Ch. 2 Demand & Law Of Demand

Defination Of Demand :

Demand for a commodity refers to the quantities of a commodity which consumers are willing and able to purchase at various possible prices during a particular period of time.

Types of demand: Individual Demand and Market Demand

1 Individual demand and Market Demand:

Individual Demand refers to the quantities of a commodity that an individual consumer is willing to purchase at various prices during a given period of time.

Market Demand refers to the total quantities of a commodity that all the households are willing to buy at various prices during a given period of time.

2. Ex ante demand and Ex post demand :

Ex ante demand refers to the amount of goods that consumers want to or willing to buy during a particular time period.

Ex post demand, refers to the amount of goods that the consumers actually purchase during a specific period.
The amount of the goods actually bought. The amount of the goods actually bought is not the same as the amount that the consumers want to purchase.
If the commodity is not available in adequate quantity, the quantity actually purchased will be less than the quantity that the consumers desire to purchase. This, consumers may end up buying more, or lesser quantity of goods that they has planned to buy.

3. **Joint Demand :** **Joint demand refers to the demand for two or more goods which are used jointly or demanded together.**
(Learn one example from your text book, examples are must)

4. **Derived Demand :** **The demand for a commodity that arises because of the demand for some other commodity is called derived demand.**
(Learn one example from your text book, examples are must)

5. **Composite Demand** **: Demand for goods that have multiple uses is called composite demand.**
(Learn one example from your text book, examples are must)

Factors affecting Demand for a commodity:

1.Price of the commodity: Normally there is an inverse relationship between the price of the commodity and it's quantity demanded. It implies that lower the price of the commodity, the larger is the quantity demanded, and the higher the price, the lesser is the quantity demanded.

2. Income of the consumers: Income of the consumers is the basic determinant of the quantity demanded of a product as it determines the purchasing power of the consumer Generally, there is a direct relationship between the income of the consumer and his demand for a prouduct.
While distinguishing the relationship between income of the consumer and his demand for a commodity, we may distinguish between three types of goods : i) Normal Goods ii) inferior goods iii) inexpensive necessities
(The definitions are quite easy therefore go through your text book's pg no. 11 with examples, remember,in economics examples are must)

3. Consumer's tastes and preferences: Tastes and preferences depend on social customs, habits of the people, fashion, general lifestyle ets. Some of these factors like fashion keeps on changing, leading to change in consumer's tastes and preferences. As a result the demand for goods changes.

4 Prices of related goods : the demand for a commois affected by the prices of related goods is as well. Related goods can be classified into two categories; I(substitute goods ii) complementary goods
i) Substitute goods are those goods which satisfy the same type of need and hence can be used in place of one another to satista given want. (Learn the example of tea and coffee from page 12 of your economics book)

ii) complementary goods are those goods which are complementary to one another in the sense that they are used jointly or consumed together to satisfy a given want like car and petrol.

5. Consumer's Expectations: Consumer's expectations about such things as future prices, income, availability of goods, etc. Play an important role in determining the demand for goods and services in the current period. For instance, if consumers expect a rise in the price of a commodity in future, they wouldn't demand greater amount of this commodity today with a view to avoid purchasing it at a higher price in future.

Law of demand , and it's assumptions (covering both the subtopics together)

Law of demand states that, other things remaining equal, the quantity demanded of a commodity increases when its price falls and decreases when its price rises.

Assumptions:

1.There should be no change in the income of the consumer.
2. There should be no change in the tastes and preferences of the consumers.
3.Prices of the related commodities should remain unchanged.
4. The commodity should be a normal commodity
5. Size of population should not change.

Demand schedule : Individual and Market Demand Schedule.

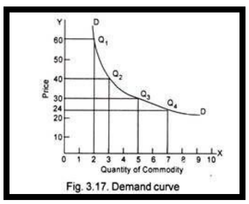
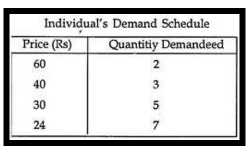


Fig. 3.17. Demand curve


Individual's Demand Schedule

Price (Rs)	Quantitiy Demandeed
60	2
40	3
30	5
24	7

Complete the following individual demand schedule :-

Price(in Rs.) Quantity (in kg)

15 ______________________ ( )
25 ______________________ ( )
35 ______________________ ( )
45 ______________________ ( )
55 ______________________ ( )

Reasons for downward slope of the demand curve :

1.Law of Diminishing Marginal Utility : The law of diminishing marginal utility states that with an increase in the units of a commodity consumed, every additional unit of a commodity gives lesser satisfaction to the consumer.

2. Income Effect: A change in demand on account of a change in the real income resulting from a change in the price of a commodity is known as the income effect. Suppose a consumer is spending ₹200 on the purchase of apples, and he is able to purchase 2kg of apples when the price of apples is ₹100 per kg. Now, suppose the price of apples falls to ₹80 per kg. If the consumer continues to buy 2kg of apples as before, he has to spend only ₹160 . He is therefore able to save ₹40. It means his real income has increased.

3. Substitution effect: it is the effect that a change in relative prices of substitute goods has on the quantity demanded. For instance, if the price of coffee falls, the price of tea remaining the same, coffee will become relatively cheaper. Coffee becomes more attractive to people in comparison with tea. Consumers will naturally shift from the consumption of tea to coffee. This increase in demand in account of a commodity becoming relatively cheaper is known as the substitution effect. .

4. Increase in number of consumers: A fall in the price of a commodity leads to an increase in the quantity demanded by the existing consumers due to income and substitution effects. At the same time, when the price of a commodity falls, many new consumers will start purchasing this commodity. At a very high price of a commodity, only a few rich people can afford to buy that commodity.

Exceptions to the law of demand:

1.Giffen Goods : Giffen goods are those inferior goods on which the consumer spends a large part of his income and the demand for which falls with a fall in their price. (Give the example of Maize and jowar from page 21)

2. Articles of Snob Appeal : These goods are demanded because of the enjoyment they give to their possessor from the feeling that other people envy him or her for possessing these high priced items. These goods of status symbol remain exclusive as long as their prices remain high.

3. Expectations about futurevm prices : if price of a commodity is rising today and it is likely to rise more in the future, people will buy more even at the existing higher price and store it up.

4. Emergencies: law of demand may not hold good during emergencies like war, famines, etc. At such times consumer behaves in an abnormal way. If they expect shortage if goods, they would buy and hoard goods even at high prices during such periods.

5. Quality price relationship: sometimes consumers assume that high priced goods are if higher quality, they take price as an index kg quality. In such cases more of the goods may be demanded at a higher price.

CHANGE IN QUANTITY DEMANDED -

1. **MOVEMENT ALONG THE DEMAND CURVE :**

a) Expansion of demand
b) Contraction of demand

(Learn the definition of expansion and contraction of demand from pg 22, learn the meaning for 5 marks including the diagram)

CHANGE IN DEMAND -

2 .SHIFT IN DEMAND CURVE

a)Increase in demand

b) Decrease in demand

(Learn the definitions from pg 23 and 24.Learn the meaning for 5 marks including diagram)

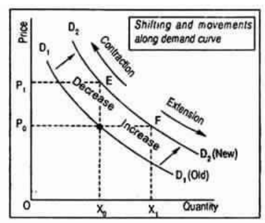


Fig. 2.8: Change in Demand vs Change in Quantity Demanded

All the 4 diagrams are drawn together here !

Note:(you can also practice the individual diagrams)

Distinction between Expansion of demand and increase in demand :-

1. Expansion of demand refers to the larger quantity being purchased due to fall in the price of a commodity, while increase in demand refers to more being purchased at the same price.
2. Expansion of demand is due to fall in a commodity's own price, while increase in demand is due to change in other factors affecting demand.

Distinction between Contraction of demand and decrease in demand :-

1. Contraction of demand means a fall in the amount purchased due to rise in a commodity's own price, decrease in demand means smaller amount being purchased at the same price.
2. Contraction of demand is due to a rise in a commodity's own price ; decrease in demand is due to changes in other factors affecting demand.