<u>THEORY OF DEMAND (Continued)</u>

Determinants of Demand

3. **<u>Income of the Consumer</u> (I):** There is a <u>*direct (or positive)* relationship</u> between the quantity demanded of a commodity and consumer income, *ceteris paribus (c.p.)*. When consumer income increases (*c.p.*), the demand for almost all commodities increases.

4. **<u>Weather Conditions</u> (W):** Weather can also affect the demand for a commodity. E.g. During summer, the demand for commodities, such as AC and Cooler increases. Similarly, during winter, the demand for Room Heaters and Geysers increases.

5. **Taste and Preferences (T):** It is observed that a person buys more of a commodity, which s/he likes more. Thus, stronger the taste, more of the commodity s/he will buy.

6. **Consumer's Expectations, regarding 'Future Price' of the Commodity (E):** If a consumer expects a fall (rise) in the price of a commodity in the near future, s/he may decrease (increase) her/his present consumption of that commodity.

Note: All of the above factors can affect an individual consumer's demand for a given commodity. In addition, the ***size of the population (P) may affect the market demand for a given commodity***. In general, as the population grows, the market demand for a given commodity tends to increase.

***Demand Function*:** Demand is a function of all its determinants.

$$Q_D = f\ (P_X, P_Y, I, W, T, E)$$

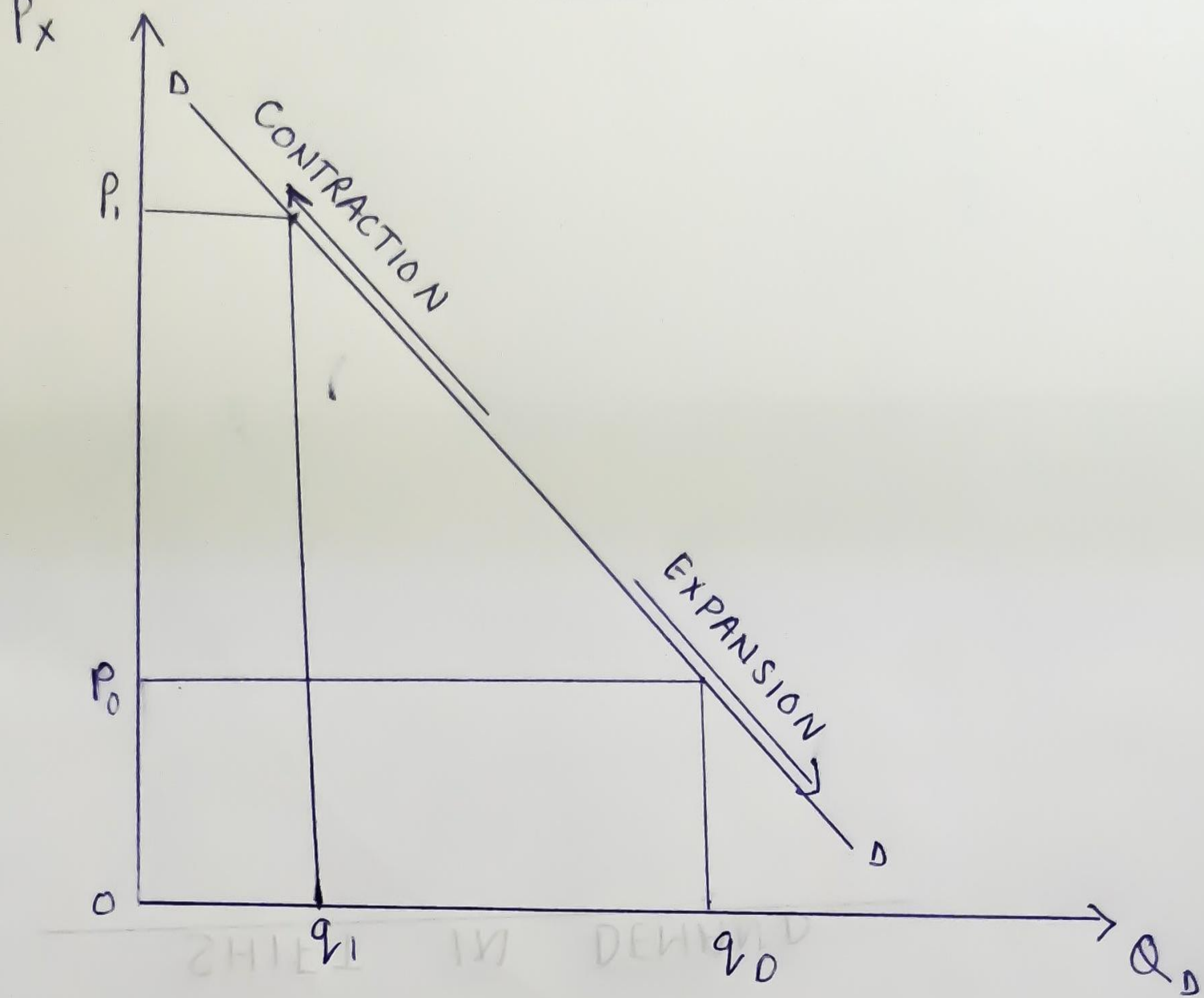
Change in Demand

(i) ***'Expansion' and 'Contraction' of Demand*:**

- When a person ***buys 'more quantity'*** of a given commodity at a *lower price*, *c.p.*, then the *rise* in demand is called ***'Expansion of Demand'*.** Here, *price of the commodity is the only variable*. Expansion of demand is indicated by ***a 'downward movement' along the demand curve*.**

- When a person ***buys 'less quantity'*** of a given commodity at a *higher price*, *c.p.*, then the *fall* in demand is called ***'Contraction of Demand'*.** Here, *price of the commodity is the only variable*. Contraction of demand is indicated by ***an 'upward movement' along the demand curve*.**

DD= Demand Curve

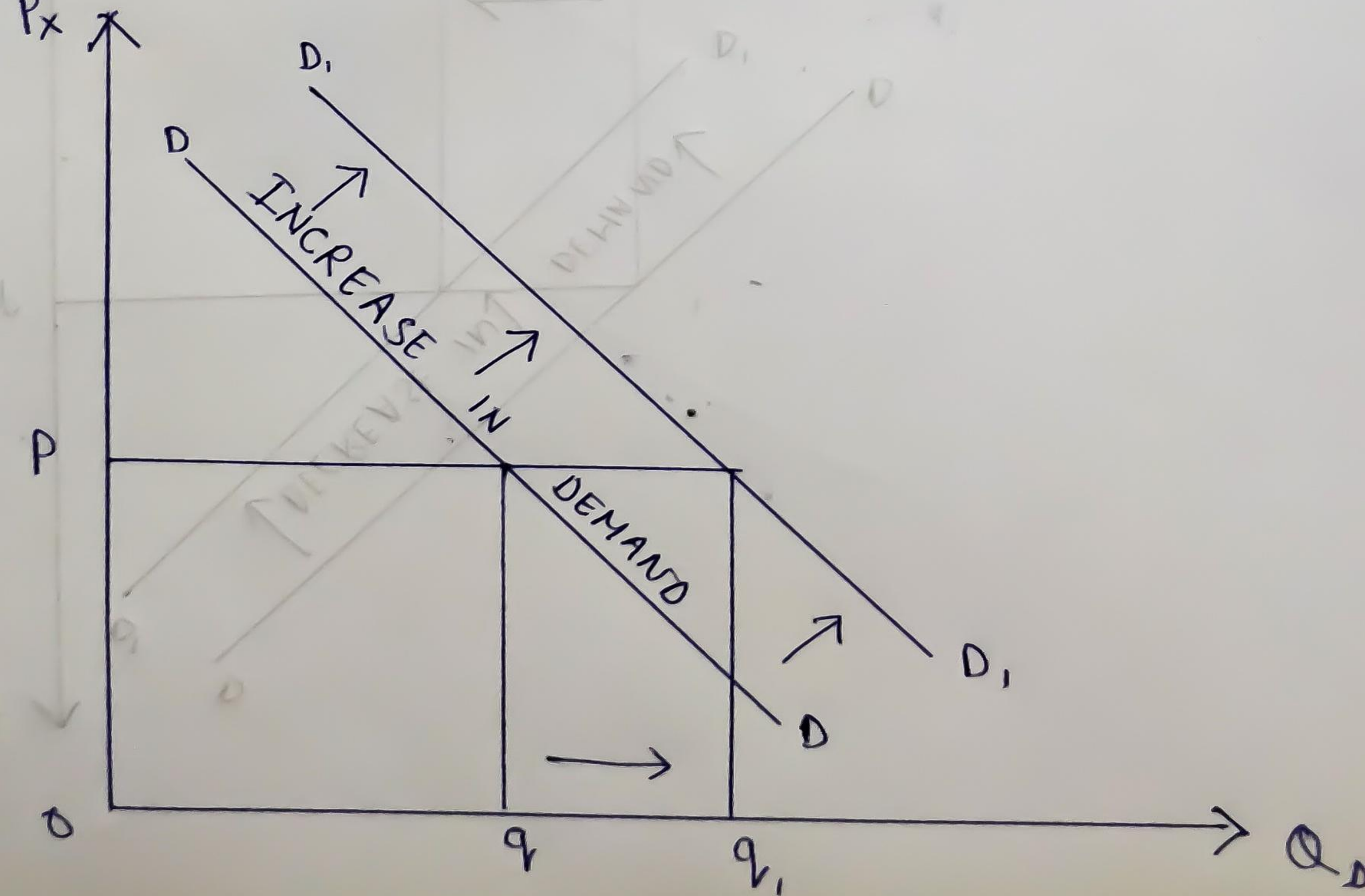


(ii) ‘Increase’ and ‘Decrease’ of Demand:

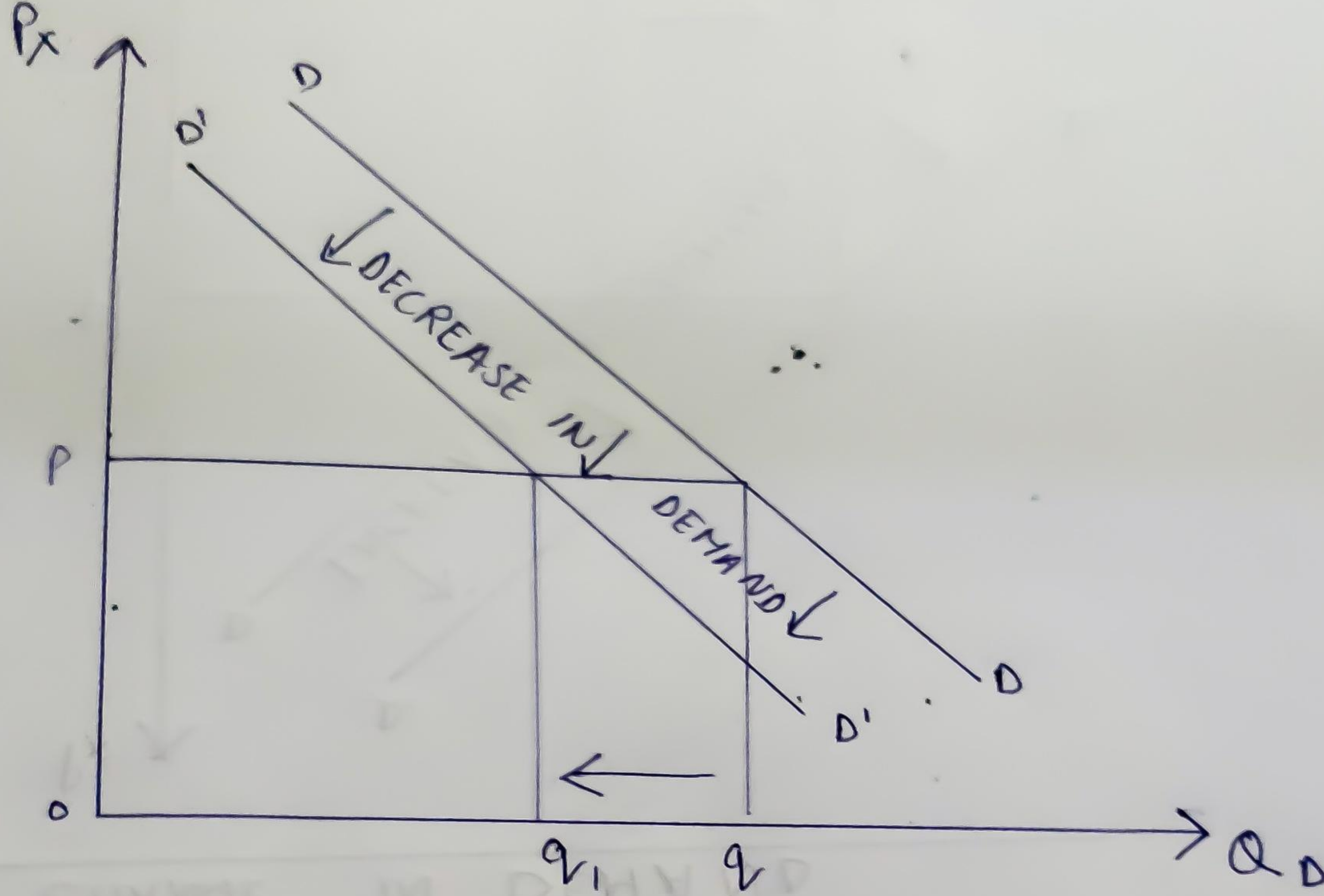
- When a person ***buys ‘more quantity’*** of a given commodity at a *constant price*, then it is called ***‘Increase in Demand’***. Here, *price* of the commodity is *constant* and the *other determinants are variable*. Increase in demand is indicated by *a* ***‘rightward’ shift in the demand curve.***

- When a person ***buys ‘less quantity’*** of a given commodity at a *constant price*, then it is called ***‘Decrease in Demand’***. Here, *price* of the commodity is *constant* and the *other determinants are variable*. Decrease in demand is indicated by *a* ***‘leftward’ shift in the demand curve.***

CHANGE IN DEMAND



SHIFT IN DEMAND



SHIFT IN DEMAND