PRINCIPLES OF ECONOMICS

B.Com Hons Part-I

TOPIC - FACTORS AFFECTING DEMAND

By - DEEPA KUMARI
P.G. Dept. of commerce & BUSINESS MANAGEMENT
H.D. JAIN COLLEGE, Ara, Bhojpur, Bihar - 802301

* Factors Affecting Demand :-

Goods are demanded because they have capacity to satisfy human wants. A rational consumer will make demand for a commodity only when it provides utility to him.

The quantity of each commodity that is demanded by an individual household is affected by five main variable. A demand function is expressed is following equation -

$$D_x = f(P_x, P_r, Y, T)$$

Where,

D_x = Demand of commodity x

P_x = Price of x commodity

P_r = Price of related commodities

Y = The income of the household.

T = The taste and preference of the household.

- Factors affecting Demand —

(1) Utility of the goods - utility means the power to satisfy human wants. The commodities,

having greater utility will be demanded more.

② Income level- A rise in people's income, will cause an increase in demand for goods and services. while a fall in incomes will cause demand to fall.

③ Price of Related Goods - Related goods may be in the form of substitutes and complements:

(a) Substitute Goods - Substitute goods are those goods which may be used in the place of each other. E.g. :- tea and coffee, sugar and gur.

(b) Complements Goods - Complements goods are those goods which are jointly demanded to satisfy a particular want. E.g :- Car and petrol, bread and butter.

④ Tastes and fashion - The amound demanded of a commodity also depends upon consumer's tastes, preferences, fashion etc.

⑤ Price of the goods - Price is the most important factor. Demand for a commodity increases when its price falls and vice-versa.