

Desire - Not Possible
Effective desire = Possible

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Demand

Effective desire at a particular time at a particular price is called Demand

Effective Desire

means desire to purchase something with sufficient money and willingness to purchase.

Demand is a flow concept

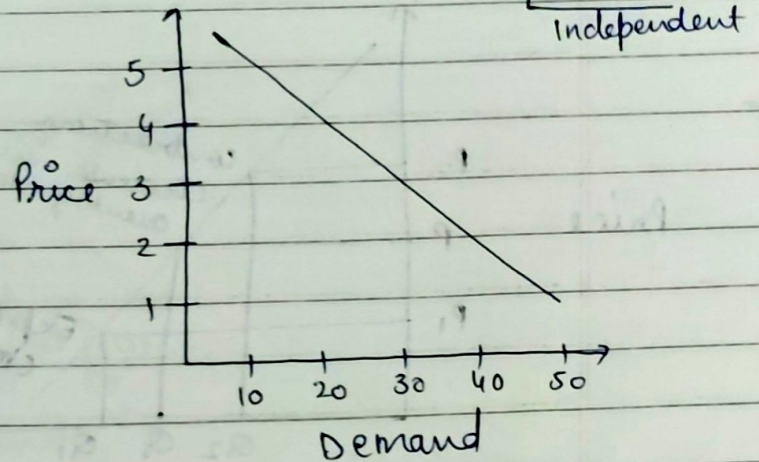
Law of Demand : Qualitative statement
Keeping other factors constant, when price decreases then demand increases and when price increases then demand decreases. There is inverse or negative relation b/w price & demand.

Determinants of Demand

1. Consumer income (Monetary income constant)
2. Taste Preference & habits
3. Prices of related goods
4. future expectations about prices
5. Weather and climate
6. Social System
7. Population.

Demand Curve

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



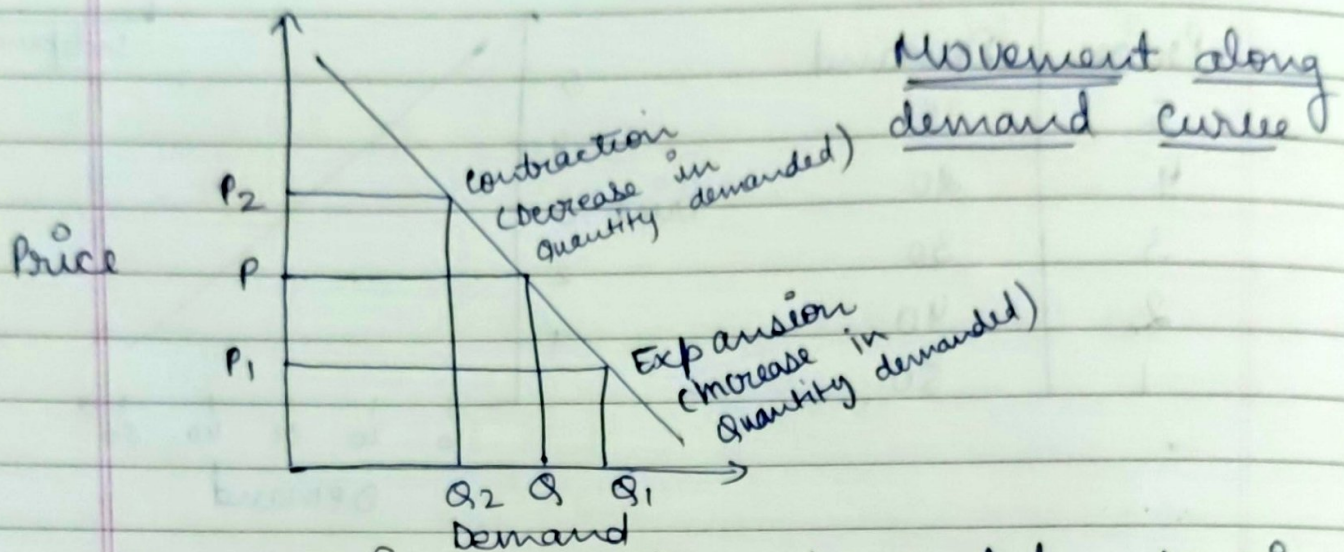
Why does law of demand operates

- Price effect (a) Income effect (Real Income - Purchasing Power)
(b) Substitution effect

→ Law of diminishing marginal utility

→ Arrival of new consumers

Change in demand and Change in Quantity

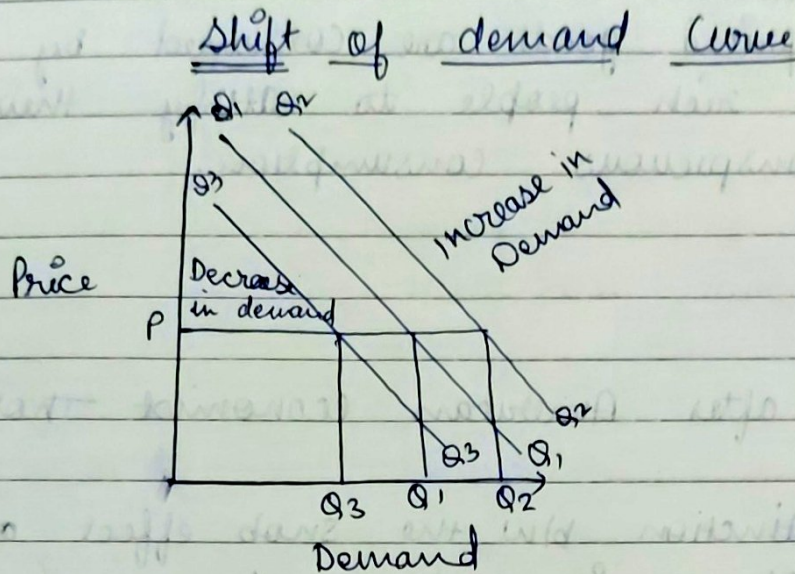


Change in quantity demanded - Keeping other factors constant when price decreases and demand increases then this condition is called expansion of demand or increase in quantity demanded.

And when demand decreases due to increase in price keeping other factors constant then this condition is called contraction of demand and decrease in quantity demanded.

Change in demand - when price remains constant and demand rises due to other factors then this condition is called increase in demand.

when demand decreases due to other factors and price remains constant then this condition is called decrease in demand.



Exceptions to the demand of law

(खरीदार)

1. Conspicuous goods: Veblen effect, snob appeal, prestige good effect.

(खरीदना पढा)

2. Conspicuous necessities: demonstration effect, band Veblenar.

(Boy)

Demonstration / Bandwagon

→ It is a psychological effect in which people do the same what others are doing

→ Given by James Duesenberry

Snob Effect (Girl)

→ It is understood as the desire to possess a unique commodity having a prestige value.

Veblen Effect

Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption.

This says that a person wants to consume high price good whether other person have or not

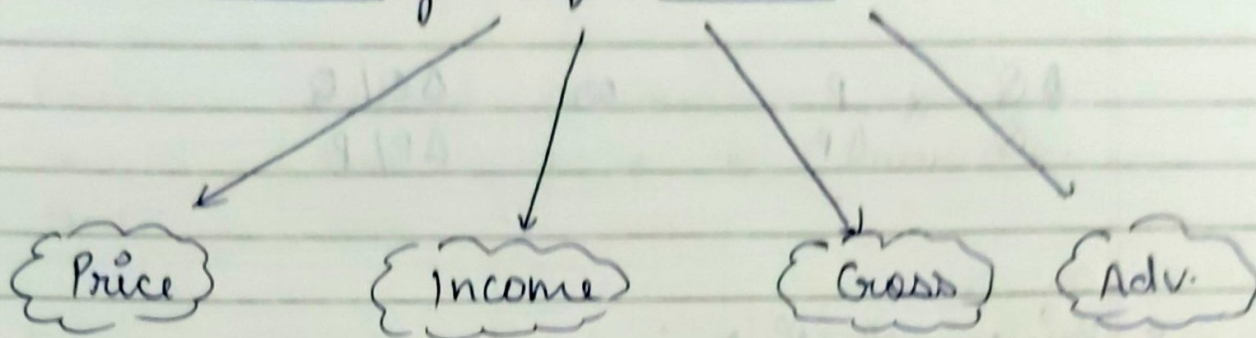
named after American economist Thorstein Veblen.

The distinction b/w the snob effect and the Veblen Effect is that the former is a function of the consumption of others and the latter is a function of price

3 Giffin Goods: Sir Robert Giffin, a Scottish economist, was surprised to find out that as the price of bread ↑ the British workers purchased more bread and not less of it.

Such goods which exhibit direct price-demand relationship are called Giffin goods. Generally those goods which are inferior, Giffin goods are inferior goods but all inferior goods are not Giffin goods.

Elasticity of demand



Percentage change in demand due to percentage change in price of good consumed or due to % change in consumers income or due to % change in prices of related goods or due to % change in advertisement expenditure is called elasticity of demand.

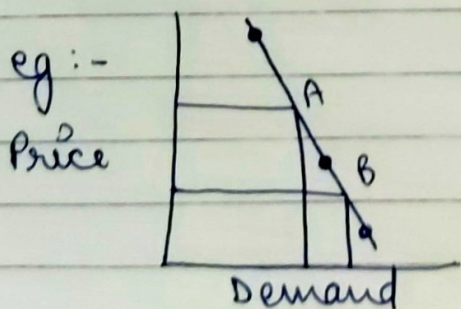
Price elasticity of demand:

percentage change in demand due to per. change in price of good concerned.

Methods of Measurement

- Arc elasticity: elasticity b/w two points on a demand curve

$$\text{Formula} : \frac{q_1 - q_2}{q_1 + q_2} \times \frac{P_1 + P_2}{P_1 - P_2}$$



$$\Rightarrow \frac{8-10}{8+10} \times \frac{5+4}{5-4} \Rightarrow \frac{-2}{18} \times \frac{9}{1}$$

$$= \frac{-18}{18} = -1$$

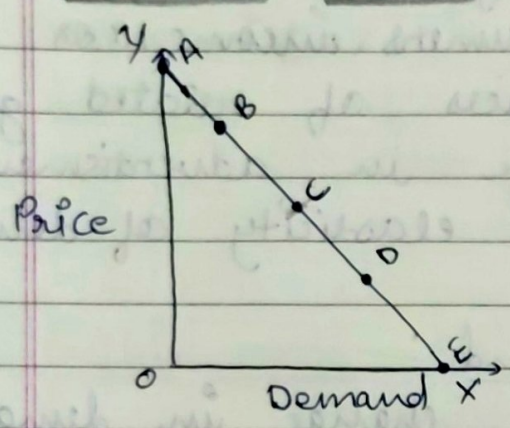
→ Mid point :

$$\frac{\Delta Q}{Q} \times \frac{P}{\Delta P} \quad \text{or} \quad \frac{\Delta Q/Q}{\Delta P/P}$$

• Point elasticity:

Geometric Method

Lower Segment
Upper Segment



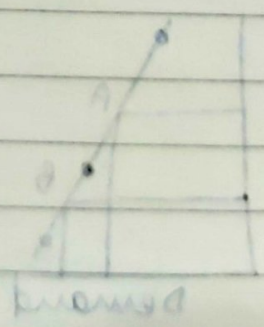
A point $\frac{AE}{O} = e = \infty$

B point $\frac{BE}{AE} = e > 1$

C point $\frac{CE}{AC} = e = 1$

D point $\frac{DE}{AD} = e < 1$

E point $\frac{O}{AE} = e = 0$



Total Expenditure method

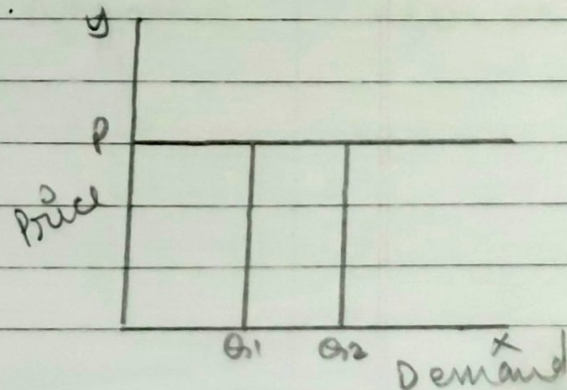
Price Inc Dec	Expend Dec Inc	Demand $e > 1$	(Luxury)
Inc Dec	Constant	$e = 1$	(Normal)
Inc Dec	Inc Dec	$e < 1$	(Basic Necessity)

Percentage method

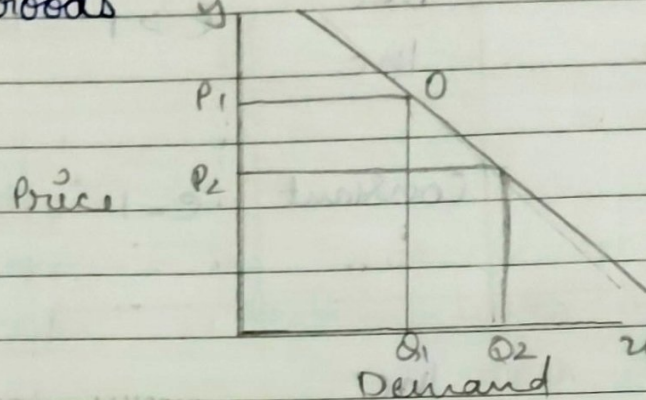
$$e = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$$

Degrees of elasticity of demand

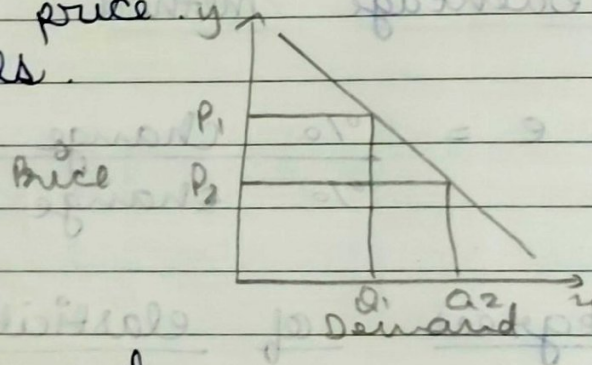
1. Perfectly elastic demand - When there is no change in price or minor change in price creates a major effect on demand then demand will be perfectly elastic.
eg:- Imaginary concept related to perfect competition market.



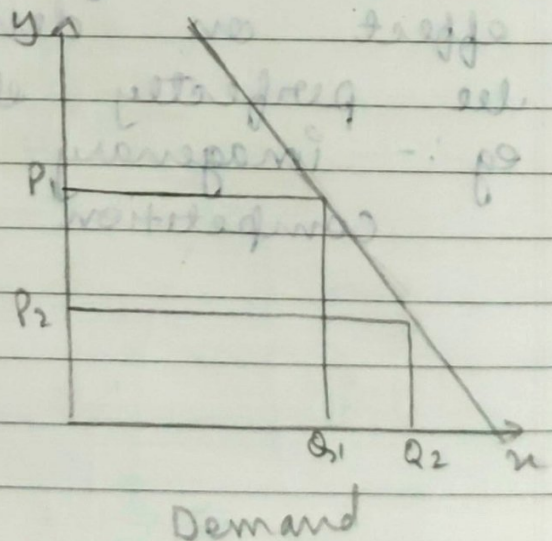
2. Elasticity of demand -
 $\%$ change in demand is greater than $\%$ change in price.
 ex: Luxury Goods



3. Unitary elastic demand -
 $\%$ change in demand is equal to $\%$ change in price.
 ex: Normal goods.



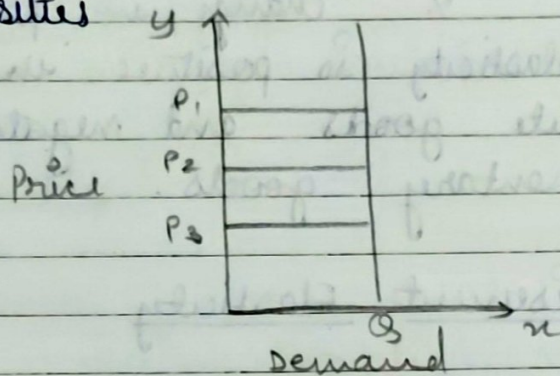
4. Inelasticity of demand -
 $\%$ change in demand is less than $\%$ change in price.
 ex - Basic Needs.



5 Perfectly Inelastic demand -

when there is no change in demand due to % change in price then demand will be perfectly inelastic

ex: Necessities



Income Elasticity

% change in demand due to % change in consumer's income is called income elasticity

$$= \frac{\% \text{ change in demand}}{\% \text{ change in Consumers Income}}$$

<u>Income</u>	<u>Demand</u>	<u>elasticity</u>	
Inc	Inc	Positive	$+ > 1$ Luxury
Dec	Dec		$+ e = 1$ Normal
Inc	Constant	Zero	Basic Need
Dec			Nec.
Inc	Dec	Negative	Inferior
Dec	Inc		

Cross Elasticity

% change in demand of X good due to % change in price of Y good

$$= \frac{\% \text{ change in demand of X}}{\% \text{ change in price of Y}}$$

cross elasticity is positive in case of substitute goods and negative in complementary goods.

Advertisement Elasticity

% change in demand due to % change in advertisement expenditure is called adv. elasticity

$$= \frac{\% \text{ change in demand}}{\% \text{ change in Adv expenditure}}$$

Adv Exp	Demand	Elasticity
10% Inc	20% Inc	$e > 1$
10% Inc	10% Inc	$e = 1$
10% Inc	8% Inc	$e < 1$
10% Inc	Constant	$e = 0$