



An Economical Study on Demand

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1. Understanding Demand - Definition of Demand

In economic terminology the term demand conveys a wider and definite meaning than in the ordinary usage. Ordinarily demand means a desire, whereas in economic sense it is something more than a mere desire. It is interpreted as a want backed up by the - purchasing power. Further demand is per unit of time such as per day, per week etc. moreover it is meaningless to mention demand without reference to price. Considering all these aspects the term demand can be defined in the following words,

“Demand for anything means the quantity of that commodity, which is bought, at a given price, per unit of time.”

2. Law of Demand - Demand Price Relationship

This law explains the functional relationship between price of a commodity and the quantity demanded of the same. It is observed that the price and the demand are inversely related which means that the two move in the opposite direction. An increase in the price leads to a fall in the demand and vice versa. This relationship can be stated as

“Other things being equal, the demand for a commodity varies inversely as the price”

or

“The demand for a commodity at a given price is more than what it would be at a higher price and less than what it would be at a lower price”

3. Demand Schedule or Demand Table

These are the two devices to present the law. The demand schedule is a schedule or a table which contains various possible prices of a commodity and different quantities demanded at them. It can be an individual demand schedule representing the demand of an individual consumer or can be the market demand schedule showing the total demand of all the consumers taken together, this is indicated in the following table.

Price per Liter in Rs.	Individual Demand Schedule (Quantity in liter Demand by Different Individuals) (Daily Demand)				Market Demand Schedule (Daily Demand)
24	1.00	0.75	0.50	0.00	75
22	1.25	1.00	0.75	0.50	100
20	1.5	1.25	1.00	0.75	125
18	1.75	1.5	1.25	1.00	150

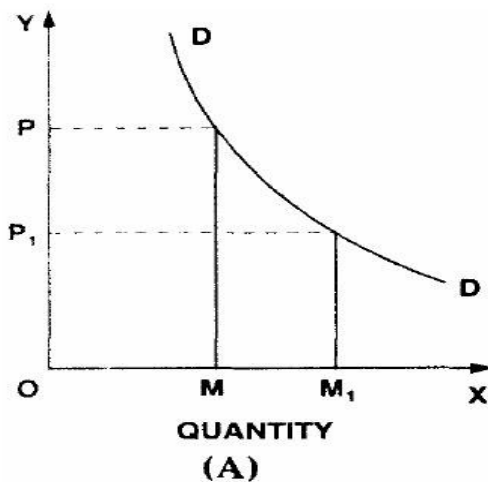
4. Demand Schedule

It can be observed that with a fall in price every individual consumer buys a larger quantity than before as a result of which the total market demand also rises. In case of an increase in price the situation will be reserved. Thus the demand schedule reveals the inverse price-demand relationship, i.e. the Law of Demand.

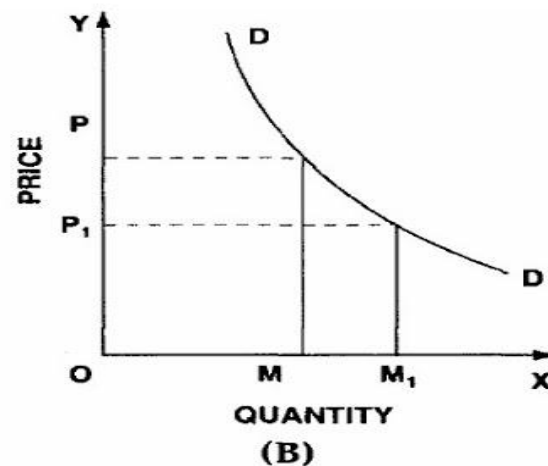
5. Demand Curve DD

It is a geometrical device to express the inverse price-demand relationship, i.e. the law of demand. A demand curve can be obtained by plotting a demand schedule on a graph and joining the points so obtained, like the demand schedule we can derive an individual demand curve as well as a market demand curve. The former shows the demand curve of an individual buyer while the latter shows the sum total of all the individual curves i.e. a market or a total demand curve. The following diagram shows the two types of demand curves.

Demand Curve Figure A



Demand Curve Figure B



In the above diagram, figure (A) shows an individual demand curve of any individual consumer while figure (B) indicates the total market demand. It can be noticed that both the curves are negatively sloping or downwards sloping from left to right. Such a curve shows the inverse relationship between the two variables. In this case the two variable are price on Y axis and the quantity demanded on X axis. It may be noted that at a higher price OP the quantity demanded is OM while at a lower price say OP1, the quantity demanded rises to OM1 thus a demand curve diagrammatically explains the law of demand.

6. Assumptions of the 'Law of Demand'

The law of demand in order to establish the price-demand relationship makes a number of assumptions as follows:

1. Income of the consumer is given and constant.
2. No change in tastes, preference, habits etc.
3. Constancy of the price of other goods.
4. No change in the size and composition of population.
5. These Assumptions are expressed in the phrase "other things remaining equal".

7. Exceptions of the 'Law of Demand'

In case of major bulk of the commodities the validity of the law is experienced. However there are certain situations and commodities which do not follow the law. These are termed as the exceptions to the law; these can be expressed as follows:

Continuous changes in the price lead to the exceptional behavior. If the price shows a rising trend a buyer is likely to buy more at a high price for protecting himself against a further rise. As against it when the price starts falling continuously, a consumer buys less at a low price and awaits a further in price.

8. Determinants (Factors Affecting) of Demand

The law of demand, while explaining the price-demand relationship assumes other factors to be constant. In reality however, these factors such as income, population, tastes, habits, preferences etc., do not remain constant and keep on affecting the demand. As a result the demand changes i.e. rises or falls, without any change in price.

Income: The relationship between income and the demand is a direct one. It means the demand changes in the same direction as the income. An increase in income leads to rise in demand and vice versa.

Population: The size of population also affects the demand. The relationship is a direct one. The higher the size of population, the higher is the demand and vice versa. **Tastes and Habits:** The tastes, habits, likes, dislikes, prejudices and preference etc. of the consumer have a profound effect on the demand for a commodity. If a consumers dislikes a commodity, he will not buy it despite a fall in price. On the other hand a very high price also may not stop him from buying a good if he likes it very much. **Other Prices:** This is another important determinant of demand for a commodity. The effects depends upon the relationship between the commodities in question. If the price of a complimentary commodity rises, the demand for the commodity in reference falls. E.g. the demand for petrol will decline due to rise in the price of cars and the consequent decline in their demand. Opposite effect will be experienced incase of substitutes.

9. Variation & Changes in Demand

The law of demand explains the effect of only-one factor viz., price, on the demand for a commodity, under the assumption of constancy of other determinants. In practice, other factors such as, income, population etc. cause the rise or fall in demand without any change in the price. These effects are different from the law of demand. They are termed as changes in demand in contrast to variations in demand which occur due to changes in the price of a commodity. In economic theory a distinction is made between (a) Variations i.e. extension and contraction in demand due to price and (b) Changes i.e. increase and decrease in demand due to other factors.

(a) Variations in demand refer to those which occur due to changes in the price of a commodity.

These are two types.

1. **Extension of Demand:** This refers to rise in demand due to a fall in price of the commodity. It is shown by a downwards movement on a given demand curve.
2. **Contraction of Demand:** This means fall in demand due to increase in price and can be shown by an upwards movement on a given demand curve.

(b) Changes in demand imply the rise and fall due to factors other than price.

It means they occur without any change in price. They are of two types.

Increase in Demand: This refers to higher demand at the same price and results from rise in income, population etc., this is shown on a new demand curve lying above the original one. **Decrease in demand:** It means less quantity demanded at the same price. This is the result of factors like fall in income, population etc. this is shown on a new demand curve lying below the original one.

Fig (A) Extension/Contraction of Demand

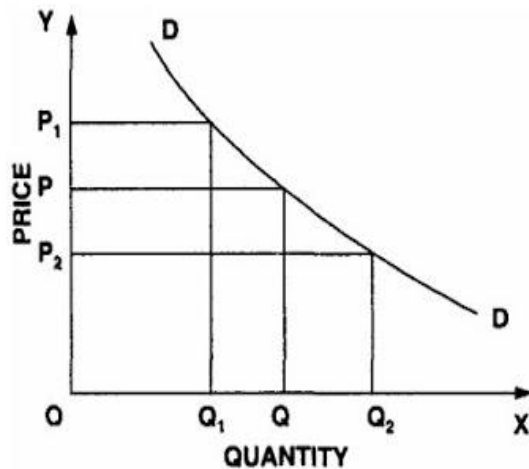
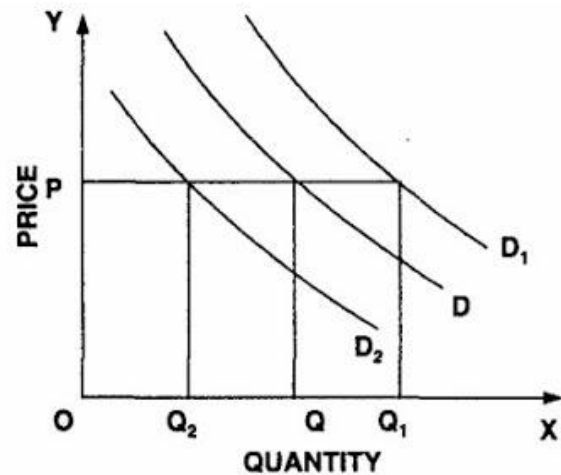


Fig (B) Increase/Decrease in Demand



In figure A, the original price is OP and the Quantity demanded is OQ. With a rise in price from OP to OP1 the demand contracts from OQ to OQ1 and as a result of fall in price from OP to OP2, the demand extends from OQ to OQ2.

In figure, B an increase in demand is shown by a new demand curve, D1 while the decrease in demand is expressed by the new demand curve D2, lying above and below the original demand curve D respectively. On D1 more is demanded (OQ1) at the same price while on D2 less is demanded (OQ2) at the same price OP.

10. Elasticity of Demand

The law of demand explains the functional relationship between price and demand. In fact, the demand for a commodity depends not only on the price of a commodity but also on other factors such as income, population, tastes and preferences of the consumer. The law of demand assumes these factors to be constant and states the inverse price-demand relationship. Barring certain exceptions, the inverse price-demand relationship holds good in case of the goods that are bought and sold in the market.

The law of demand explains the direction of a change as it states that with a rise in price the demand contracts and with a fall in price it expands. However, it fails to explain the extent or magnitude of a change in demand with a given change in price. In other words, the law of demand merely shows the direction in which the demand changes as a result of a change in price, but does not throw any light on the amount by which the demand will change in response to a given change in price. Thus, the law of demand explains the qualitative but not the quantitative aspect of price- demand relationship.

Although it is true that demand responds to change in price of a commodity, such response varies from commodity to commodity. Some commodities are more responsive or sensitive to change in price while some others are less. The concept of the elasticity of demand has great significance as it explains the degree of responsiveness of demand to a change in price. It thus elaborates the price-demand

relationship. The elasticity of demand thus means the sensitiveness or responsiveness of demand to a change in price.

According to Marshall, “the elasticity (or responsiveness) of demand in a market is great or small accordingly as the demand changes (rises or falls) much or little for a given change (rise or fall) in price.”

From the above discussion, it will be clear that though different commodities react to a change in price in the same direction; the degree of their response differs. Demand for some commodities is more sensitive or responsive to a change in price, while it is less responsive for some others. Elasticity of demand is a measure of relative changes in the amount demanded in response to a small change in price. Certain goods are said to have an elastic demand while others have an inelastic demand. The demand is said to be elastic when a small change in price brings about considerable change in demand. On the other hand, the demand for a good is said to be inelastic when a change in price fails to bring about significant change in demand.

The concept of elasticity can be expressed in the form of an equation as:

$$E_p = [\text{Percentage change in quantity demanded} / \text{Percentage change in the price}]$$

Reference