MICRO ECONOMICS

Ch - Demand

Q. What do you mean by demand?

A. A demand is a desire that fullfils following conditions

1. Availability of Product.
2. Ability to pay for product.
3. willingness to pay for product.
4. At a particular price & place.

Q. What are the factors that effects individual demand

A. following are the factors that effect individual demand:

1. **Price of the product** – Price and demand are negatively related to each other i.e., keeping other things as constant when price of product increases its demand falls and visa-versa.

2. **Price of related goods** – At times price of related goods also affect demand of a given product. These related goods are categorized as complimentary goods & substitute goods. In case of complimentary when price of one increases demand of other falls.
for eg: Car & Petrol

Incase of substitute goods when price of one Increases ~~the~~ demand of other Increase.
for Instance: Pepsi & Coke

3. <u>Income of consumer</u> — change in Income of consumer also affect it's demand its effect can be explained in context of 2 kinds of goods:

(1) <u>Normal / superior goods</u>: These are high prized and high quality goods, have +ve relation with demand i.e., when income Increases their demand Increase & visa-versa.

(2) <u>Inferior goods</u>: These are low quality, low prized goods having negative relation with income i.e., when Income increases their demand falls & visa-versa.

4. <u>Taste and Preffrences</u> — Taste and preffrences of consumer directly ~~of~~ affect the demand for a comodity. A product for which taste has been developed will have high demand as compared to ~~8~~ others. It also includes fashion ~~and~~ and the goods in fashion will be having higher ~~def~~ demand in comparision to out dated ones.
~~Future expecti os~~

5. <u>Future expectation of change in price</u> — If price is expected to change in future the demand in present may change.
for Instance: Price is expected to increase in future the demand at present will increase.
On the other hand if the price is expected

to fall in future the demand in present will decrease.

Q. What are the factors that affect market demand?

A. Following are the factors that affect market demand :—

① Size and composition of population – Market demand of a comodity gets affected by size of population i.e., larger is the size, larger will be demand and lesser is the size, lesser will be demand similarly the composition also affect the demand i.e., the ratio of males, females, children, elders etc.
For eg: Higher is the ~~pe~~ % of females in population higher will be demand for cosmetics.

② Season & weather – Seasonal change also affect demand for commodity.
For instance: During winters the demand for woolen clothes is higher & similarly for cotton clothes in summers.

③ Distribution of Income – If income in the country is equally distributed market demand will be comperatively higher but incase the income is unequally distributed i.e., there are very rich or very poor people the market demand will be comperatively lower.

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Q. What are the exeptions to law of demand?

OR

In what circumstances prize and demand may move in same direction.

A. Following are Exceptions to law of demand :-

P↑ D↑
P↓ D↓

① **Status symbol / Prestigious goods :**

There are certain goods which are used as a symbol of status and prestige. Higher is the price of such goods, higher is the status attached to them so their demand does not decrease with the increase in prices.

LV, demand – For instance : Demand for gold, diamond, supercars etc.

② **Fear of Shortage :**

If consumes expects shortage of goods in future the'll demand them even at higher ~~pt~~ prices.

P↑ D↕

For eg: During COVID time there was a fear of shortage of oxygen ~~&~~, therefore the demand was high even at higher prices.

③ **Ignorance :**

At times when consumers are ignorant about the prizes prevailing in market the demand for product even at higher prize.

for Instance: A consumer purchases paint at Rs 900 per liter which was available at ~~Rs 800 A dy~~ a day before but since he was ignorant about the price trend he bought at higher prize.

4. Goods & Habit:

D↑ Sometimes consumer habitual for consumtion of ~~or~~ certain goods.

P↑↓ for eg: ~~tabaco~~ tabaaco, alcohol etc.
Demand for these goods does not get even if the prize increases.

5. Necessity Goods:

Price ↑↓ There are certain comodities which are necessity for life for eg: Salt, sugar, water etc.
D↑ Demand for these goods does not get affected even if the prize change because they are necessity for survival of human life.

6. Gieffen Goods:

These are a special kind of Inferior good on which consumer spends a large part of his income, their demand rise with the increase in price, These goods were named after Observation by Sir Robert Gieffen. His observation can

be explained through following eg. of a community with lower income. lets say
100 ~~Rs~~ Rs per head out of which they spend forty on bread and 60 on meat, lets say the ~~price~~ price of ~~bad~~ bread increases to Rs 60 now the amount available for meet is Rs 40 only. And consumer is getting same amount of bread he observed that consumers spend the whole 60 Rs on bread and sacrifies meat.
So demand for goods like bread i.e., Giffen goods increase in their prices.

7. change in weather / climate conditions :-
with change in season demand for certain goods increase.

for instance : During rainy season demand for umbrella's, rain coats etc. increase even if their price is higher.

8. Goods & fashion :-
Goods and fashion are demanded even at higher prices : if any particular dress is in fashion their demand increase even if the prices increase over a period of time.

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Q. What are the reasons behind law of demand?

OR

Why does law of demand apply?

A. Following are the reasons behind application of law of demand :-

1. <u>Substitution effect</u> - It refers to substituting one commodity in place of other when it becomes relatively ~~cheaper~~ cheaper i.e., we increase the demand of a commodity increases not only because its price has decreased but also because of a fact that there a substitute who's price has not decreased. So, when a price decreases the product becomes relatively cheaper to the substitute which is why it's demand increases.

2. <u>Income effect</u> - It reffers to effect on demand of a comodity when real income of consumer changes due to change in price of given commodity. In other words when price of a commodity falls it increases the purchasing power i.e., real income of a consumer.

Real Income → Purchasing power

Suppose Mr. A buys a product at 10 per unit and with a budget of Rs 100 he purchases 10 units if price of it falls to 5 his purchasing power for the same will increase to 20 units and he demands more.

Rate ↓ No. of consumers ↑ Demand ↑

3. <u>No. of consumers</u> — when prise of a commodity falls no. of <u>new consumers</u> who were not buying earlier start consuming now. That includes <u>additional purchase by existing consumers</u> and new purchase by new consumer.

for eg: when price of car reduced those who were using two wheeler bought car & those who were already having a car bought another for family members this increased the demand of car.

Price ↑ no. of uses ↓ Demand ↓

4. <u>No. of uses</u> — Some commodities have different uses when prize of ~~sto~~ such goods change then demand also change due to change in no. of uses.
for instance: when price of electricity increases people reduce uses. the no. of uses of electricity due to which the demand for electricity fall.

5. <u>Law of diminishing margenal utility</u> — This law states that as a consumer consume more & more units of a commodity the utility which he derives from the next <u>consumtion keeps on diminishing</u>. SO, he would be <u>willing to pay lesser</u> <u>for next</u> unit <u>because</u> he is getting lesser utility from next unit.
In other words, consumer purchases more of a

commodity only when it is available at a lesser price.

For eg: A consumer purchases a chappati and pays ₹100 for the first one since he is hungry & that chappati is giving higher amount of satisfaction but at the same time he would be willing to pay lesser for the second chappati since he is getting lesser satisfaction.

Q. What is individual demand schedule?

A. It refers to a tabular form of presentation of data showing different quantities demanded at different prices of a commodity by an individual consumer this can be explained through following schedule of an imaginary product 'x' demanded by 'a'

INDIVIDUAL DEMAND SCHEDULE

Price of 'x'	Quantity demand of 'x'
10	100
9	120
8	140
7	160
6	180
5	200

price curve - x axis
demand - y axis

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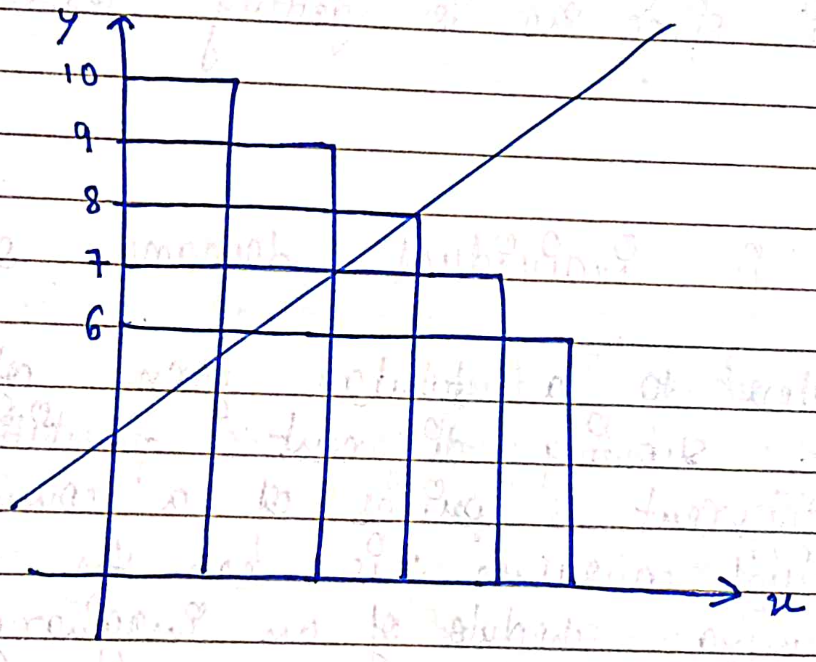
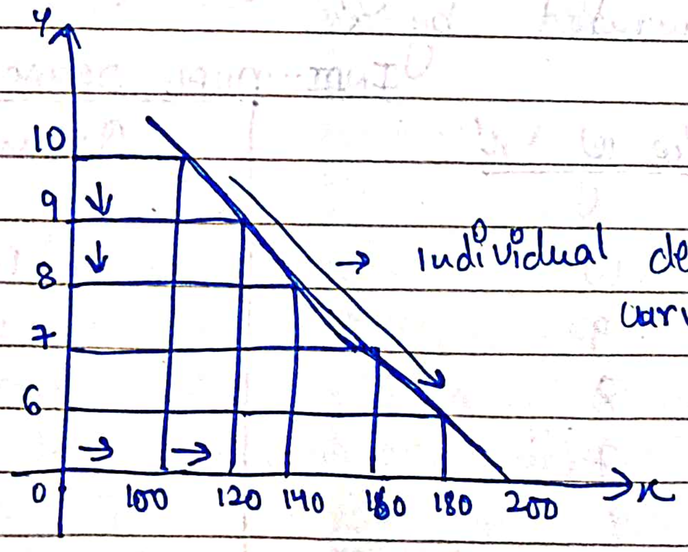
Q. What is individual demande curve ?

A. It is a tabular form of presentation of data showing different quantities of a commodity demanded by a consumer at different prices as shown in the following diagram using imaginary figures.



P↓ D↑



Dd : In this diagram quantity demanded is shown on x axis and og price on oy axis. DD represents an individual demand curve that slopes downwards from left to right showing negative relation b/w price and demand of commodity.

Q. Explain the concept of market demand schedule and market demand curve.

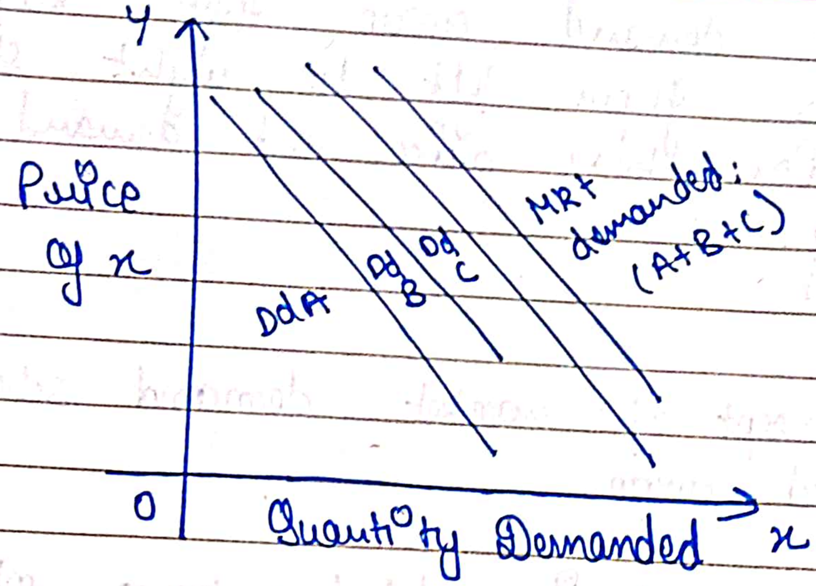
A. Market demand schedule is a tabular form of presentation showing different quantities demanded by all individuals in the market at different prices. suppose there are three consumers A, B & C for product 'x'. there demand schedule can be shown by the following table.

Market Dd schedule

Price of 'x'	Dd by A	Dd by B	Dd by C	A+B+C MR Dd
10	100	90	120	310
9	110	110	140	360
8	120	130	160	410
7	130	150	180	460
6	140	170	200	510

→ Market demand

MARKET DEMAND CURVE : It is a graphical representation of data showing different quantities demanded by all the consumers in a market for a product at different prices. It can be shown through following diagram.



Q. What are different kinds of demand?

A. Following are main kinds of demand:-

1. Price Demand : Demand of a commodity that gets affected by change in price of commodity is known as price demand. Price & Demand normally negative relationship.

2. Income demand : Demand that gets affected by change in income of consumers is known as income demand. It refers to relation b/w income & demand assuming other things as constant, normally income and demand are positively related.

3. Cross Demand : Demand of a commodity that gets affected by change in price of related goods is known as cross demand. The related goods can be substitute or complimentary.

Related Goods

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(4) ~~for~~ Joint Demand: When two or more goods are demanded simontaniously then such demand is known as joint demand.

many → one

for eg: demand of sugar, tea, milk together to prepare tea is joint demand.

(5) composite Demand: When a commodity can be put to several uses its demand is known as composit demand.

~~many~~
one → many

for eg: Demand of electricity that can be used for various purposes like light, fan, AC, TV etc.

(6) Derived Demand: Demand of a commodity which depends on demand for other commodities is known as Derived demang.

for eg: Demand for fabric to produce shirts is a derived demand.
If demand for shirts increase, demand for fabric increase.

(7) Direct demand: Demand for a commodity that satisfies the customer wants directly is known as direct demand.

for eg: Demand for shirts in the above eg. is ~~also~~ a direct demand.

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(8) Alternative Demand: A demand is said to be Alternative demand when it [can be satisfied by different alternatives]

for eg: Hunger can be satisfied by chapati, rice, pizza, chicken etc..

(9) Competitive Demand: Demand for substitutes is basically competitive demand.
Increase in price of one increases the demand of another.

Eg: Pepsi & coke.

Q. There are three consumers x, y & z in a market and their demand functions are $Q_x = 30-2p$, $Q_y = 40-3p$, $Q_z = 50-4p$ (i) Determine market demand function.
(ii) find individuals & market demand of Price is 10/- p.u

A. (i) Mkt Dd function = Dd x + Dd y + Dd z
$30 - 2p + 40 - 3p + 50 - 4p$
$\boxed{120 - 9p}$ Mkt demand

(ii) Mkt Price 10/-

Dd x	Dd y	Dd z	Mkt Dd
30-2p	40-3p	50-4p	10 + 10 + 10 = 30
30 - 20	= 10 units	= 10 units	or
= 10 units			120 - 9p
			120 - 90
			= 30

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Q: Dd of x represented by $Q_x = 12 - 2P$.
Resorved demand schedule of price ranges from 6 to 1

Ans:

Price	Demand of x
6	$12 - 2(6) = 0$
5	$12 - 2(5) = 2$
4	$12 - 2(4) = 4$
3	$12 - 2(3) = 6$
2	$12 - 2(2) = 8$
1	$12 - 2(1) = 10$