until it is backed by the money power. For demand the price and time are required.

DETERMINANTS OF DEMAND

1. Price of the commodity
2. Income of the consumer: normal and inferior goods
3. Price of related goods
4. Taste and preference
5. Future speculation
6. No. of consumers
7. Demonstration effect: individual purchasing a commodity seeing other people purchase
8. Distribution of income

DEMAND FUNCTION

The demand for any commodity is the function of the determinants of the demand. The former is the dependent variable and the latter is the independent variable.

The functional relation between the demand for a commodity and the determinants of the demand is called demand function.

$$D_x = f\ (P_x , Y, P_y , T, F, N)$$

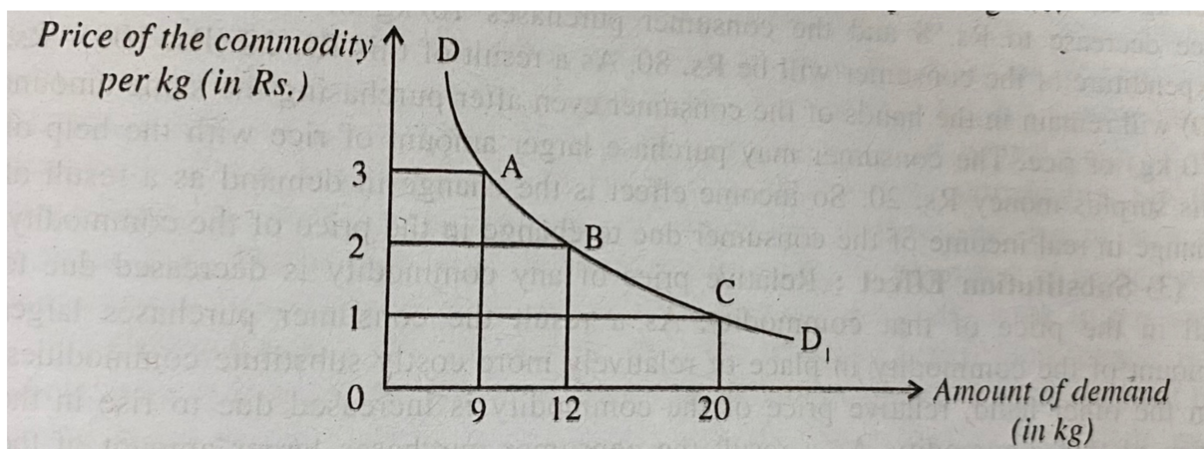
When the independent variables change simultaneous then it is not possible to determine the effect on the demand for the commodity. Keeping other independent variables constant and changing just one

independent variable we can see how the demand changes and this functional relation is called special demand function.

$$D_x = f (P_x)$$

LAW OF DEMAND

Other things remaining constant, there is an inverse relation between the price of the commodity and the demand for that commodity. As the price of the commodity increase the demand for that commodity decreases and vice versa.



The demand curve is a downward sloping curve hence the slope of the demand curve is negative.

CAUSES OF DOWNWARD SLOPING DEMAND CURVE

1. Law of diminishing marginal utility: other things remaining constant, if a consumer consumes a commodity continuously the marginal utility from the different units of the commodity decreases continuously. The consumer will agree to pay lesser price per unit if the marginal utility decreases per unit decreases. It is necessary to lower the price to increase demand.

2. Income effect: other things remaining constant if the price of the commodity decreases, the real income of the consumer increases.

The amount of commodity the consumer purchases with the extra money is called the income effects.

3. Substitution effect: if the relative price of any commodity decreases as a result of decrease in the price of that commodity, then the demand for that commodity increases and vice versa. This is called substitution effect. For substitution effect the demand for commodity increase as the relative price of that commodity decreases. E.g tea and coffee. If the price of tea decreases, then the price of tea relative to the price of coffee decreases and hence the demand for tea increases.

4. Change in the no of consumers: no of consumer increases due to the decrease in price, as those people who couldn't afford the commodity will start demanding as the price decreases.

5. Change in the use of commodity: demand for commodity changes as a result of the change in the use of the commodity due to the change in the price.

EXCEPTIONS TO THE LAW OF DEMAND

1. Conspicuous commodity: consumer purchases some commodities which are not used for the consumption but to show off their status. The demand for such commodity falls as the prices fall.

2. Giffen goods: the increase in price of major cereal food induced the poor people to demand more of such life saving food rather than the relatively better quality food (meat). Such goods are called giffen goods.

3. Speculation of the future

4. Demand on the basis of price (veblem effect): consumer sometimes judge the quality of the commodity by price. The consumer feels

that the quality is higher as the price is higher so they will demand such commodities.

5. Share market: the demand for share increases as price increase as the purchasers expects the prices to further increase in the future and hence earn more profit.