

Chapter
Unit

19/11

Chapter - 1 Unit 1 Demand

• Effective Demand

- a) Desire
- b) Ability to pay
- c) Willingness to pay

• How is the demand expressed?

- a) Quantity
 - b) Price
 - c) Time
- 10 रु का चॉकलेट की कीमत

• Factors affecting demand

a) Price of the Commodity

Price ↑ Demand ↓ } Ceteris Paribus: other things being constant
 Price ↓ Demand ↑ }

b) Price of the Related Commodities (affects demand of original commodity)

↓ प्रतिस्थापित और प्रतिस्पर्धी
 ↓ पूरक वस्तुएँ

Substitutes/Competing goods Complementary goods

Tea		Coffee		Pen		Ink	
P	Q	P	Q	P	Q	P	Q
10	100	10	100	10	100	10	100
10	50	15	50	20	50	10	60
10	50	5	150	5	150	10	50

Direct Proportion

c) Income affects purchasing power

d) Ha

Direct Relationship between P_r and D_o

Indirect Relationship betⁿ P_r and Q_o

c) Income of the Consumer (MICRO)

Income affects purchasing power

$\left\{ \begin{array}{l} \text{Income} \uparrow \text{ Demand} \uparrow \\ \text{Income} \downarrow \text{ Demand} \downarrow \end{array} \right\}$ ceteris Paribus :
 other things being constant

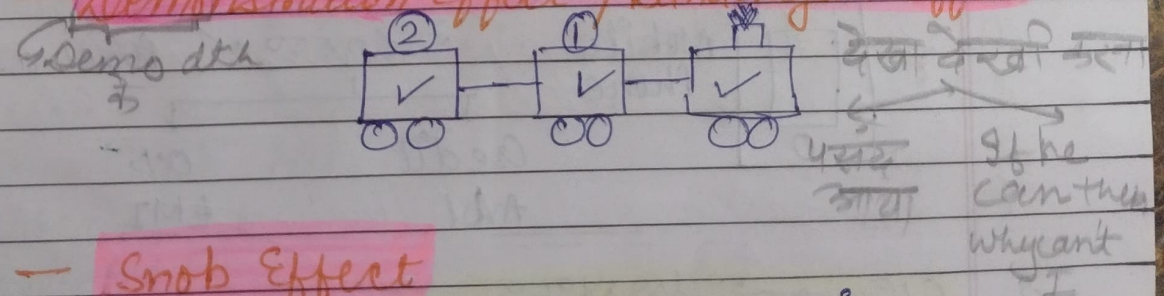
Exceptions:

- (i) necessities e.g.:- Medicines/salt
- (ii) Inferior goods: Income \uparrow Demand of inferior goods \downarrow

d) Habit Taste and Preferences

- Goods in Trend command higher demand.
- Goods in Fashion command higher demand.

Demonstration Effect / Bandwagon Effect



Snob Effect

To enhance the prestige.
(They are showing off)

Veblen Effect

Thorstein Veblen
Consume highly priced goods
(They have to maintain their status)

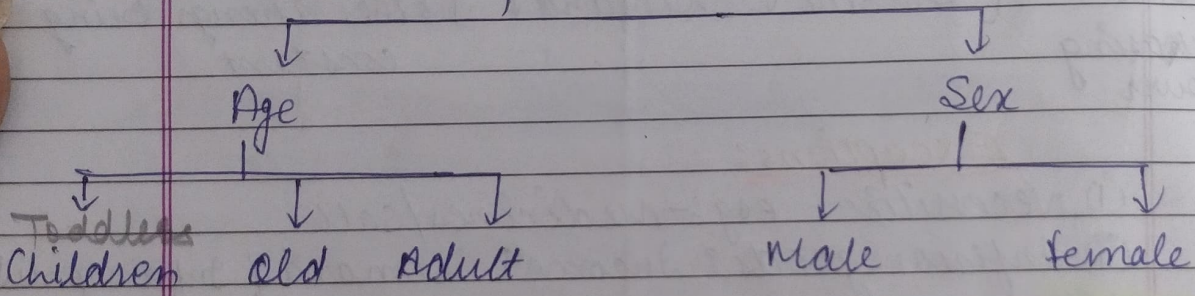
e) Consumer Expectations :-

- Future Price
- Income
- Supply Conditions.

$FP \uparrow \quad D \uparrow \quad FP \downarrow \quad D \downarrow$
 $FI \uparrow \quad DI \uparrow \quad FI \downarrow \quad DI \downarrow$
 $SC \uparrow \quad D \downarrow \quad FSC \downarrow \quad DI$

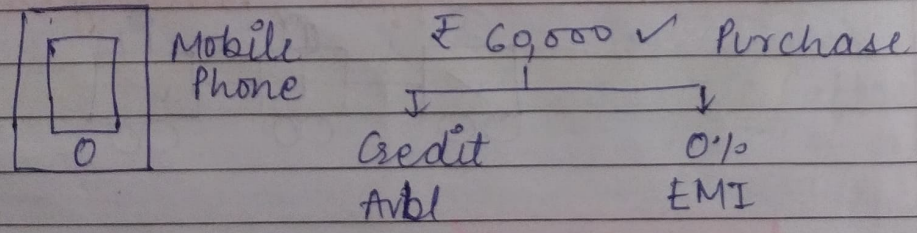
f) Population

- Size of population \rightarrow $ST \quad DT \quad S \downarrow \quad D \downarrow$
- Composition of population



g) Level of National Income - Distribution of
 Market demand \leftarrow Income (MACRO)
 Effect

h) Consumer Credit facility - Interest Rates



i) Climatic Conditions

j) Advertisement



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As p
rel
a) Inve
b) Ana
c) Ne
d) All
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a) Pr
b) Ch
c) ef
d) B
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Poc
50
25
10
5

Principle \rightarrow Universal

\rightarrow Based on Assumption

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• Law of Demand

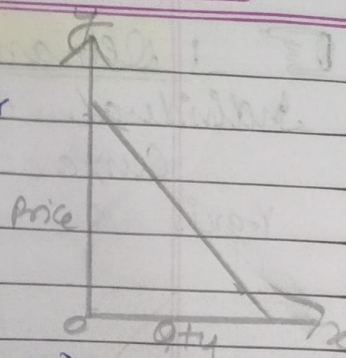
\rightarrow Based on Assumptions
Other things being constant.

\rightarrow Price of Related
Income

Habits / Taste / Pref etc

Inverse relationship between Price & Quantity demanded

As the Price \uparrow Demand \downarrow
Price \downarrow Demand \uparrow



MCCQs:

As per law of demand, there is an relationship

- a) Inverse ✓
- b) Indirect
- c) Negative
- d) All of the above

MCCQ

There is an ^{Inverse} relationship between

- a) Price & Quantity ✓
- b) Quantity & Price
- c) either a & b
- d) Both a & b

▣ Demand Schedule \rightarrow Tabular Representation

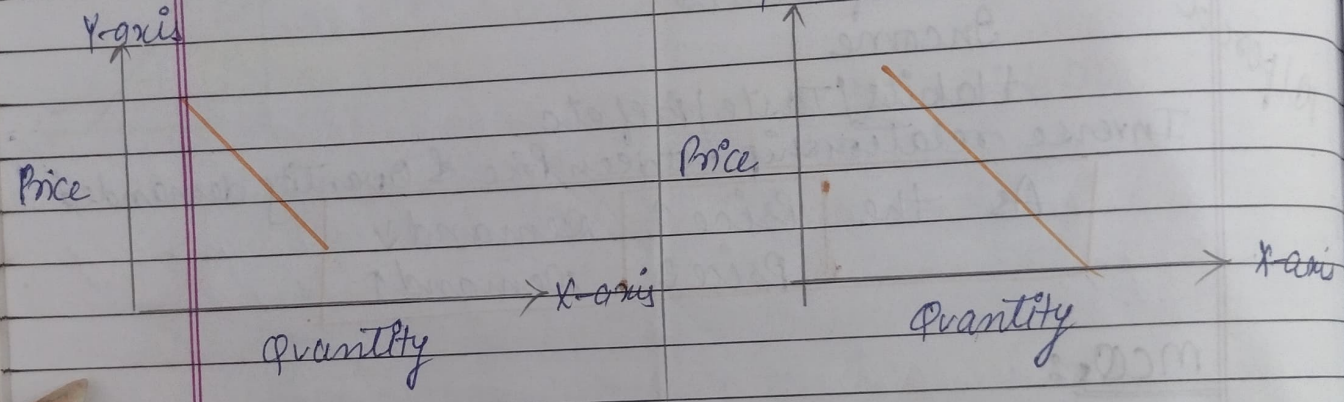
Individual Demand Schedule

v/s

Market Demand Schedule

Price	Quantity	Price	Quantity			Total
			Q ₁	Q ₂	Q ₃	
50	5	50	5	2	2	10
25	10	12	10	10	10	30
10	20	10	20	20	15	55
5	30	5	30	40	20	90

Demand Curve → Graphical Presentation
Individual Demand Curve vs Market Demand Curve.



~~Demand~~
Downward sloping curve
from left to right

Rationale of Law of Demand
(Logic/Reason)

a) Law of Diminishing Marginal Utility

b) Price Effect:-

i) Income effect

£ 100 Income
 • Price of calculator = £ 100 - 1 Qty
 • Income = £ 0

£ 150 Income
 • Price of calculator = £ 50 - 1 Qty
 • Income = £ 50 → 1 Qty

PT & Q ↓

ii) Substitution effect

Tea (R)		Coffee (Org)		
P	Q	P	Q	
10	100	10	100	→ P ↑ Q ↑ P ↓ Q ↓
10	150	20	50	
10	50	5	150	

↓
 Other things being constant

↓
 Because of the availability of substitutes.

c) Arrival of new consumers:-

P ↑ → It is purchased only by those who can afford

Q ↓

P ↓ → Arrival of new consumers i.e. people who earlier could not afford can now buy it.

Q ↑

d) Different uses / Multiple uses :-
e.g. Milk
Electricity

Exceptions to Law of Demand

a) Conspicuous Goods :- Things Demanded only by Rich people.
(Veblen effect)

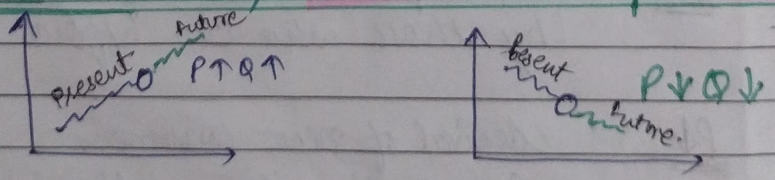
b) Conspicuous necessities :- They become necessities because of their constant usage.
e.g. → laptop, machines, phone.

c) Necessities :- Irrespective of Prices, these goods are demanded.
e.g. - Food, Cloth, shelter, Education, Medicine.

d) Ignorance / Absence of knowledge about Market Conditions → Impulsive purchase / not being rational.
→ End up spending Money.

~~Impulsive purchase not being rational.~~

f) Speculative Goods / Future Price Expectations :-



h) Giffen Goods :- Inferior Goods.
(Scotland)
English workers

(Sir Robert Criffen)



$P \downarrow Q \downarrow$

as consumer has more money left with, hence he prefers superior goods over inferior goods.

- less money we buy same qty
- extra money - superior goods



$P \uparrow Q \uparrow$

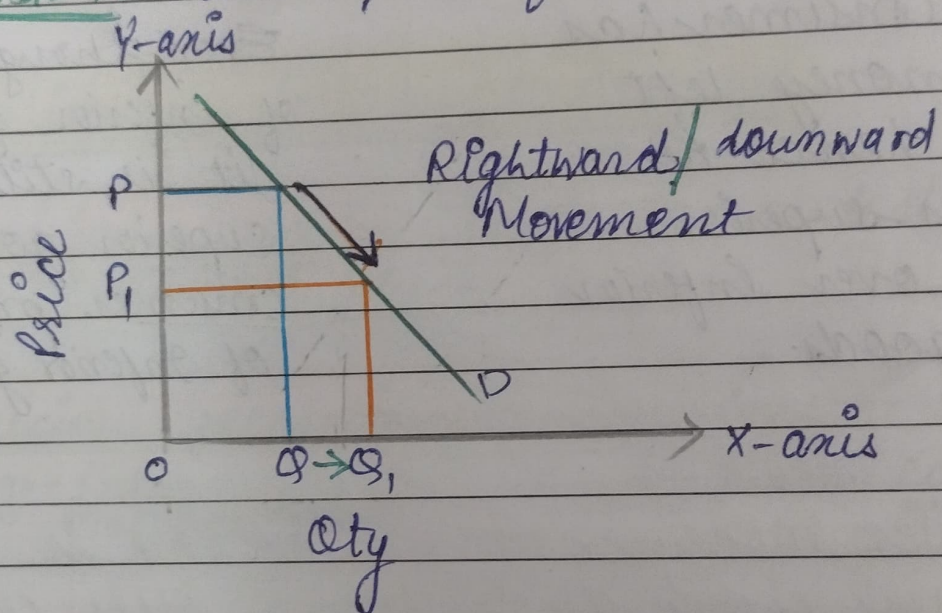
Even though when price of inferior goods is more, it is still cheaper than superior goods. Therefore, consumer prefer more of inferior goods.

- Price is rising it is still cheaper than superior goods.

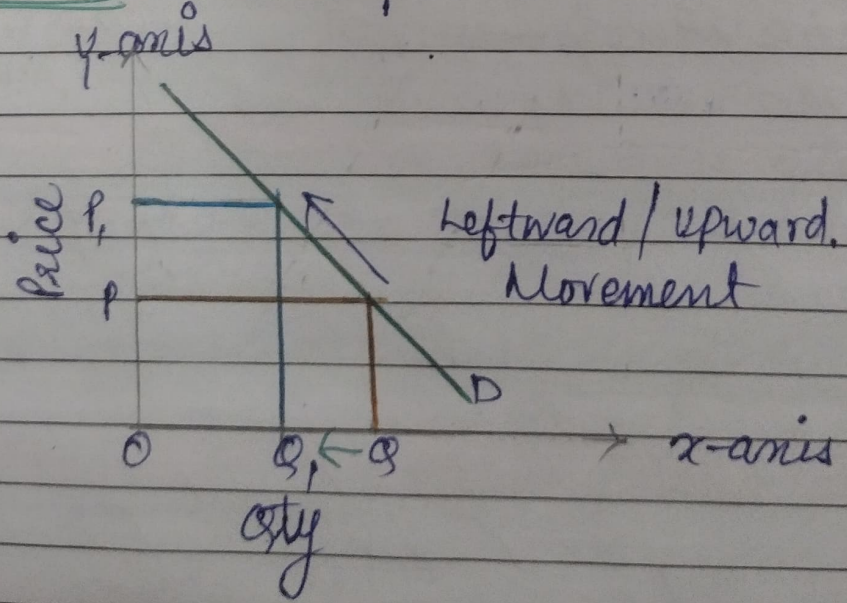
Expansion & Contraction of Demand:

When there is change in demand due to price.

Expansion:- when price falls demand rises.



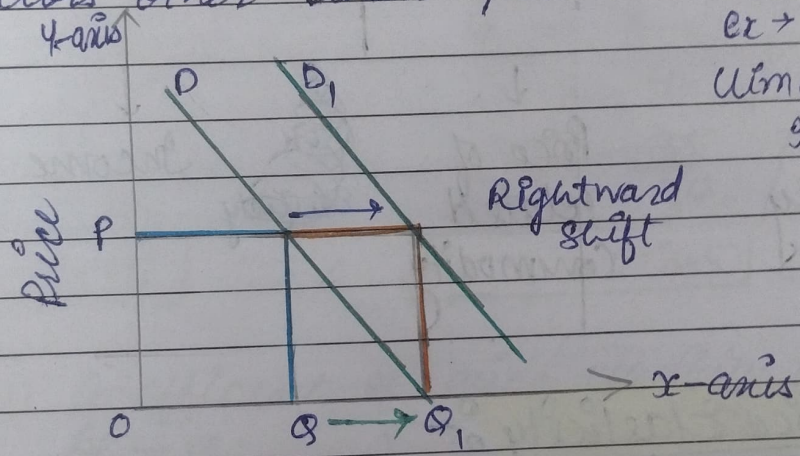
Contraction:- when price rises demand falls.



Increase & decrease of Demand:

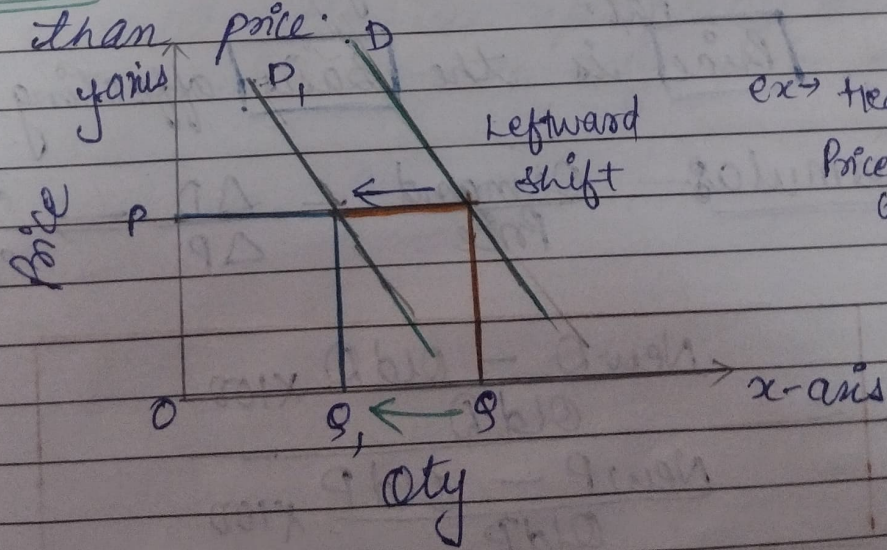
when there change in Demand due factors other than price.

Increase - when there is rise in demand to factors other than price.



ex → Habits,
 Climatic Condition,
 Income etc.

Decrease - when demand falls due to factors other than price.



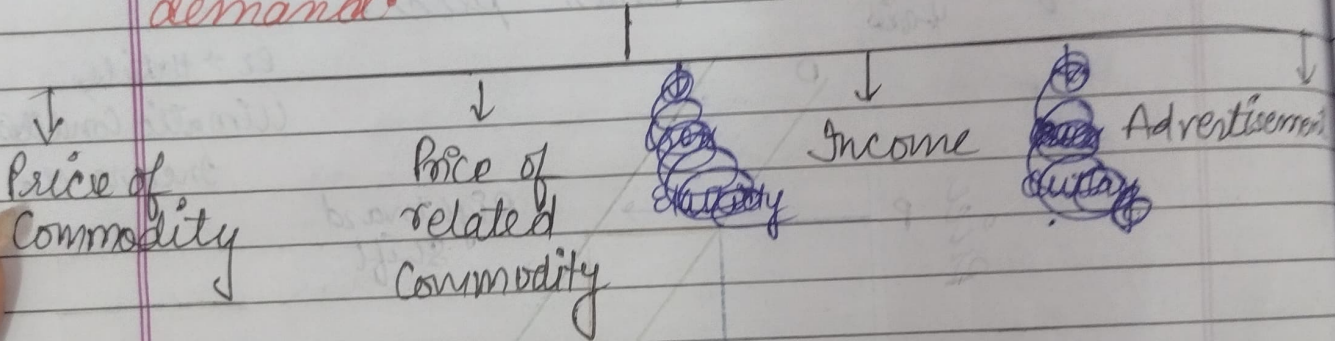
ex → Health conscious,
 Price of related Goods.

- Elasticity
- ① Price Elasticity
 - ② Cross Elasticity
 - ③ Mid Point Elasticity
 - ④ Point
 - ⑤ Ad Exp Elasticity
 - ⑥ Outlay Method
 - ⑦ Income Elasticity

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Elasticity of Demand :-

Sensitivity, Responsive to change in demand due to factors affecting demand.



(a) Price Elasticity :-

Logic :- Price ke waja se demand affect hoti hai.

Price is the Basis affecting demand

Formula :- $\frac{\text{Demand}}{\text{Price}} = \frac{\Delta D}{\Delta P} \Rightarrow \frac{\% \Delta D}{\% \Delta P}$

$$\frac{\text{New D} - \text{Old D}}{\text{Old D}} \times 100$$

$$\frac{\text{New P} - \text{Old P}}{\text{Old P}} \times 100$$

Illustrations:-

Que	P	Q
	10	20
	20	5

$$Pe = \frac{5-20}{10} \bigg/ \frac{20-10}{10}$$

$$= \frac{-15}{10} \bigg/ \frac{10}{10}$$

$$Pe = -0.75$$

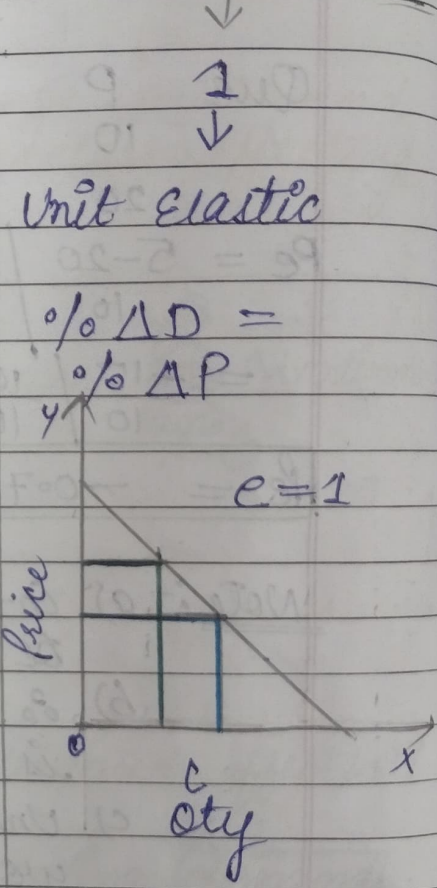
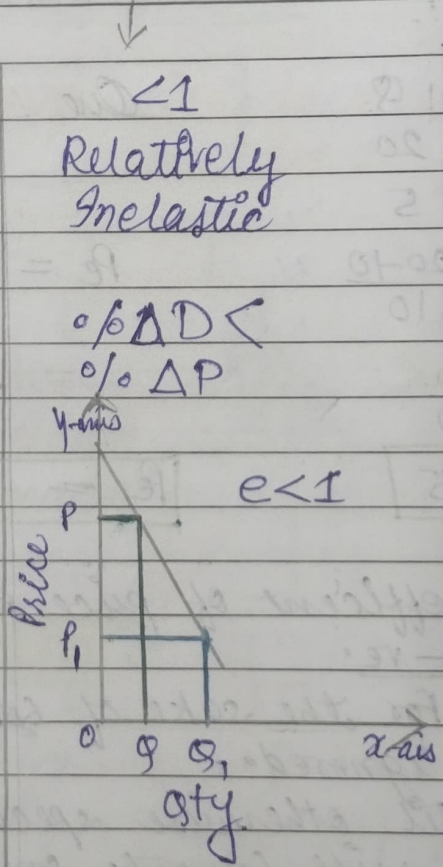
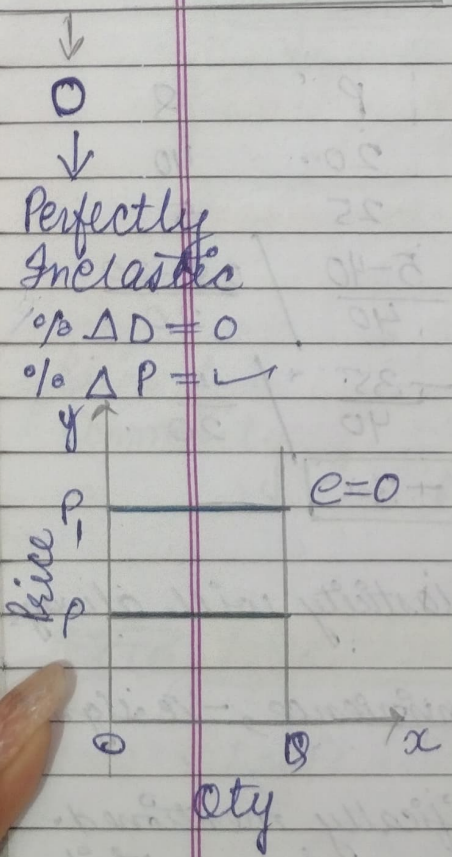
Que	P	Q
	20	40
	25	5

$$Pe = \frac{5-40}{40} \bigg/ \frac{25-20}{20}$$

$$= \frac{-35}{40} \bigg/ \frac{5}{20}$$

$$Pe = -3.5$$

- Note:-
- Co-efficient of price elasticity will always be -ve.
 - For the sake of convenience, -ve sign is ignored.
 - Until otherwise specifically mentioned, we will compute only price elasticity.



- Parallel to y-axis

- Closer to y-axis
- Steeper

- Straight line between x and y axis.

eg -
Medicine
Not related
Necessities
Small

Necessities
Small amount
Single uses
Short Run
Tied demand (complementary goods)
Cheaper, expensive
Habitual

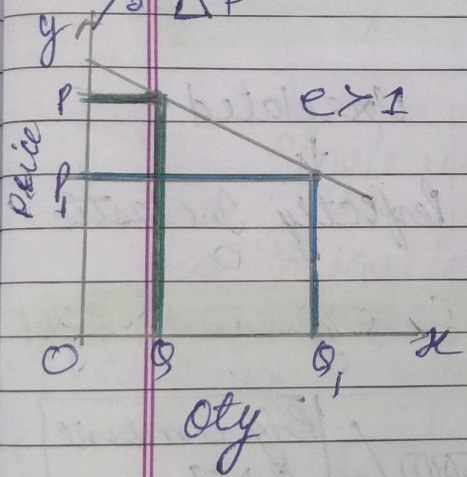
- Awa
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Relatively Elastic

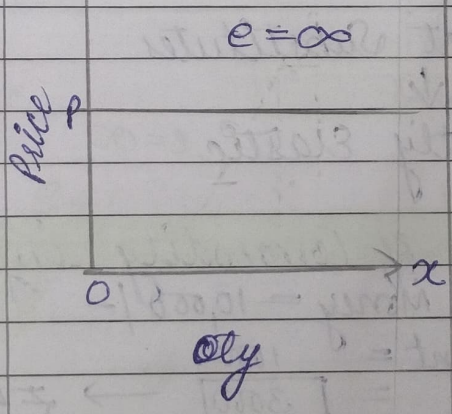
$\% \Delta D > \% \Delta P$



∞

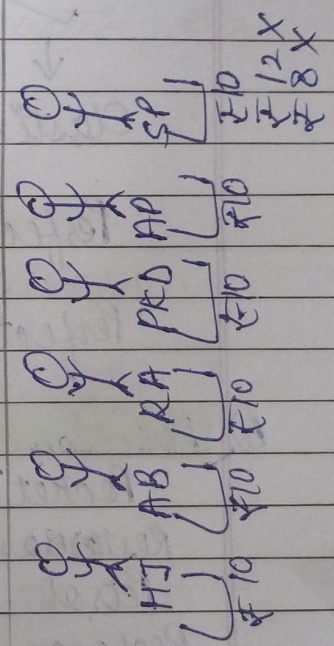
Perfectly Elastic

$\% \Delta D = \infty$
 $\% \Delta P = \text{slight}$



SPPC

Pani Puri



Do he will continue to sell @ ₹ 10

Line
ndy

- Away from y-axis
- Flatter

- Parallel to x-axis

Perfect substitutes

Comfort, Luxuries
Large amount
Multiple uses

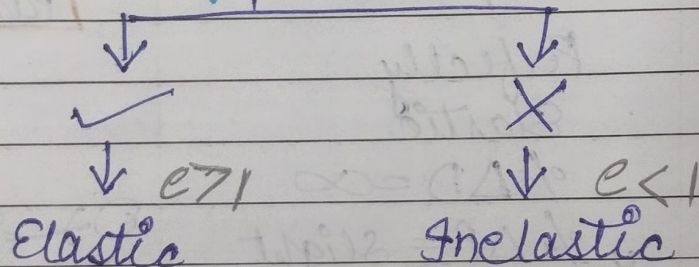
Long Run

Moderate

not habitual

Determinants of Price Elasticity

a) Availability of Substitutes :-



Perfect Substitutes

Unrelated

Perfectly Elastic $e = \infty$

Perfectly Inelastic $e = 0$

b) Positions of Commodity in Consumer Budget

Pocket Money = 10,000/-

Restaurant = 1000

Petrol = 3000

Recharge = 500

Shopping = 2500

Stationery = 100

Movie = 500

Savings = 1400

Books = 500

OTT = 200

Grooming = 300

→ ₹ 5000/-

Big amount
 $e > 1$
 elastic

→ ₹ 200/-

Small Amount
 $e < 1$
 Inelastic