DEMAND

Q1.) What is demand?

A1.) A demand is a desire or a need, i.e., backed by following conditions:-

1.) Availibility of the product
2.) ~~Availibility~~ Ability to pay for the product.
3.) Willingness to pay for the product. ~~at~~
4.) At a particular place & price.

Q2.) What are the factors that affect individual demand?

A2.) Following are the demands that affect individual demand:-

1.) Price of product
2.) Price of related goods
3.) Income of consumer

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4.) Taste and preferance
5.) Expectation of change in future price.

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Q3.) What are the factors that affect market demand of a product?

Ans.) Following are the factors :-

1.) Size & composition of population.
Demand of a commodity in market is affected by the size of population in that area. If the size of the population increases demand ~~it~~ also increase and if size decreases demand also decreases. Similarly, composition also affects the market demand, i.e., the ratio of males, females, elders, children, etc. If the proportion of females is higher in the total population the demand for their goods will increase like:- cosmetics, etc.

2.) Season and weather conditions.
A change in season or weather conditions affect the demand of commodity in market.
for eg → during winters demand for winter clothes increase and during summers, demand for cotton clothes increase.

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3.) Distribution of income :-
How national income is distributed among people affects the market demand, incase it is distributed equally, the market demand is higher. On the other hand, if it is distributed unequally, the market demand would be comparitively lesser.

4.) Change in fashion
With the change in fashion in market, demand for goods change.
For eg → Demand for ripped jeans is more than normal jeans.

5.) Change in taxation policy.
Any change in taxation policy by government also affect demand of commodity.
Eg → Increase in tax rate or ~~GST~~ ~~tax~~ rate of GST leads to increase in price of commodity leading to fall in its demand and vice versa.

Q4.) What is law of demand?

A4.) Law of demand states that there is a -ve relation between price of a product and its demand, i.e., when price of a product increases its demand falls and ~~vice-versa~~ vice-a-versa.

this phrase ...

Keeping other things as constant.

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Q-) What are the exceptions to law of demand?

A-) Generally, there is a negative relation b/w price of ~~a~~ product and its demand, but in the following cases it does not hold true :-

1.) Necessities of life
Some commodities which are necessary for survival of humans like wheat, water, sugar, etc., may not have negative relation with price. Infact, their demand does not get affected even if the price increase or decrease.

2.) Status symbol or prestigious goods.
Some goods which hold a status symbol in society are exceptions to law of demand as, possessing such goods give a status to the person. So, their demand does not fall when price increases.
like :- gold, diamond, expensive cars, etc.
Infact, they become more prestigious.

3.) Fear of shortage
If a consumer is expecting, shortage of any commodity in near future, they start buying more and more of such commodities to avoid scarcity.
For eg → Certain medicines at the time of COVID-19.

4.) Ignorance
Consumers may buy more and more of a given commodity even at higher prices when they are ignorant about prices prevailing in the market.
For eg → A consumer buying paint for his house after 5yrs is ignorant about the last change in price.

5.) Impossibility to postpone
At times it is not possible to postpone demand of certain commodities like :- medicines.
In such a case, consumer purchases those commodities even at higher prices.

6.) Fashion
Goods related to fashion do not follow law of demand.
When a certain good is in fashion, it is bought even if it is available at higher price.

7.) Future expectation of change in price.
At times, demand of certain goods does not increase even on fall in its price as compared to past because, the price is expected to fall even more in near future.
For eg → the demand for gold has not fallen even if the price has increased so much from past because it is expected to increase more in near future.

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8.) Giffen goods.
These are special kind of goods on which consumer spends a large part of income and demand for these goods increase with the increase in income, and increase with the increase in price as well.
for eg -> There is a small community having a total income of ₹ 10 out of which they spend ₹ 6 on meat and ₹ 4 on bread. Suppose the price of bread increases to ₹6, now they are left with ₹ 4 for meat which is not enough. So, they spend share of meat on bread, this way, demand for bread increases even on increase in its price.

Q2.) What is individual demand schedule?

A2.) It is a tabular form of presentation of data showing different quantities of a commodity, demanded by an individual at different prices.
for eg -> Mr X ~~purchases~~ demands a commodity A at different prices. His demand schedule can be written as follows:-

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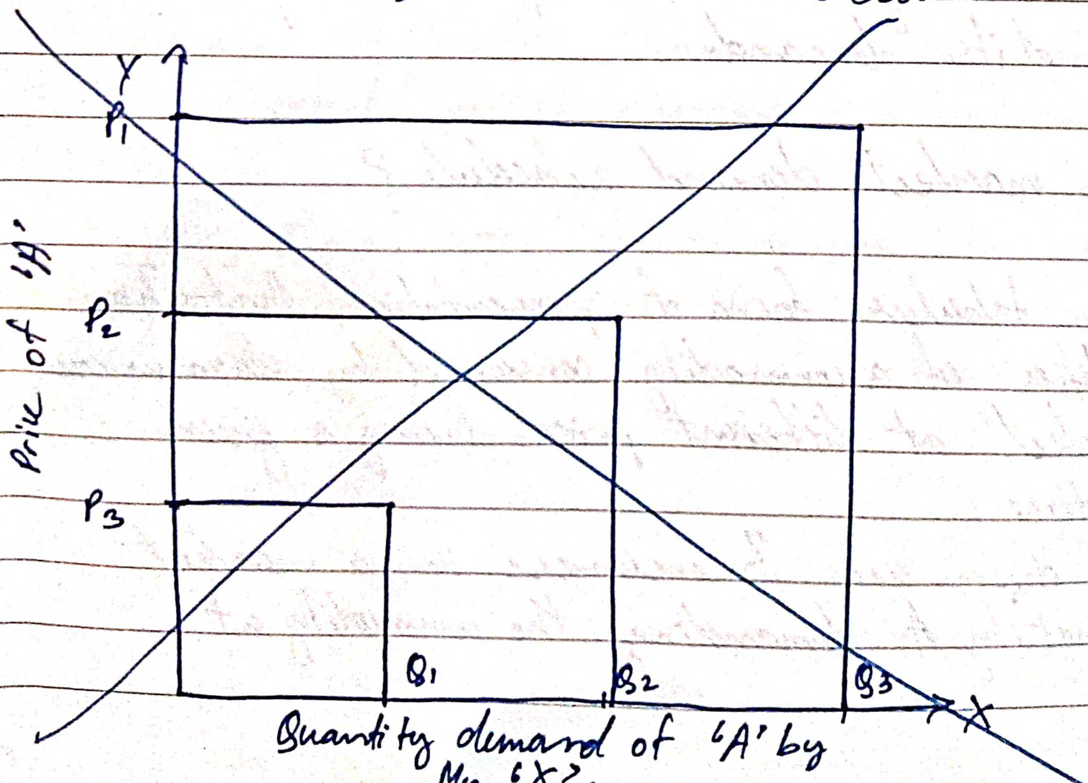
Individual demand Schedule for 'X'

Price of A	Demand of 'A' by Mr 'X'.
10	100
11	90
12	80
13	70
14	60
15	50

Q3.) What is individual demand curve?

A3.) It is a graphical form of presentation of data showing different quantities of a commodity demanded by an individual at different prices.

for eg → Mr X demands a commodity A at different prices. This demand schedule can be written as follows:-



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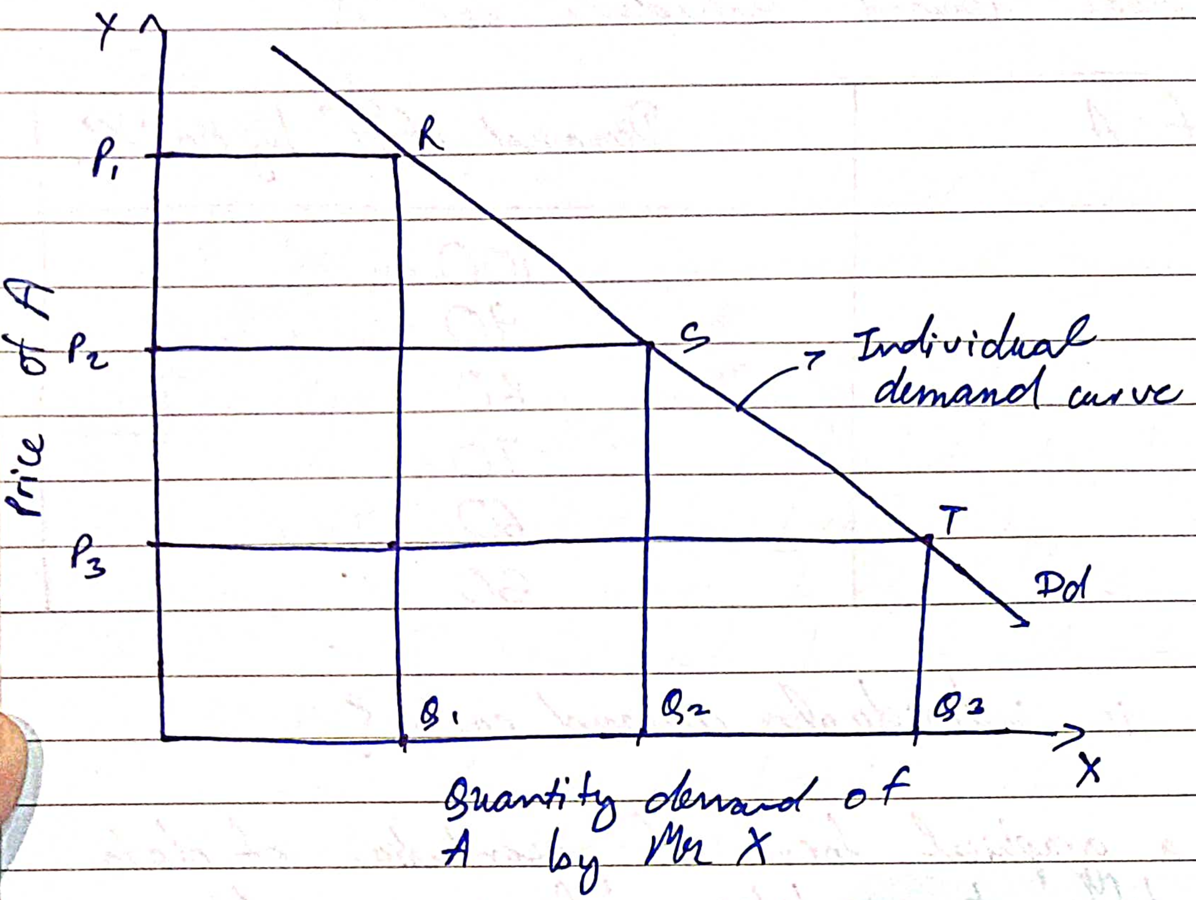


In this diagram demand is shown on OX axis and price on OY axis.

Dd represents a downward sloping demand curve that shows the negative relationship between price of a product and its demand.

Q4.) What is market demand schedule?

Ans.) It is a tabular form of presentation that shows all quantities of a commodity consumed by all consumers in a market at different prices during a given period of time.
Suppose, there are 3 consumers in a market for commodity A demanding the commodity at

different prices. Their demand schedule can be written as follows:-

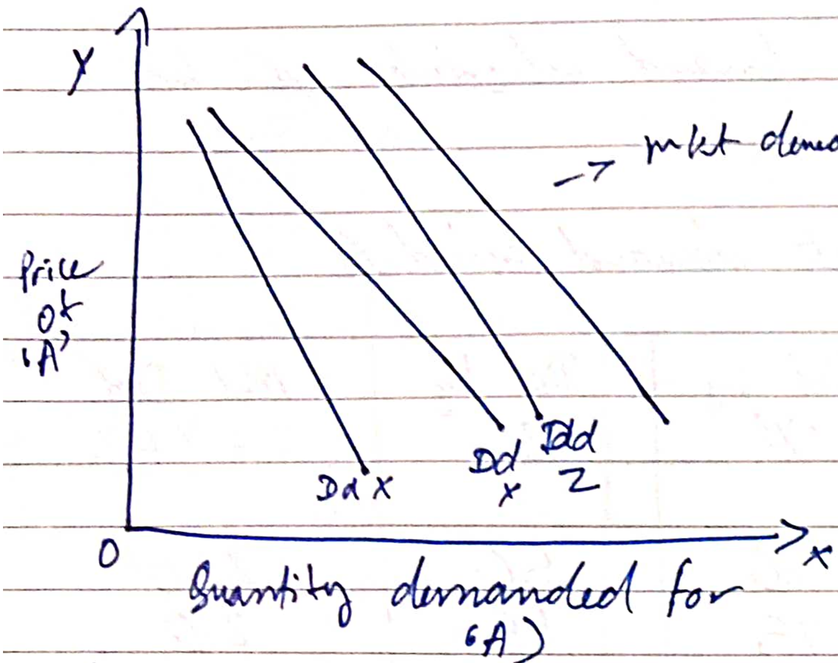
Market demand schedule.

Price of 'A'	Dd by 'X'	Dd by 'Y'	Dd by 'Z'	Mkt Dd X + Y + Z
10	100	80	50	230
11	90	75	45	210
12	80	70	40	190
13	70	65	35	170
14	60	60	30	150
15	50	55	25	130

Qs.) What is markeet demand curve?

As.) It is a graphical form of presentation of data that shows all quantities of a commodity consumed by all consumers in a market at different prices during a given period of time.

Suppose, there are 3 consumers in a market for commodity A demanding the commodity at different prices. Their demand schedule can be written as follows:-



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Q.) Why does law of demand operate?

OR

What are the reasons behind negative relation between price and demand of a commodity?

OR

Why does demand curve slope downward from left to right?

A.) The reasons behind operation of law of demand are as follows:-

1.) Substitution effect

It means substituting one commodity in place of other when it becomes relatively cheaper.

for eg -> when price of pepsi falls and price of coke remains same, the demand for pepsi increases not only because its price has fallen but also because of a fact that pepsi has become relatively cheaper than coke.

2.) Income effect.
Here, income effect means effect on demand on change in real income of a consumer. Here real income stands for purchasing power of a consumer. When price of a commodity falls, the purchasing power or real income of consumer increases in respect of that commodity. Which is why, consumer demands more of that commodity.
For eg -> A consumer has a budget of ₹100 to buy a commodity 'x', price that ₹10 per unit, so the consumer can buy 10 units, incase price falls to ₹5 per unit, consumer can buy 20 units of the same within same money income, as his real income has increased.

3.) No. of consumers
When price of a commodity falls, no. of consumers which were not able to buy it earlier now start buying, i.e., the no. of consumers increase. Also, the ~~olds~~ old consumers start buying more.
For eg -> When price of a car falls, its demand increases as, those who were using two wheeler buy cars and existing consumers may also buy more.

4.) No. of uses
Some commodities have different uses like; milk, electricity, etc. When price of them change their no. of uses change that leads to change in demand.
For eg → When electricity becomes costlier, people decrease the no. of uses due to which demand for electricity fall.

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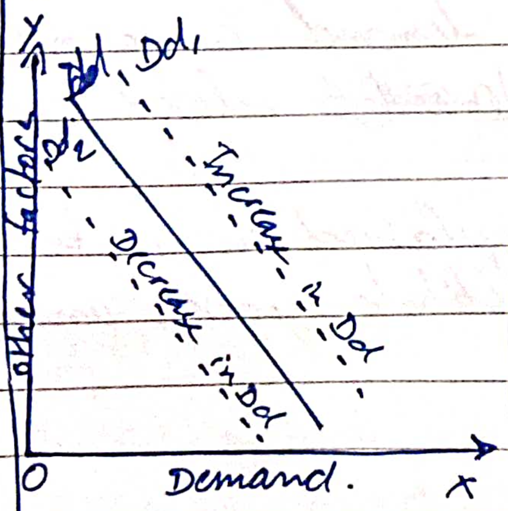
5.) Law of diminishing marginal utility.
This law states that as a consumer keeps on consuming more and more units of a commodity, the utility which he derives from next consumption keeps on diminishing. Therefore, a consumer is willing to pay lesser amount for next consumption. In other words, we can say that consumer will consume more units of the commodity only when they are available at lesser price.
for eg → A person who is hungry eats one chapati and he is willing to pay higher price for first chapati. But, once the hunger is satisfied to some extent, he will be willing to pay lesser price for next chapati.

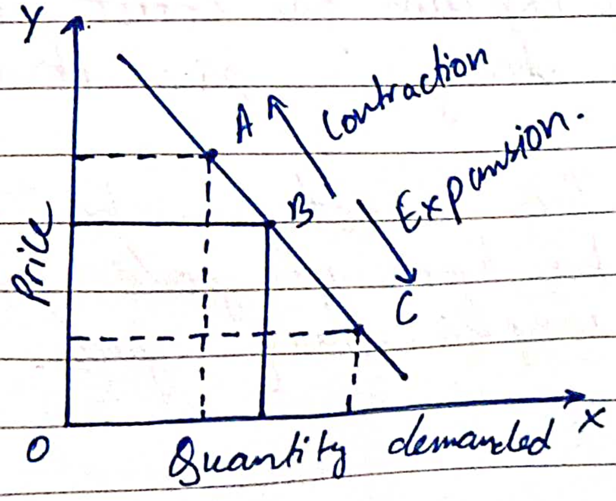
★★★ Imp.

Q2.) Differentiate between change in demand and change in quantity demanded.

~~A2.) Change in demand & Change in quantity demanded~~

A2.) Basis	Change in demand	Change in quantity demand.
1.) Meaning	The change occurs due to change in factor other than price of commodity.	The change occurs due to change in price of commodity keeping other factors as constant.
2.) Change denoted by.	The change is denoted by increase and decrease.	The change is denoted by expansion and contraction.
3.) Effect on demand curve.	There is a shift in the demand curve as shown in diagram below :-	There is a movement along the demand curve as shown in the diagram below :-





4.) Alternative questions.

1.) Diff b/w expansion & increase in demand.
2.) Diff b/w contraction & decrease in demand
3.) Diff b/w shift in Dd & movement along the Dd curve.

Q3.) What are the possible reasons for shift in a demand curve?

A3.) Following are the possible reasons for shift in demand curve :-
1.) Change in price of related goods.
2.) Change in income of consumer.
3.) Change in taste and fashion.
4.) Change in taxation policy.
5.) Change in distribution of income

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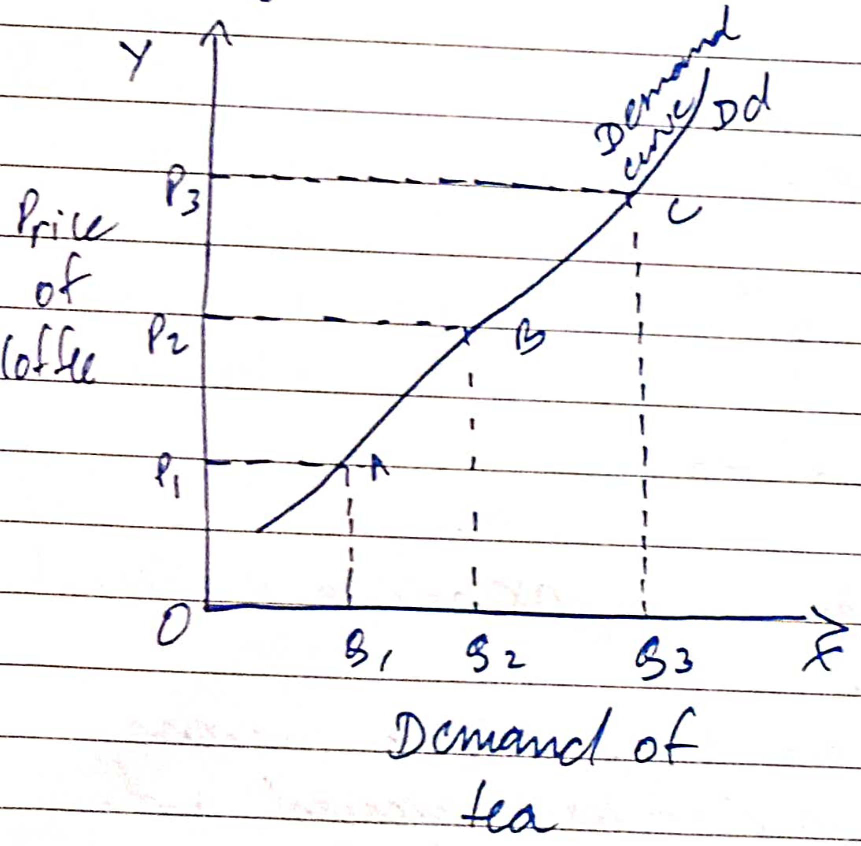
Q4.) Explain the effect on demand curve incase of change in price of ~~demanded~~ related goods.

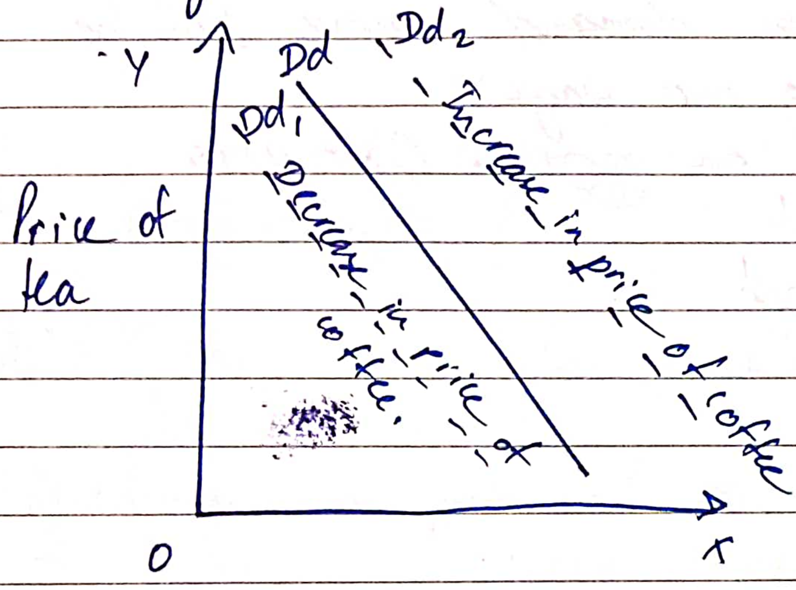
A4.) This effect can be explained in context of two kinds of goods substitute goods and complimentary goods.

substitute goods are those goods which can be used in place of each other.
For eg → tea and coffee.
They have a positive relationship, i.e., when price of one increases, demand for other increases. Their effect on demand curve can be explained in following two ways:-
1.) Taking other factors on ~~goods~~ OX-axis



When price of coffee was P_1, the quantity demanded of tea was Q_1.
With the increase in price to P_2, quantity increased to Q_2. Similarly, Q_3, and we got points A, B, C.
Joining these points, we get a positively sloping upward demand curve showing positive relation between substitute goods.

2.) Cross price effect on demand curve (when price of same commodity is taken on OY axis, in this case, there will be shift in the demand curve as shown in the following diagram.



~~Price~~ Demand of tea.

In this diagram,
Demand of tea is shown on OX axis and price of tea ~~on~~ on OY axis.
Initial demand curve was Dd, with the increase in price of coffee demand of tea increased and demand curve shifted to Dd_2, and with the decrease in price of coffee, demand of tea decreased and demand curve shifted to Dd_1.

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DEMAND.

Q1.) What are the factors that affect individual demand?

A1.) Following are the factors:

1.) Price of product: It is the most important factor that affect demand as price is negatively related with the demand, i.e., keeping other things as constant when price of a product increases, its demand falls and vice-a-versa.

2.) Price of related goods: There are related goods whose price ~~can~~ change can affect demand of a given commodity. This can be explained in context of two kinds of goods:

i) Substitute goods:
Those goods which can be used in place of each other for satisfaction of demand.
For eg → Tea and coffee.
An increase in price of one good, leads to increase in demand of another good.

ii) Complementary goods:
Those goods which cannot be used without each other are complementary goods.

For eg → Pen and ink, car and petrol, etc.
An increase in price of one good leads to decrease in demand of another good.

3.) Income of consumer: Change in income of a consumer also affect demand of a commodity it can be explained in context of following two kinds of goods:

i) Inferior goods:
These are low quality, low priced goods which have negative relation with income, i.e., when income increases, demand for these goods fall and vice-a-versa.
Income ↑ Demand ↓

ii) Normal / Superior goods:
These are high quality, high price goods, having positive relation with the income, i.e., when income increases, demand for these goods also increase and vice-a-versa.
Income ↑ Dd ↑

4.) Taste and Preferances: Taste and Preferance of consumers directly affect the demand of a commodity. They include change in fashion, customs, habit, etc. When a product is in fashion, it's demand increases, and the product which is out of ~~demand~~ fashion, its demand fall.

5.) Expectation of change in price in future:
Any expected change in price also affect the present demand.
For eg → If price is expected to increase in future, demand at present will increase.

Q1.) What are the factors that affect market demand?

A1.) 1.) Size and composition of population:
Market demand of a commodity is affected by size of the population, i.e., larger is the size of the population, higher will be market demand and ~~decrease~~ decrease in size of population will lead to decrease in market demand.
Similarly, composition of ~~overall~~ population, i.e., no. of males, females, children, etc., also affect market demand.
For eg → Large no. of women will lead to higher demand for products like cosmetics.

2.) Season and weather:
The season and weather conditions also affect market demand for a commodity.
For eg → during winters, demand for woollen clothes is high and during summers, demand for cotton clothes is high.

3.) Distribution of income:
If income is equally distributed in the country, then market demand will be higher, on the other hand, if income distribution is unequal, i.e., some people are very rich and some people are very poor, then market demand

will remain lesser.

4.) Taxation Policy :
Change in taxation policy by government also affect the market demand of a commodity. Incase, government increases the tax rate, it leads to decrease in demand, because of decrease in purchasing power.
On the other hand, decrease in taxes by government leads to ~~decrease~~ increase in market demand.

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Q1.) What is demand?

A1.) Any desire/need which fullfills:
1.) Availibility of the product
2.) Ability to pay for the product.
3.) Willingness to pay.
4.) At a particular place & time.

Q2.) What do you mean by law of demand and what are the exceptions of law of demand.

A2.) law of demand states that there is an inverse relationship between price of a product and quantity demanded, i.e., keeping other things as constant, when price of a product increases, its demand falls and vice - a - versa. This law is based on following assumptions:

1.) Price of related goods does not change.
2.) Income of consumer remains the same.
3.) Taxation policy remains unchanged
4.) Taste and preferances remains same.

EXCEPTIONS TO LAW OF DEMAND.

1.) Necessities of life:
Incase of necessities, law of demand does not imply.
For eg → Incase of water, sugar, salt, wheat etc., the change in price does not affect the demand.

2.) Ignorance :
At times when consumers are ignorant, they buy more even at higher price because, they are not aware, about change in prices.

3.) Status symbol :
Incase of certain prestige goods, which are used as status symbol, they are bought due to prestige symbol attached to them.
For eg → diamond, gold, expensive cars, antique paintings, etc., are bought more when the prices are high. ~~Th~~
Infact, they will not be considered as status symbol if their prices fall.

4.) Fashion related goods :
Goods related to fashion do not follow the law of demand. Their demand increase even with rise in their prices. Infact, goods which are in fashion are sold at higher prices and their demand is also very high.

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5.) Fear of shortage:
If the consumers expect a shortage or scarcity of a commodity in near future, they would start buying more and more of that commodity in current period, even if ~~the~~ prices are rising.
For eg → During emergencies like war, etc. People stock, more and more goods even at higher prices.

6.) Future expectation of change in price:
If consumers are expecting increase in price of a commodity in near future, they will buy more of this product even if price has increased as compared to past.
For eg → The price of gold has increased many folds as compared to past but still, people are buying more of ~~such commodity~~ gold because the prices are expected to increase further.

7.) Change in weather:
~~With~~ With change in weather, demand of certain commodities change irrespective of change in their prices.
For eg → Demand for air conditioners increase during summers despite of their high prices.

Q5.) What is the difference between individual demand and market demand?

As.) Individual demand refers to the quantity of a commodity which an individual household is willing to buy at different prices in given period of time.
Whereas, market demand refers to total quantity of a commodity which all the individual household in a market are willing to buy at different prices in given period of time.