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SUBJECT- PRINCIPLES OF ECONOMICS

THEORY OF DEMAND-II

* TASTES AND PREFERENCES OF THE CONSUMERS

1. Tastes and Preferences of Consumers generally change over time due to fashion, advertisements, habits, age, family Composition, etc. Demand for a Commodity bears a direct relationship to those determinants.

2. Modern goods or fashionable goods have more demand than the goods which are of old design and out of fashion.

   Eg. People are discarding Bajaj Scooter for say Activa Scooter.

3. The demand of certain goods is determined by 'bandwagon effect' or 'demonstration effect'. It means a buyer wants to have a goods because others have it. It means that an individual Consumer's demand is Conditioned by the Consumption of others.

4. Taste and preferences may also undergo a change when consumer discover that consumption of a good increases his PRESTIGE. E.g. Diamonds, Fancy Cars, etc.

5. A good loses its prestige when it becomes a commonly used good. This is called 'Snob effect'.

6. Status seeking rich people buy highly priced goods only. This form of 'Conspicuous Consumption' or 'Ostentative Consumption' is called 'VEBLEN EFFECT' (named after American economist THORSTEIN VEBLEN).

7. Tastes and preferences of people change either due to external causes or internal causes.

8. Therefore, knowledge about tastes and preferences is important in production planning, designing new products and services to suit the changing tastes and preferences of the consumers.

* Other Factors: Other things being equal demand for a commodity is also determined by the following factors:—

1. Size and Composition of Population:

   - Generally, larger the size of population of a country, more will be the demand of the commodities.
   - The consumption of the population also determines the demand for various commodities.

   E.g. If the number of teenagers is large, the demand for trendy clothes, shoes, movies, etc. will be high.

2. The level of National Income and its Distribution:

   - National income is an important determinant of market demand. Higher the national income, higher will be the demand for normal goods and services.
   - If the income in a country is unevenly distributed, the demand for consumer goods will be less.
   - If the income is evenly distributed, there is higher demand for consumer goods.

3. Sociological Factors:

   - The household's demand for goods also depends upon sociological factors like class, family background, education, marital status, age, locality, etc.

4. Weather Conditions:

   - Changes in weather conditions also influence household's demand. E.g. Extraordinary hot summer push up the demand for ice-creams, cold drinks, coolers etc.

5. Advertisement:
 - A clever and Continuous campaign and advertisement create a new type of demand.

 Eg. Toilet products like soaps, tooth pastes, creams etc.

6. Government Policy:
 - The government's taxation policy also affects the demand for commodities.
 - High tax on a commodity will lead to fall in the demand of the commodity.

7. Expectation about future prices:
 - If consumers expect rise in the price of a commodity in near future, the current demand for the commodity will increase and vice-versa.

8. Trade conditions:
 - If the country is passing through boom conditions, demand for most goods is more.
 - But during depression condition, the level of demand falls.

9. Consumer-credit facility and interest rates:
 - If ample credit facilities with low rates of interest is available there will be more demand specially of consumer durable goods like scooters, LCD/LED televisions, refrigerators, home theatre, etc.

* Demand Function

 1. Mathematical/Symbolic statement of functional relationship between the demand for a product (the dependent variable) its determinants (the independent variables) is called demand function.

D_x = quantity demanded of product X.

P_x = The price of the product X

M = Money income of the consumer

P_s = The price of its substitute

P_c = The price of its complementary goods

T = Consumer's tastes and preferences

A = Advertising effect measured through the level of advertisement expenditure.