Demand

Concept of Demand

Demand refers to the quantity of a commodity or a service that people are willing to buy at a certain price during a certain time interval. It can be termed as a desire with the 'willingness' and 'ability' to pay for a commodity.

Demand Function

The demand function shows the relation between the quantity demanded of a commodity by the consumers and the price of the product. These functions are probably the most important tools used by economists. While many variables determine the quantity consumers wish to purchase in a market, the price of the commodity is perhaps the most important one.It is an algebraic expression that shows the functional relationship between the demand for a commodity and its various determinants affecting it. This includes income and price along with other determining factors.

Here, the demand for the commodity is the dependent variable, while its determinants are the independent variables. It is expressed as:

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

D_x = Demand for Commodity x;

P_x = Price of the given Commodity x;

P_r = Prices of Related Goods;

Y = Income of the Consumer;

T = Tastes and Preferences;

F = Expectation of change in Price in future.

Law of Demand

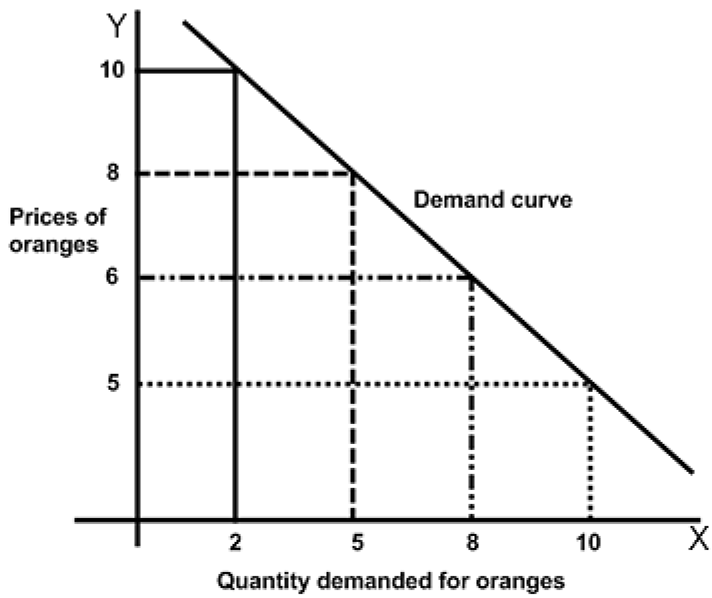
The law of demand states that other factors being constant (cetris peribus), price and quantity demand of any good and service are inversely related to each other. When the price of a product increases, the demand for the same product will fall.

Law of demand explains consumer choice behavior when the price changes. In the market, assuming other factors affecting demand being constant, when the price of a good rises, it leads to a fall in the demand of that good. This is the natural consumer choice behavior. This happens because a consumer hesitates to spend more for the good with the fear of going out of cash.

Characteristics of Law of Demand

- Inverse relationship between price and demand.
- Price is independent variable
- Demand is dependent variable on price of goods.

DEMAND CURVE (graphical presentation of law of demand)



Assumptions

Every law will have limitation or exceptions.This law operates when the commodity's price changes and all other prices and conditions do not change. The main assumptions are

- Habits, tastes and fashions remain constant
- Money, income of the consumer does not change.
- Prices of other goods remain constant
- The commodity in question has no substitute
- The commodity is a normal good and has no prestige or status value.
- People do not expect changes in the prices.

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Exceptions to the Law of Demand

Generally, the amount demanded of good increases with a decrease in price of the good and vice versa. In some cases, however, this may not be true. Such situations are explained below.

1. **Giffen goods:** these are those inferior goods on which the consumer spends a large part of his income and the demand for which falls with a fall in their price. The demand curve for these has a positive slope.

2. **Commodities which are used as status symbols:** Some expensive commodities like diamonds, air conditioned cars, etc., are used as status symbols to display one's wealth. The more expensive these commodities become, the higher their value as a status symbol and hence, the greater the demand for them. The amount demanded of these commodities increase with an increase in their price and decrease with a decrease in their price. Also known as a Veblen good. (In economics, Veblen goods are a group of commodities for which people's preference for buying them increases as their price increases, as greater price confers greater status, instead of decreasing according to the law of demand.)

3. **Expectations regarding future prices:** If the price of a commodity is rising and is expected to rise in future the demand for the commodity will increase.

4. **Emergency:** At times of war, famine etc. consumers have an abnormal behaviour. If they expect shortage in goods they would buy and hoard goods even at higher prices. In depression they will buy less at even low prices.

5. **Quality-price relationship:** some people assume that expensive goods are of a higher quality then the low priced goods. In this case more goods are demanded at higher prices.