Demand Analysis

Demand Analysis: Individual and Market demand functions; Law of Demand; Determinants of Demand.

Demand: Demand is the quantity of a good that consumers are willing and able to purchase at various prices during a given period of time.

Difference between Need and Demand

- Need is an effective Desire.
- It should have three things:

Willingness to buy, Ability to buy and Reay to pay.

- Demand should have five things:

Willingness to buy, Ability to buy, Reay to pay, Specific Price and Specific Period.

Demand Function: A demand function is a mathematical equation which expresses the relation between the demand of a product and the factors which affect the demand.

Individual Demand Function: Individual demand function refers to the functional relationship between demand made by an individual consumer and the factors affecting the individual demand such as price of a product, his income, prices of related commodities, individual's taste.

$D_x = f(P_x, P_y, I, T)$

Where:

D_x = Quantity demand of X commodity

f = functional relation

P_x = Price of X commodity

P_y = Price of Y commodity(related Substitute or complementary)

I = Income of consumer

T = Taste or preference of consumer

Market Demand Function: Market demand function refers to the functional relationship between market demand and the factors affecting market demand such as price of a product, income of consumers, prices of related commodities, individual's taste, population.

$D_x = f(P_x, P_y, I, T, P)$

Where:

D_x = Quantity demand of X commodity

f = functional relation

P_x = Price of X commodity

P_y = Price of Y commodity(related Substitute or complementary)

I = Income of consumers

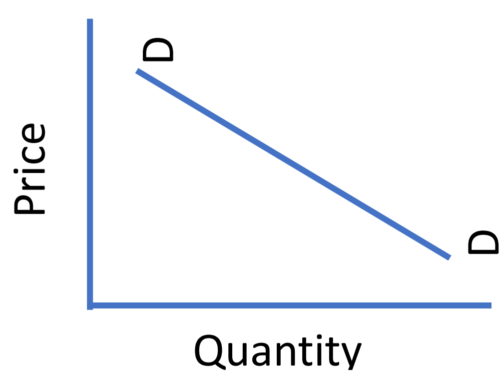
T = Taste or preference of consumer

P = population or no. of consumers

Law of Demand: The law of demand states that cetris peribus (other factors remain constant), price and quantity demanded of any product are inversely related to each other. When the price of a product increases, the demand for the same product decreases and vice versa.

According to Marshall, "the amount demanded increases with a fall in price and diminishes with a rise in price."

Demand Schedule	
Price	Quantity demanded
5	10
4	20
3	30
2	40
1	50



Assumptions of Law of Demand:

- No change in price of related commodities.
- No change in income of the consumer.
- No change in taste and preferences, customs, habit and fashion of the consumer.
- No expectation regarding future change in price.
- No change in population

Causes of Downward Sloping Demand Curve:

- Law of diminishing marginal utility
- Substitution effect
- Effect of entry and exit of some buyers/Price effect
- Income effect

Exceptions to the Law of Demand:

- War
- Depression
- Giffen Goods / Giffen Paradox
- Veblen Goods / Demonstration effect
- Ignorance effect
- Speculation
- Necessities of Life