

Micro Economics

DEMAND: Basics

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Demand=

✓ Desire for the Product

✓ Ability to Pay

✓ Willingness to Spend

(at a given price, place and time)



Demand



- **Demand** means **Quantity Demanded** at a given **price, place** and **time**.

DEMAND FUNCTION



- $D_x = f(P_x, Y, P_r, E, T, A, P)$

- **Price**
- **Income**
- **Price of Related Goods**
- **Expectations about future price**
- **Tastes, preferences and fashion**
- **Advertisements**
- **Population**

LAW OF DEMAND



1. STATEMENT OF THE LAW
2. ASSUMPTIONS OF THE LAW
3. DEMAND SCHEDULE
4. DEMAND CURVE
5. EXPLANATION OF THE LAW
6. EXCEPTIONS OF THE LAW

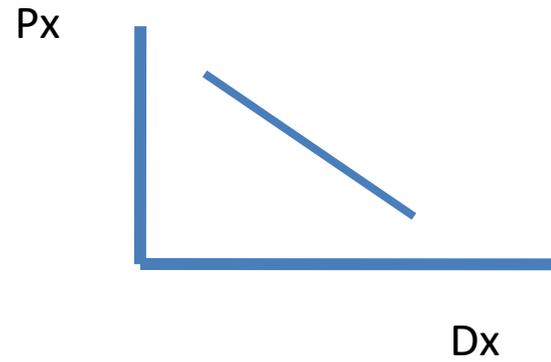
- Ceteris paribus, there's an inverse relation between price and quantity demanded and vice-versa. (Alfred Marshal)
- It is assumed that all factors but price remain unchanged

Demand schedule



PX (Rs.)	DX (Units)
1	50
2	40
3	30
4	20
5	10

Demand curve



Types of demand

- Individual demand (Household demand)
- Market demand



Reasons for Inverse Relation between Price and Demand



Law of Diminishing Marginal Utility

Exceptions of the law



- 1. Giffen Goods (bread and meat)

- 2. Veblen Goods (Conspicuous goods, Snob goods and Prestigious goods, Status-Symbol goods, Articles of distinction)

Expansion and Increase in demand



Expansion in Demand (Increase in Quantity Demanded)	Increase in Demand
$P_x \downarrow$ $D_x \uparrow$ <u>(Y, Pr, E, T, A, P)</u>	\triangle (Y, Pr, E, T, A, P) $D_x \uparrow$ $\overline{P_x}$
<p>The consumer moves on the same demand curve from left to right</p>	<p>The entire demand curve shifts from left to right</p>

Contraction and Decrease in demand



Contraction in Demand (Decrease in the Quantity Demanded)	Decrease in Demand
$P_x \uparrow$, $D_x \downarrow$, <u>(Y, Pr, E, T, A, P)</u>	\triangle (Y, Pr, E, T, A, P), $D_x \downarrow$, <u>P_x</u>
The consumer moves on the same demand curve from right to left	The entire demand curve shifts from right to left