In simple words, demand means desire for a commodity. But, in economics the word demand deals with 5 different valuable components/elements:-

1. Desire for a commodity
2. Ability to buy it
3. Willingness to pay for it
4. At a given price of a commodity
5. At a given period of time.

❖ **MEANING OF DEMAND:-** It refers to the quantity of a commodity that a consumer is willing and able to purchase at a various possible prices during a particular period of time.

❖ **DETERMINANT OF DEMAND OR FACTORS AFFECTING INDIVIDUAL DEMAND:-**

1. **PRICE OF A GIVEN COMMODITY:-** There is an inverse (-ve) or indirect relationship between price of a commodity and its quantity demanded. It means as the price increases, quantity demanded falls; and prices decreases, quantity demanded rises (increases.)

EXAMPLE:- If the price of given commodity (say apples) increases, its quantity demanded will fall. This type of demand is known as price demand.

Price Apples	Quantity Apples
15 4	8 20

Diagram:

2. **PRICE OF RELATED GOODS:-** Demand for a commodity is also affected by its prices of related goods. Related goods are of 2 types:-

a. Substituted goods
b. Complimentary goods

a. **SUBSTITUTED GOODS:-** These are the goods which satisfy the same type of needs and hence can be used in place of one another to satisfy a given want like tea and coffee. Increase in the prices of substitute leads to the increase in the demand of given commodity and vice a versa. Example:- If the prices of substitute goods increase say (tea) then the demand of given commodity (coffee) will rise as the coffee becomes cheaper as compared to the tea. More examples Coke and pepsi, pen and pencil, CD and DVD, ink pen and ball pen, rice and wheat.

Apples	Bananas
PA QD A 20 10 30 -5 10 20	**PB QD B** 20 10 20 15 20 -5

Diagram:-

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So, the demand for a given commodity is directly affected by change in price of substitute goods.

2. **COMPLIMENTARY GOODS:-** These are the goods which are used together to satisfy a particular want like tea and sugar, pen and ink, bread and butter, chalk and blackboard. An increase in price of complementary goods leads to the decrease in a demand for a given commodity and vice a versa. So, demand for a given commodity is inversely or indirectly affected by the change in price of complementary goods.

Marker	**Blackboard**
PM QD M 10 15 15 -10 5 15	**PBB QD BB** 10 15 10 -10 10 25

Diagram:

3. **INCOME OF A CONSUMER:-** Income of a consumer is a basic factor of quantity demanded of a product as it determines the purchasing power of a consumer.

Generally, there is direct relationship between income of consumer and his demand for a product i.e. with the increase in income, the QD of a product will be increased.

Further it have three difference types of goods:-

1. **NORMAL GOODS:-** These are those the demand for which increases with the increase in income of consumer and decreased with the fall in income. So, there is a +ve relationship between consumer income and QD of normal goods.
   EXAMPLE:- Demand for clothes, refrigerator, cars etc. increases with increase in income of a consumer.
   Diagram:-

2. **INFERIOR GOODS:-** Its are those goods the demand for which fall with increase in income of a consumer. So, there is (-ve), inverse or indirect relationship between income of a consumer and QD of inferior goods. **EXAMPLE**:- The demand for maize and lower may decrease when income increases beyond a particular level because consumer may substitute it with superior cereals with rice and wheat.
   Diagram:-

3. **INEXPENSIVE GOODS:-** In case of inexpensive necessities of life such as salt, match box, sugar etc. The Q purchased increases with increase in income upto a certain level and their after it remains constant irrespective of level of income. Thus, there is an upper limit to the consumption of such goods.
   Diagram:

The functional relationship between the demand for a commodity and level of income is known as income demand.

4. **TASTE AND PREFERENCES OF CONSUMERS:-** Taste and preference of consumers directly influenced the demand for a commodity. This includes fashion, social customs, habbits of people, lifestyle of people etc. If any commodity is in fashion then the demand for such commodity will be increased. On the other hand, if the demand for the commodity falls, then this means the consumer have no taste for that particular commodity.
   Diagram:

5. **EXPECTATION OF CHANGE IN PRICES OF GOODS IN FUTURE:-** If the price of a certain commodity is expected to increase in near future, then people will buy more of that commodity than what they normally buys. So, there is a +ve direct relationship between expectation. QD of a particular product in a current year.
   EXAMPLE:- If the price of petrol is expected to rise in future, then its present demand will be increased.

Q. What are the factors affecting market demand?

Ans:

1. **CONSUMERS CREDIT FACILITY:-** If consumers are able to get credit facilities as they are able to borrow from banks, they would be tempted to purchase certain goods, they could not have been purchased otherwise credit facilities.
2. **DEMONSTRATION EFFECT:-** It refers to the tendency of a person to imitate the consumption style of other persons like friends, neighbours etc. The demand for luxury cars, watches, expensive phones has been increased in the recent years of the new desire of people o follow the consumption style of others.
3. **SIZE AND COMPOSITION OF POPULATION:-** Market demand for a commodity depends upon size and composition of population. The population size of a country determines the number of consumers. Larger the population, larger the number of consumers.

An increase in the size of population with increase in demand of a commodity by increase in number of consumer.

- Composition of population also affects demand. It refers to number of children, adults, males, females etc. in the population.
  EXAMPLE:- Needs of young and old, males and females differs. If number of teenagers in population increases, the demand for those goods that tend to buy such as mobiles, clothes will be increased.

4. **DISTRIBUTION OF INCOME:-** If the distribution of income is unequal, there will be more demand for luxury goods like cars, LED TV. But on the other hand, if income is equally distributed then there will be less demand for luxury goods and more demand for essential goods.
5. **CLIMATIC CONDITIONS:-** Demand for differ goods depends on climatic factors as differ goods are needed for differ climates.
   EXAMPLE:- Demand for ice cream, fans, A.C, cold drinks, cotton clothes etc. increases in summers. In winters demand for heaters, warmers, hot drinks, woollen clothes increases.
6. **GOVERNMENT POLICIES:-** Economic policy of govt. also influences the demand for the commodity.
   EXAMPLE:- It govt. impose taxes on varies commodities in the form of vat excise duty etc. The prices of these commodities will increase. As a result, demand will fall. But, on the other hand, if govt.

spends more on construction of roads, bridges, the demand for goods needed for construction will increased.

❖ **DEMAND FUNCTION:-** It shows the relationship between quantity demanded for a particular commodity and various determinants.

Dx = f (Px, Pr, Y, T, E, H, Y, G, S

Where Dx = demand for commodity x. F shows functional relationship between demand for commodity (x) i.e. Dx and factors affecting demand.
Px = price of commodity (x)
Pr = price of related goods
Y = income of a consumer
T = taste and preferences
E = expectations
H = size of population
Y = distribution of income (Y)
G = govt. policies, S = season
This equation is called demand function. Which gives functional relationship (i.e. cause and effect relationship) between demand for a commodity and various factors affecting demand.

❖ **DEMAND FUCNTION ARE OF 2 TYPES:-**

1. **INDIVIDUAL DEMAND FUNCTION:-** It refers to the functional relationship between demand and factors affecting individual demand.
   Dx = F (Px, Pr, Y, T, E)
2. **MARKET DEMAND FUNCTION:-** It refers to the functional relationship between market demand and factors affecting market demand.
   Dx = F (Px, Pr, Y, T, E, H, Y, S, C)

❖ **LAW OF DEMAND:-** The law of demand states that other things remaining constant/ equal the quantity demanded of a commodity increases, when its price fall and decreases when its price rises. Thus, law of demand states that there is inverse relationship between price and quantity demanded, keeping other factors constant.

❖ **ASSUMPTIONS OF LAW OF DEMAND:-**

1. Price of related commodities should remain unchanged.
2. Income of consumer remains same.
3. No change in the taste and preference of the consumer.
4. No expectations of change in prices of goods in future.

❖ **DEMAND SCHEDULE:-** The demand schedule is a tabular statement that shows different quantities of commodities that a consumer is willing to buy at various levels of prices, during a given period of time. These are of 2 types:-

1. **INDIVIDUAL DEMAND SCHEDULE:-** It is a table which shows various quantity of commodity that would be purchased at differ. Prices by a household . consumer dueing a given period.

Price	Quantity demanded
1	4
2	3
3	2
4	1

Diagram:-

2. **MARKET DEMAND SCHEDULE:-** It is a table which shows various quantities of a commodity that all the consumers are willing to buy at different prices during a given period.

Price	**QD by A**	**QD of B**	**Total market demand (A+B)**
5	1	2	(1+2) = 3
4	2	3	(2+3) = 5
3	3	4	(3+4) = 7
2	4	5	(4+5) = 9
1	5	6	(5+6) = 11

Diagram:-

Q. Why does demand curve slope downward or what are the reasons for law of demand?

Ans:

1. **LAW OF DIMINISHING MARGINAL UTILITY:-** It states that when a consumer goes on consuming a commodity continuously then the utility derived from each successive unit goes on diminishing. So, the demand for a commodity depends on its utility. If the consumer gets more satisfaction, he will pay more. As a result, the consumer will not be prepared to pay the same price for additional units of the commodity. The consumer will buy more units of the commodity only when the price falls.
2. **INCOME EFFECT:-** It refers to the affection demand when real income of the consumer changes due to change in price of given commodity. When price of given commodity falls, it increases the purchasing power i.e. real income of the consumer. As a result, he can purchase more of a given commodity with the same money income. **EXAMPLE**:- Suppose, a consumer buys 4 apples @ 10 = 40 Rs. (his pocket money). If the price of apples decrease to Rs. 8 then the consumer can buy 5 more apples due to his increases in his real income with the same amount in his income (Rs.)
3. **SUBSTITUTION EFFECT:-** It refers to substituting one commodity in place of other when it becomes relatively cheaper. When the price of a given commodity falls, it becomes relatively cheaper as compared to its substitute (assuming no change in price of substitute). As a result, demand for a given commodity rises.
   EXAMPLE:- If the price of coffee falls, the price of tea remaining same, coffee will become relatively cheaper. The coffee becomes more attractive to people with comparison to tea.
4. **SEVERAL USES OF GOODS AND COMMODITIES:-** There are some goods which can be put to number of uses. Some of them are more important while others are more important. When prices of such a good (milk) increases its uses get restricted to the most important purpose (drinking) and demand for less important use (like cheese, butter etc) gets reduced but, when the price falls these commodities will be put to less important uses. Also, leading to increase in demand.
5. **INCREASE IN NUMBER OF CONSUMERS:-** When the price of commodity falls, many new consumer who were not in a position to buy it earlier due to its high price start purchasing it. In

addition to new customer, old customers of the commodities starts demanding more due to its reduced price.

EXAMPLE:- When the price of apples is Rs. 100 per kg, then a handful (a very few) of consumers can buy it. The QD is small as price of apples falls to Rs. 70 kg, apples are within the reach of those household who could not afford to purchase apples at a higher price consequently, the total demand for apples goes up.

❖ **EXCEPTIONS TO THE LAW OF DEMAND OR WHY DEMAND CURVE SLOPES UPWARDS OR IN WHAT CONDITIONS DEMAND WILL BE +ve:-**

1. **GIFFEN GOODS:-** (Name after Sir Robert Giffen) are those inferior goods on which consumer spends a large part of his income and the demand for which falls with the fall in their price and demand rises with the increase in their prices.
   EXAMPLE:- In a country, it is a often seen that when the prices of coarse cereals like Jawar and Bajra falls. The consumer have a tendency to spend less on them and shift over to superior cereals like wheat and rice. This phenomenon particularly known as giffens paradox was first observed by sir Robert Giffen.
2. **ARTICLE IF DISTINCTION / STATUS SYMBOL GOODS:-** The exceptions relates to the creation prestige goods which are used as status symbol goods.
   EXAMPLE:- Diamond, gold, antigue painting, etc. are bought due to the prestige. These are wanted by rich person. Higher, the price, higher will be the demand for such goods.
3. **CHANGE IN FASHION:-** When a commodity goes out of fashion, consumers will not purchase a larger quantity of this commodity even when price is reduced.
   EXAMPLE:- If any particulars type of risk is not in fashion, then demand for such dresses will be less even if price is reduced.
4. **IGNORANCE:-** Consumer may buy more of a commodity at a higher price when they are ignorant of the prevailing prices of the commodity in the market.
5. **NECESSATIES OF LIFE:-** Another exception of occurs in the use of such commodities which become necessities of life due to their constant use like rice, wheat, salt, medicines etc. These are purchased even if their prices increases.
6. **CHANGE IN WHEATHER:-** With the change in season or weather, demand for certain commodities also change irrespective of any change in their prices.
   EXAMPLE:- Demand for umbrella increases in rainy season even when there is increase in prices.
7. **FEAR OF SHORTAGE:-** If the consumer expect a shortage of particular commodity in near future, then they would start buying more and more commodities even if its prices will rise.
   EXAMPLE:- During emergencies like war, famines consumer demands goods even at higher prices due to fear of shortage.

❖ **DEMAND CURVE:-** It is the graphical representation of demand schedule. It is the curve showing different quantities demanded at various alternatives prices during given period.

❖ **DEMAND CURVES ARE OF 2 TYPES:-**

1. **INDIVIDUAL DEMAND CURVE:-** It is a curve that shows different quantities of a commodity which a consumer is willing to buy at a different prices during a given period of time. The price of the commodity X is plotted on y-axis (vertical axis) and quantity demanded on x-axis (horizontal axis). Point A, B, C, D shows 4 prices quantity combinations. By joining these various points were got curve which is known as demand curve. DD curve slopes downwards from left to right indicating an inverse relationship between price and quantity demanded.
2. **MARKET DEMAND CURVE:-** It is a curve that represents different quantities of goods which are the consumers in the market are willing to buy at differ. Price during specified period. It is the horizontal summation of the demand curve of all the household.

❖ **MOVEMENT ALONG THE DEMAND CURVE:-** When QD of a commodity changes (rises / falls) as a result of change in its own price while other alterminants of demand (income, taste and preference, price of related goods) remains constant. It is known as change in QD. It is of 2 types:-

1. **EXPANSION OF DEMAND:-** When QD increase due to fall into price, other things remaining constant. It is called rise in QD or expansion of demand.

   EXAMPLE:- When price of grapes falls from Rs.100 per kg to 80 per kg of consumer purchase of grapes rises from 1 kg to 2 kg per weak. This is known as expansion of demand or increase in QD.

Px	QDx
5 1	1 5

Diagram:

2. **CONTRACTION OF DEMAND:-** It refers to a decrease in quantity demanded of a commodity. As a result, rise in its price, other things remaining same. It leads to upward movement along the same demand curve. It is also called decrease in QD.

Px	QDx
2 10	10 5

Diagram:

❖ **SHIFT IN DEMAND CURVE:-** When the amount purchased of the commodity rises or falls because of change in factors other than the own price of the commodity, it is called change in demand. It can be of two types:-

1. **INCREASE IN DEMAND:-** In this a consumer buys larger amount of a commodity at a same price. Therefore of change in factors other than the own price of the commodity. It may take place due to increase in income, change in Taste and preference, rise in prices of substitute, fall in prices of complementary of goods increases in population.
2. **DECREASE IN DEMAND:-** It refers to fall in demand of a commodity caused due to any factor other than the own price of the commodity.

Px QDx	PX QDx
10 20 10 30	10 30 10 20

Diagram:-

- **DIFFERENCE BETWEEN MOVEMENT ALONG DEMAND CURVE AND SHIFT IN DEMAND CURVE:-**

Basis	Movement along demand curve	Shift in demand curve
Meaning	When the QD change due to change in price, keeping other factors constant. It leads to movement along the same demand curve.	When the demand changes due to change in any factor other than the own price of the commodity, it leads to a shift in the demand curve.
Effect on demand curve	The movement along the same demand curve is either upwards or downwards.	Shift in demand curve is either rightwards or leftwards
Reason	It occurs due to an increase or decrease in the price od the given commodity.	It occurs due to change in other factors like change in prices in substitute goods and change in income etc.

- **DIFFERENCE BETWEEN CHANGE IN QUANTITY DEMAND AND CHANGE IN DEMAND:-**

Basis	Change in quantity demanded	Change in demand
Meaning	When the QD change due to change in price, keeping other factors constant.	When demand changes due to change in any other factors than the own price of the commodity.
Effect on demand curve	It leads to a movement along the same D.C. either upwards or downwards	It leads to shift in D.C. either rightwards or leftwards
Reason	It occurs due to an increase or decrease in the price of the given commodity.	It occurs due to change in other factors, like change in price of substitutes, complementary, change in income etc.

- **DIFFERENCE BETWEEN EXPANSION IN DEMAND AND INCREASE IN DEMAND:-**

Basis	Expansion in demand	Increase in demand
Meaning	When the QD rises due to decrease in price, keeping other factors constant.	Increase in demand refers to a rise in demand of a commodity caused due to any factor other than the other prices of the commodity.
Tabular presentation	Price Demand 12 100 10 150	Price Demand 12 100 12 150

Effect on demand curve	There is always a downward movement along the same demand curve.	There is always a rightwards shifts in the demand curve.
Reason	It occurs due to a decrease in the price of the given commodity.	It occur due to favourable change in the other factors like increase in the price of substitute, decreases in the prices of complementary goods increase in income in case of G's etc.

❖ **DIFFERENCE BETWEEN CONTRACTION IN DEMAND AND DECREASE IN DEMAND:-**

Basis	**Contraction of demand**	**Decrease in demand**
Meaning	When the QD decrease due to increase in price, keeping other factors constant.	When there is decrease in demand of a commodity and caused due to any factor other than the own price of a commodity.
Tabular representation	Px Dx 10 150 12 100	Px Dx 10 150 10 100
Effect on demand curve	There is an upward movement along the same demand curve.	There is a leftward / downward movement in the demand curve.
Reason	It occurs due to increase in price of given commodity.	It occurs due to an unfavourable change in other factors like decrease in sub goods, increase in complementary goods and etc.