Q.

B-Com (H) Part I
Subsi- I Sub: Pr. of ECO.

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Q. What is Demand? What are the main factors affecting the Demand for a commodity?

Ans: In common parlance the word demand, desire and want are often used interchangeably to express what an individual needs and what he would like to acquire. However, in economics, the term demand has its own meaning and content. It refers to the amount of a commodity or service which an individual buyer or a household is willing to purchase at a given price during a given period of time. Thus, demand differs from a mere desire. Human wants are unlimited and, therefore desires are many. But only that "desire which is backed up by the capacity to pay the price for a commodity and willingness to buy it, it is term as demand". In other words, the desire becomes effective when the consumer has the means to buy a particular commodity at the given price.

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Hence the demand is always with reference to a particular price as well as to a given time period, may be a day, a week or a month. It is obvious that consumer's ability to pay and willingness to buy a commodity will be different at different price levels and over different time period. Finally, we can say that the for a commodity or service is the amount that will be bought by the consumers at given price and during a given period of time.

Factors affecting Demand

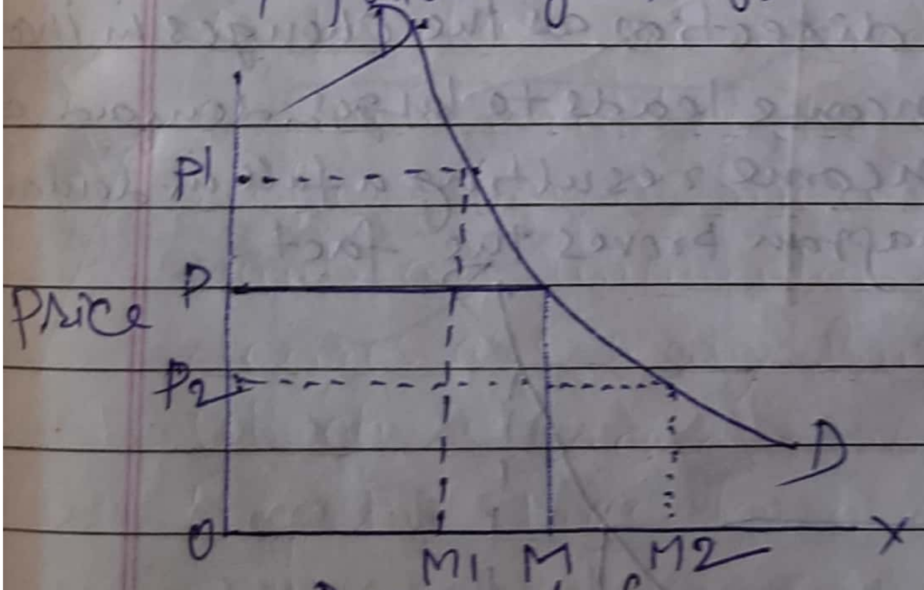
The demand for a commodity or service, i.e. the amount which the consumers would buy depends upon a lot of factors. Such important among theme are as follows:—

(i) The price of a Particular Commodity
(ii) The income of the a consumer
(iii) Taste and preference of a consumer
(iv) The Price of other goods in the market

The price of given Commodity is an important factor influencing its demand. If the price is very high, only a few rich persons can afford to buy it

Hence the amount of commodity bought at high price will be low i.e commodity will have a lower demand. On the other hand, if the price is low, it will be within in the reach of a larger number of people to buy it. Consequently, a greater amount of the commodity will be bought and the demand shall be high. Thus the prevailing price for a commodity or service is an important determinant of the level of its demand.

The relationship between the price and demand of goods is reverse. When the price of goods x goes up, the quantity demanded falls and vice-versa. It can be explained by following diagram

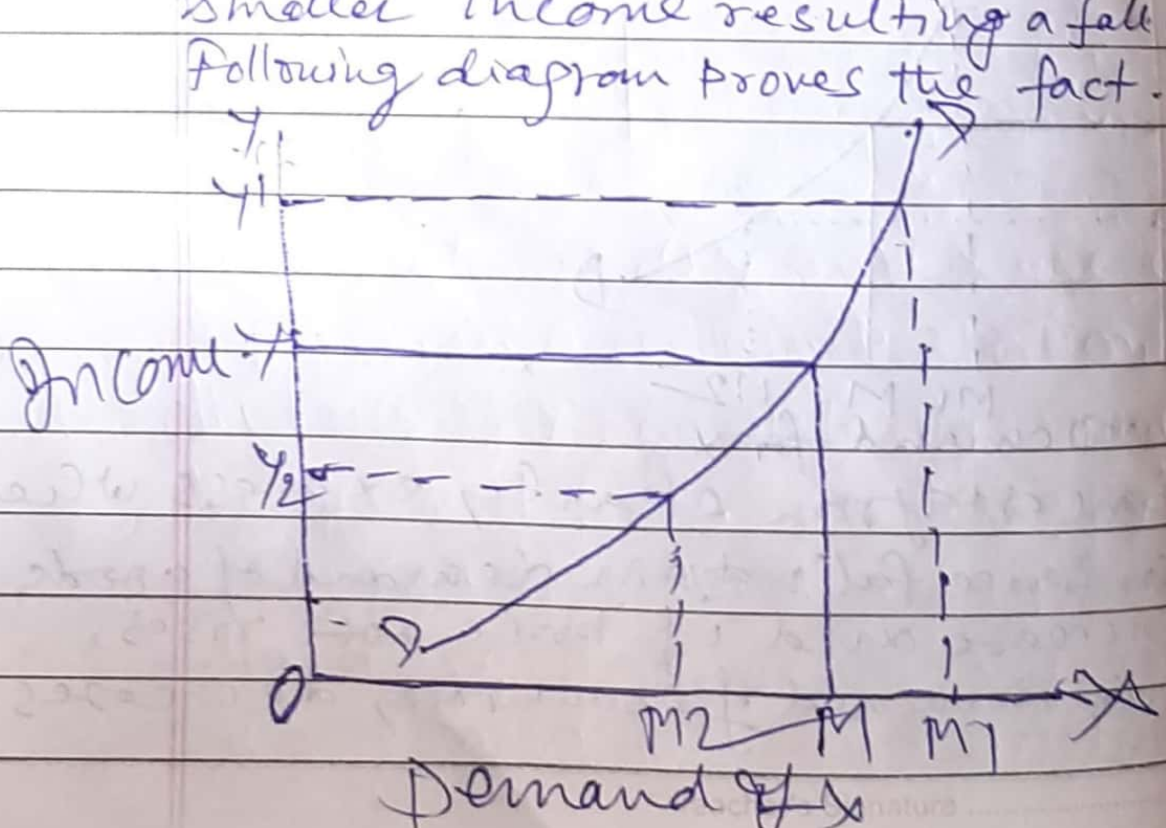


∴ Demand for x

Above diagram clearly express when the price falls down demand of goods increase and if price ~~rate~~ rises, the demand of commodity decreases.

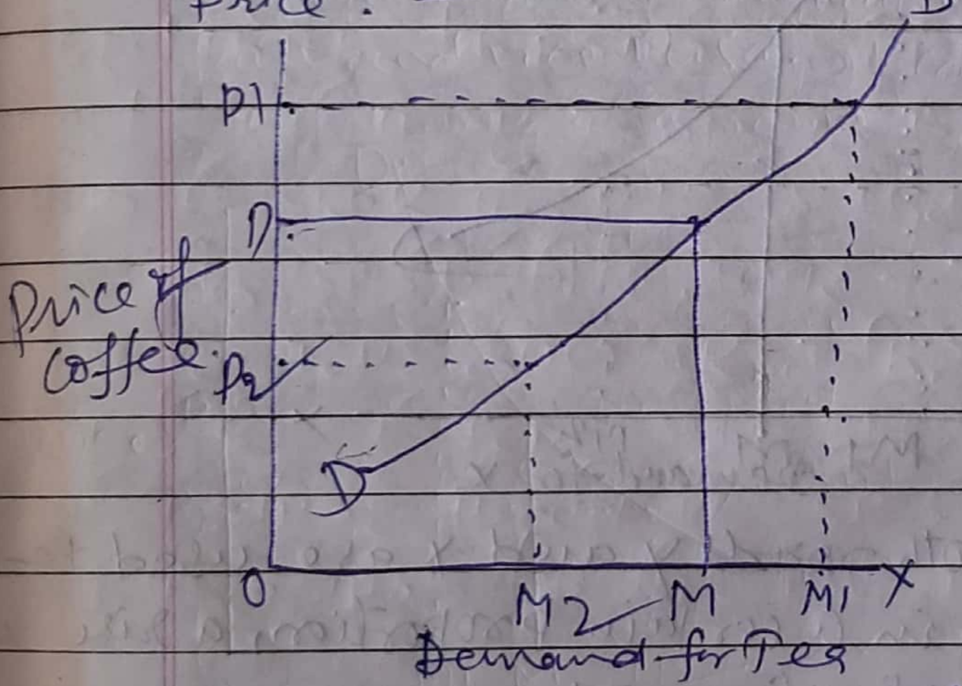
Besides the price level, income of the consumer greatly affects the demand for a commodity. Given the price If the consumers have a higher income they can afford to buy more of it. Thus at higher incomes or increased income levels, the demand will be generally high. But if the consumers income are low or that there has been a fall in income levels, generally demand for the commodity will be lower.

This relationship between level of income and the demand for a commodity is known as 'income demand'. Generally the demand for a commodity changes in the same direction as the changes in income. A higher income leads to larger demand & smaller income resulting a fall in demand. Following diagram proves the fact.



In this diagram we see the quantity of the goods x is measured on the x-axis and the consumer income is shown on the y-axis. When the income level is OY, the quantity demand is OM. If the income of consumer goes up to OY1, the demand for x increases to OM1. But when income level comes down to OY2, the demand for x falls to a lower level of OM2.

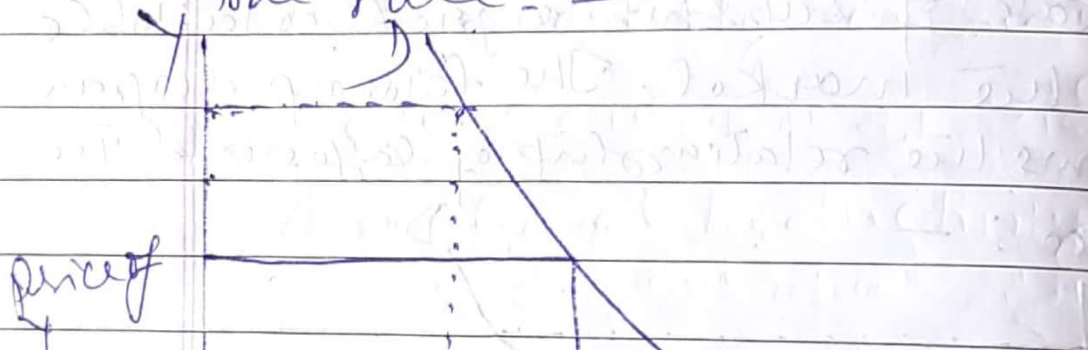
But the scienario changes in case of substitute good available in the market. The following diagram shows the relationship of coffee and Tea price :—



~~Price of coffee at OP and the demand~~ for tea is OM. But as the price of coffee goes up to OP1, some people are likely to use more of tea in place of coffee. Consequently the demand for tea goes up to OM1. But if coffee becomes cheaper, viz its price falls to OP2, people may start using more of coffee in place of tea as well. Hence the demand for tea falls to a lower level OM2.

Fourth factor affecting demand is complementary goods are available in market. This can also affect the quantum of demand.

Following diagram reflects the true rule:—



Since both goods Y and X are used together in a certain proportion, a rise in the price of Y from OP to OP1 would reduce the demand for Y. Since less of Y is being consumed it would also mean that the demand for complementary goods X will also fall from OM to OM1.

Similarly when y becomes cheaper it induces a larger consumption of y which in turn also leads to a greater demand for x.

Taste and preferences of the consumers have a bearing on the demand for a commodity. Given the price of the commodity and the income of the consumers, a change in tastes and fashions will change the consumers' preference for a commodity and thus, affects its demand. If use of a particular commodity becomes more fashionable or that the consumers develop a strong taste for it, more of it will be bought at a given price. On the other hand, with a change in fashion and taste, the amount purchased will fall. Thus, consumers' taste and preferences and the changes in them, have a bearing on the demand for a commodity.

All the above factors influencing the demand for a commodity can be briefly expressed in the following functional relationship:

$Dx = f(Px, Py, Pz, Y, T)$ here Dx = Demand

Px & Py = Price of x & y. Y and T represents the ~~test~~ taste & preferences.