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SUBJECT- PRINCIPLES OF ECONOMICS

THEORY OF DEMAND- I

MEANING OF DEMAND

- In ordinary speech, the term demand is many times confused with 'desire' or 'want'.
- Desire is only a wish to have any thing.
- In economics demand means more than mere desire.
- Demand in economics means an effective desire for a commodity i.e, desire backed by the 'ability to pay' and 'willingness to pay' for it.
- Thus, demand refers to the quantity of a goods or services that consumers are willing and able to purchase at different prices during a period of time.
- Thus, defined, the term demand shows the following features:
  1. Demand is always with reference to a price.
  2. Demand is to be referred to IN A GIVEN PERIOD OF TIME.
  3. Consumer must have the necessary purchasing power to back his desire for the commodity.
  4. Consumer must also be ready to exchange his money for the commodity he desires.
- Example- Mr. A's demand for sugar at ₹ 15 per KG is 4 KG per week

* Determinants of Demand

For estimating market demand for its products, a firm must have knowledge about—

(a) The determinants of demand for its product, and

(b) The nature of relationship between demand and its determinants

The various factors on which the demand for a product/commodity depends are as follows:-

- Price of the Commodity:

1. Other things being equal, the demand for a commodity is inversely related with its price.
2. It means that a rise in price of a commodity brings about fall in its demand and vice versa.
3. This happens because of income and substitution effects.

- Price of the related commodities:

1. The demand for a commodity also depends on the prices of related commodities.
2. Related commodities are of two types namely—
   - Substitutes or Competitive goods, and
   - Complementary goods.
3. Substitute goods are those goods which can be used with equal ease in place of one another.
4. Eg. Essar Speed card and Airtel magic card; Coke and Pepsi; ball pen and ink pen; tea and coffee; etc.
5. Demand for a particular commodity is affected if the price of its substitute falls or rises.

6. E.g. If the price of Airtel magic card falls, its demand will increase and demand for Essar speed card would fall and vice versa.

7. Thus, there is a POSITIVE RELATIONSHIP between price of a commodity and demand for its substitutes.

8. Complementary goods are those goods whose utility depends upon the availability of both the goods as both are to be used together.

9. E.g. a ball pen and refill; car and petrol; a hand set and phone Connection; a tonga and horse, etc.

10. The demand for complementary goods have an $\boxed{\text{Inverse Relationship}}$ with the price of related goods.

11. E.g. If the price of scooters falls, its demand will increase leading to increase in demand for petrol.

* Income of the Consumers

1. Other things being equal, generally the quantity demanded of a Commodity bear a DIRECT RELATIONSHIP to the Income of the Consumer i.e. with an increase in income, the demand for a commodity rises.

2. However, this may not always hold true. It depends upon the class to which commodity belongs i.e. necessaries or comforts and luxuries or Inferior goods:

- Necessaries (Eg. Food, clothing and shelter). Initially, with an increase in the income, the demand for necessaries or comforts and luxuries or inferior goods:
- Comforts and Luxurious (E.g. Car, Air-conditioners etc). Quantity demanded of these group of commodities have a direct Relationship with the

income of the consumers. As the income increases, the demand for comforts and luxuries also increases.

- Inferior goods (E.g. Coarse grain; rough cloth; Skimmed milk; etc). Inferior goods are those goods for which superior substitutes are available quantity demanded of this group of commodities Have an INVERSE RELATIONSHIP with the income of the Consumer. Eg. A Consumer starts consuming full cream milk (normal good) in place of toned milk (inferior good) with an increase in income.

Therefore, it is essential that business managers must know —

(a) The nature of goods they produce,

(b) The nature of relationship between the quantities demanded and changes in consumer's income, and

(c) The factors that could bring about changes in the income of the consumers.