

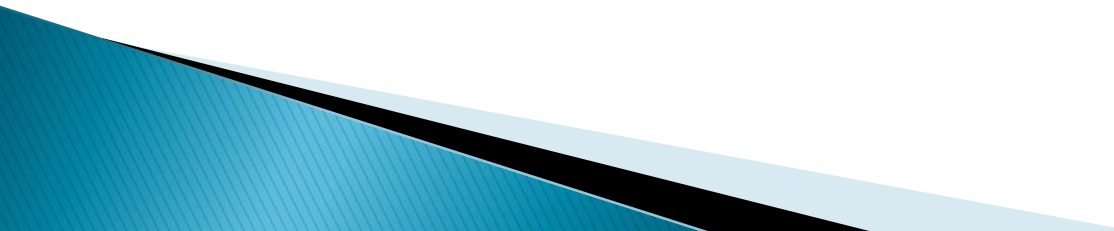
SPD College, Garhwa
Department of Economics
presents ...

Presentation on
Demand Analysis (Theory of Demand)
(UG NEP: Micro Economics : MJ-01)

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Main Points of the topic

- ▶ Meaning of Demand
 - ▶ Determinant Factors of Demand
 - ▶ Demand Function
 - ▶ Law of Demand
 - ▶ Demand Schedule
 - ▶ Demand Curve
 - ▶ Exceptions of the Law of Demand
 - ▶ Causes of upward sloping of demand curve
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Meaning of Demand

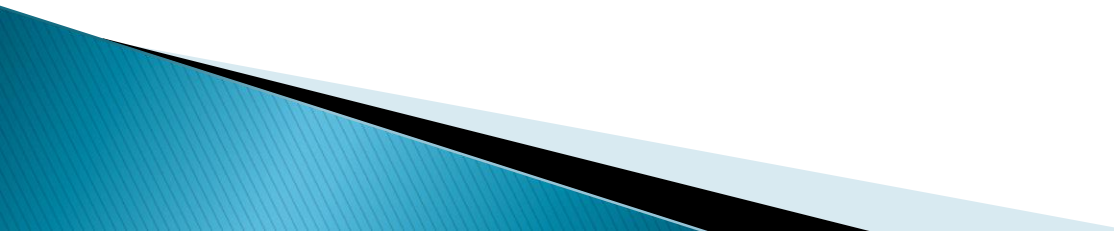
- ▶ In Economics, the meaning of demand is wider. It shows the decision to purchase a commodity at a certain market price.

Essential elements of demand

- ▶ Wants / need of a commodity
- ▶ Desire to obtain that commodity,
- ▶ Sufficient money to fulfill that desire,
- ▶ Readiness to spend money.
- ▶ Certain period, and
- ▶ Current price

Thus, demand may be defined as the desire to buy a commodity, backed by sufficient purchasing power and the willingness to spend.

Determinant Factors of Demand

- ▶ Price of the commodity,
 - ▶ Change in Income of consumers,
 - ▶ Population growth,
 - ▶ Change in the price of complementary and substitute goods
 - ▶ Change in season,
 - ▶ Distribution of wealth & income in the society,
 - ▶ Change in expectations,
 - ▶ Invention and advertisement,
 - ▶ Change in habits, taste and fashion of consumers,
 - ▶ Psychological factors: prejudices, dreams, rumor etc.
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Demand Function

It expresses the functional / mathematical relationship between price of commodity and quantity demanded i.e.

$$Q = f(P)$$

Where, Q = Quantity demanded

P = Price of commodity

In this function, quantity demanded is dependent variable and price of commodity is independent variable. This function means that if P changes then Q will also be changed.

Law of Demand

Law of demand states the inverse relationship between quantity demanded and the price of commodity, if other things remaining constant i.e. other determining factors of demand. In other words, lower the price, higher the demand and higher the price, lower the demand. According to

Prof. Alfred Marshall, *“The amount demanded increases with a fall in price and diminishes with a rise in price.”*

Demand Schedule

It expresses the relation between different quantities of the commodity demanded at different prices. Demand schedule is of two types:

1. Individual Demand Schedule

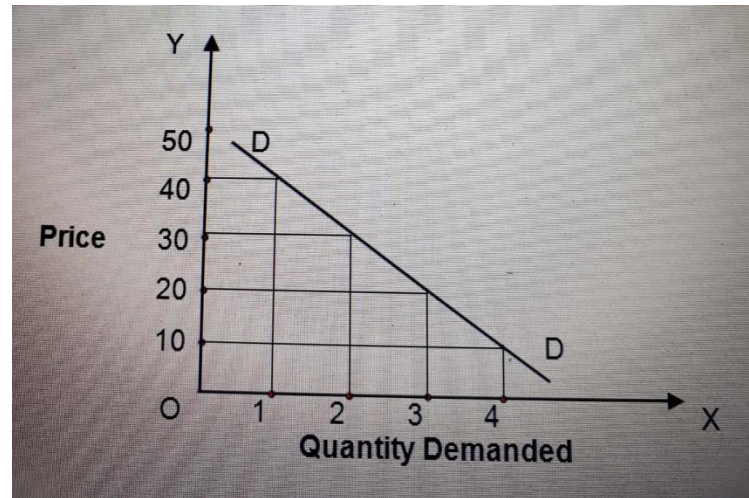
Price (in ₹)	Quantity Demanded
1	40
2	30
3	20
4	10

2. Market Demand Schedule

Total quantities demanded by all the consumers in a schedule, it will be called market demand schedule. Assuming only three consumers are in a market, the market demand schedule can be shown as under :

Price (in ₹)	Demand of A	Demand of B	Demand of C	Market Demand
1	4	10	12	$1+4+10+12=26$
2	3	8	9	20
3	2	6	6	14
4	1	4	3	8

Demand Curve : Graphic representation of Demand Schedule

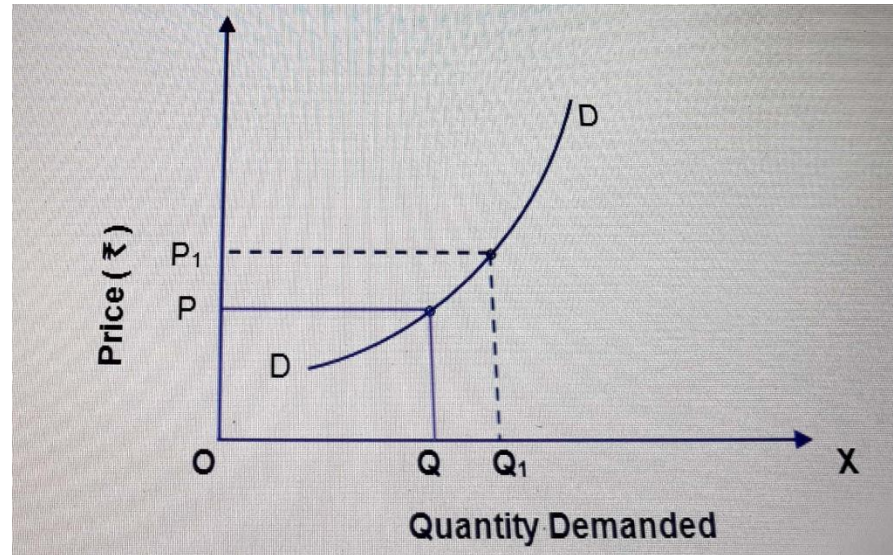


In this diagram, the quantity demanded is shown on OX axis and the price of commodity is shown on OY axis. DD is demand curve, which is downward sloping left to right that expresses the inverse relation between quantity demanded and price of commodity. Downward sloping of demand curve indicates that more is purchased in response to fall in price.

Exceptions of the Law of Demand

There are some cases in which law of demand does not apply i.e. the quantity bought does not declines after rise in price of commodity and quantity demanded does not increase by increase in price. Such situation is called the exceptions of Law of Demand.

In such case the demand curve is upward sloping in shape. It has been shown in the following diagram:



In this diagram, quantity demanded is OQ at price OP. When price increase from OP to OP₁, the quantity demanded also increase to OQ₁ from OP. In this way, we get upward sloping demand curve showing direct relationship between price and quantity demanded. Hence, it is the Exception of Law of demand.

Causes of upward sloping of demand curve

- War or fear of price rise situations
- Demonstration effect in the society
- Depression or Boom in the economy
- Essential Commodity case i.e. salt, grains, medicines etc.
- On the occasions of Festivals i.e. marriage, birthdays, etc.
- Period of epidemics.
- In case of complementary goods i.e. bike and petrol, tea and sugar, etc.
- Habit-forming goods i.e. tea, coffee, cigarette, etc.

 The End



Thanks for watching

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