Demand Analysis

Demand-

For creating the effective demand following things are very compulsory

1. Desire to buy
2. Sources or ability to buy
3. Willingness to use those sources or willingness to buy

The concept demand refers to a quantity of a goods and services that consumers are willing to purchase at various price under certain market condition at various price under certain market condition.

Determinates or Factors Affecting Demand-

1. Price of commodity
2. Price of related goods
3. Income of consumers
4. Taste & preferences of consumers
5. Size of population or demographic condition
6. Distribution of income & wealth
7. Government policies
8. Climatic conditions

Types Of Demand:

1.Direct and indirect demand: (or) Producers' goods and consumers' goods:
Demand for goods that are directly used for consumption by the ultimate consumer is known as direct demand (example: Demand for T shirts). On the other hand, demand for goods that are used by producers for producing goods and services. (Example: Demand for cotton by a textile mill)

2.Derived demand and autonomous demand:
When a produce derives its usage from the use of some primary product it is known as derived demand. (Example: demand for tyres derived from demand for car) Autonomous demand is the demand for a product that can be independently used. (Example: demand for a washing machine)

3.Durable and non-durable goods demand:
Durable goods are those that can be used more than once, over a period of time (example: Microwave oven) non-durable goods can be used only once (example: Band-aid)

4.Firm and industry demand:
Firm demand is the demand for the product of a particular firm. (Example: Dove soap) The demand for the product of a particular industry is industry demand (example: demand for steel in India)

5.Total market and market segment demand:
A particular segment of the markets demand is called as segment demand (example: demand for 21 laptops by engineering students) the sum total of the demand for laptops by various segments in India is the total market demand. (Example: demand for laptops in India)

6.Short run and long run demand:
Short run demand refers to demand with its immediate reaction to price changes and income fluctuations. Long run demand is that which will ultimately exist as a result of the changes in pricing, promotion or product improvement after market adjustment with sufficient time.

7.Joint demand and Composite demand:
When two goods are demanded in conjunction with one another at the same time to satisfy a single want, it is called as joint or complementary demand. (Example: demand for petrol and two wheelers) A composite demand is one in which a good is wanted for several different uses. (Example: demand for iron rods for various purposes)

8.Price demand, income demand and cross demand:
Demand for commodities by the consumers at alternative prices are called as price demand. Quantity demanded by the consumers at alternative levels of income is income demand. Cross demand refers to the quantity demanded of commodity 'X' at a price of a related commodity 'Y' which may be a substitute or complementary to X.

Law of Demand-

The law of demand is one of the most important laws of economic theory. This provides the base to the other economic laws. According to laws of demand, other thing being equal, if the price of a commodity falls, the quantity demanded rises and if the price of commodity rises, its quantity demanded fall. Thus, there is inverse relationship between quantity demand and price.

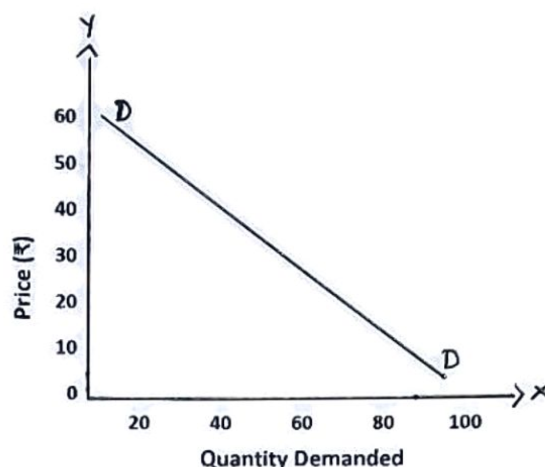
Assumptions of Law of Demand or Other thing being equal or Ceteris Paribus-

1. Price of related goods should not change in the income of the consumers
2. Taste and preferences of consumer should not change
3. There should be no change in the income of the consumer.
4. There should be a rational behavior of a consumer
5. Distribution of income and wealth should be equal
6. Government policies should not change
7. There should be no change in the size of the population

Demand Schedule-

Price Per Unit (₹)	Quantity Demanded (Units)
10	100
20	80
30	60
40	40
50	20

Demand Curve-



On X- axis quantity demanded is shown and on y axis price of commodity in "₹" is shown. DD curve is demand curve which slopes from left to right downward indicating inverse relationship between price and quantity of a commodity.

Why Does Demand Curve Slope Downward from left to Right?

As far as nature of demand curve, it slops down from left to right because there is an inverse relationship between price and quantity demanded, this particular fact is decided by the following term-

1. **Law of Diminishing Marginal Utility-**

By marginal utility we mean the utility derived from additional unit consumed. This law states consumer increases consumption of product, the utility gains from successive units goes decrease. Due to reason consumer will purchase additional unit of a commodity only when he gets it at lower price. For this reason, demand at higher price is less and at lower price demand is more.

2. **Substitution Effect –**

When the price of the commodity increases consumers prefer to purchase its substitute goods because they find these goods relatively cheaper similarly when the price of commodity falls, consumers prefer to consume this commodity in place of its substitute goods.

3. **Income Effect-**

Decrease in the price of a commodity is equal to an increase in the income of consumers because now they will have to spend less to purchase the same quantity of same commodity as earlier and consumption is more of saving.

4. **Different Uses-**

With the increase of a price of a product which have alternative uses, they will be used only for more important uses and their demand falls and vice-versa.

Nature of demand curve

1. Movement Along the Demand Curve
   a. Extension in Demand
   b. Contraction in Demand

2. Shifting of the Demand Curve
   a. Increase in Demand
   b. Decrease in Demand

1. Movement Along the Demand Curve-

Change in equity demand is known as movement along the demand curve as the demand for the commodity moves up and down on the same curve. Quantity demand is a situation being other factor constant, there is change in the price of the commodity, the resultant change in demand for the commodity.

(a) Extension in demand –

Other's things being equal, when the price of the commodity falls, quantity demanded of the commodity will increase this is extension or expansion in demand.

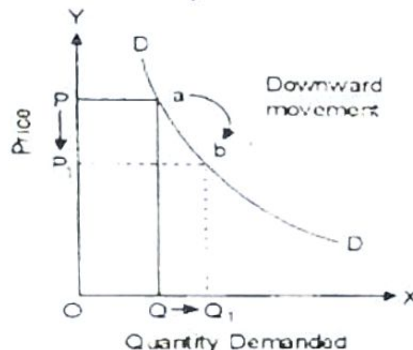
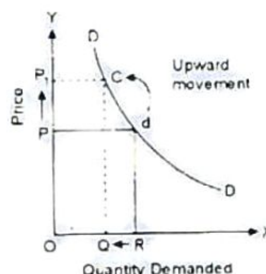


Fig – Quantity demanded on OX axis and its prices on OY axis, P and Q are original price and quantity respectively and prices **decrease** from P to P_1 as a result **increase** in quantity from Q to Q_1.

(b) Contraction in Demand –

Other thing equal, when the price of a commodity rises, the quantity demanded falls. This situation is known as contraction in demand.



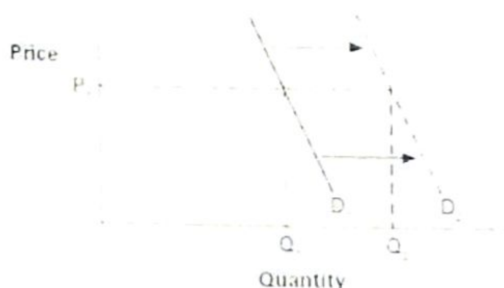
In fig-, quantity demanded on OX axis and its prices on OY axis. P and Q are original price and quantity respectively and prices **increase** from P to P_1 as a result **decrease** in quantity from Q to Q_1.

2. **Shift of Demand Curve-**

It refers to change in demand of commodity, without price of the commodity being changed but due to change in determinants of demand (other thing is being constant, is changed). Curve shift to new curve left or right to the original curve.

a. **Increase in demand-**

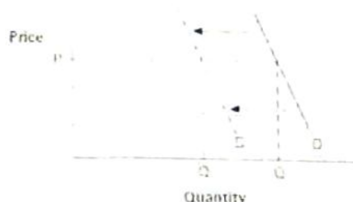
When demand for a commodity increase because of favourable change in its determinants and no change in its price, it is called increase in demand. In this case, demand curve shifts to the right to the original curve.



In fig. quantity demanded on ox axis and price on oy axis. P_1 is price, Q_1 and D_1 is original quantity and original demand respectively. D_2 is the change in demand i.e., from D_1 to D_2 is shifting of **curve from left to right is increase in demand.**

b. **Decrease in demand-**

When demand for a commodity decreases because of change in determinants but no change in price it is called decree in demand. In this curve demand is curve shift towards left from original curve.



In fig. quantity demanded on ox axis and price on oy axis. P_1 is price, Q_1 and D_1 is original quantity and original demand respectively. D_2 is the change in demand i.e., from D_1 to D_2 is shifting of **curve from right to left is decrease in demand.**

Difference Between Movement Along Demand Curve and Shifting Demand Curve

Basis	Movement along demand curve	Shifting demand curve
Meaning	It refers to association when demand curve moves along the same curve up and down	It is association when a demand of a commodity changing resulting a shift in the demand curve
Concepts	There are two concepts under this extension in demand and contraction in demand.	There are also two concepts under this increase in demand and decrease in demand
Cause	Change in price of the commodity is the cause for the movement along the demand curve.	Change in various factor of demand other than price of the commodity are the cause for shift in demand
Assumptions	All the factors influencing demand accept price of the commodity are assumed to remain constant	Price of the commodity is assumed remain constant
Other names	This is known as change in quantity demanded	This is also known as change in demand
Demand curve	There will be same demand curve on which the demand keeps moving	There will be different demand curve showing a shift upward and downward curve to the original curve

Exception to law of Demand

In general pattern the demand is high in low prices and demand is less in high prices. However here are certain cases where this law does not hold any importance. The following are important hold any importance. The following are important exception to law of demand.

1. **The Goods of Necessities-**
   The demand increase even through their prices are increasing. For middle class familiar the product like T.V, Fridge etc. have become necessities as they convey the certain level of standard of living.

2. **Giffen Paradox-**
   Giffen was the great statistician of Britain during 19th century. He was surprised to find out that as the price of bread increased, the British workers purchased more bread. This is something against the law of demand. The season was when the price of bread went up, it causes such large decline in the purchasing power of the people that they were forced to cut down the consumption of meat and other expensive foods. Since bread, even when its prices were higher than before, was the cheapest food article, people consumed more of it and not the less when its price went up.

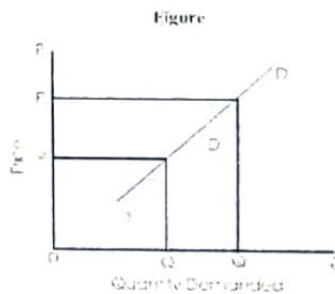
3. **Commodities of Prestige or Status Symbol-**
   Prestige commodities are used by rich people for whom the price is not an important factor.

4. **Expectation of Future Change in Price-**
   If price of a commodity increases and these is an expectation of further increase in its price demand for such commodities will further increase.

5. **Ignorance of Consumers-**
   When a consumer behaves that higher price will have higher quality of good i.e. higher price good is better.

6. **Emergencies-**
   Value of demand does not apply in case of was Famine, Curfew etc.

Figure



DD curve moves upward from left to right as there is a positive relationship between price and quantity i.e. as price are high quantity demanded is high and vice-versa and deep expectation to law of demand.

References:
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